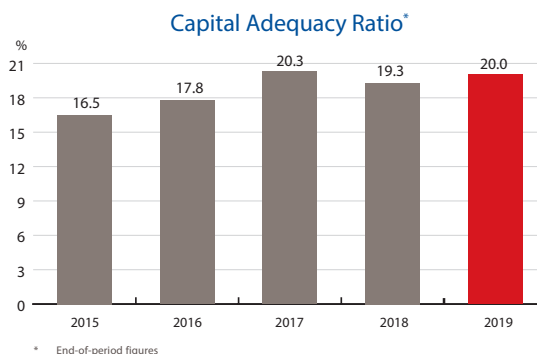
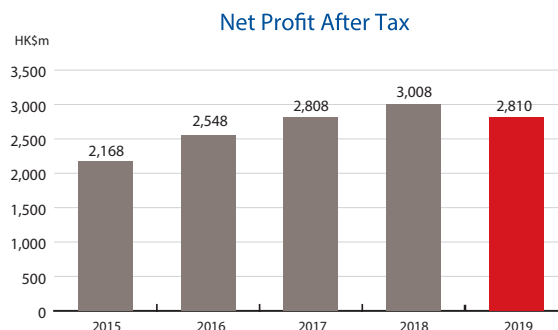


2019 Results Highlights

Financial Performance

- FY2019 was an exceptionally challenging year due to the impact of Sino-US trade tensions and social events in Hong Kong.
- Net profit after tax** at HK\$2.81 billion was slightly below that of the previous year but was still the second highest in the Group's history.
- Operating income** remained largely stable at HK\$8.35 billion. **Net interest income** decreased slightly by 0.9% to HK\$6.34 billion on the back of a lower loan balance, yet **net interest margin** increased by 3 basis points to 1.85% versus FY2018 level as the increase in asset yields exceeded the increase in funding costs. **Non-interest income** was maintained at HK\$2.01 billion.
- ROA** was 0.79% while **ROE** was 7.44%.
- Total assets** stood at HK\$361.22 billion, similar to end-2018 level. **Total deposits** dropped by 3.0% to HK\$279.99 billion while **customer loans (including trade bills)** were down 6.2% to HK\$189.38 billion.
- Balance sheet structure continued to improve with **retail deposits and lending** expanding by 5.3% and 18.7% respectively versus end-2018, accounting for 57.5% and 32.3% of total deposits and loans respectively.
- Impaired loan ratio** fell from 1.38% as at 30 June 2019 to 1.20% as at end-2019, while **non-performing loan coverage ratio** rose from 107.7% to 158.4% during the same period.
- Capital adequacy ratio** and **CET1 ratio** were 20.0% and 14.3% respectively, meeting regulatory requirements.



Core Businesses

Wholesale Banking Group (WBG) experienced a period of consolidation after rapid growth in the preceding years with operating income down 10.5% year on year at HK\$4.29 billion while loan and deposit balances were 16.2% and 13.7% lower respectively versus end-2018. To restore business growth, WBG has been focusing on transformation to bolster its customer base, product support and management system. Going forward, WBG will enhance collaboration with the CITIC Group/CNCB and increase cooperation with Chinese non-bank financial institutions, as well as encouraging customer referrals among different product groups with a view to enhancing the collaboration (1) across various teams in the Hong Kong headquarters and (2) between overseas branches and the headquarters. At the same time, the capabilities of both relationship managers and product teams will be strengthened under a professional marketing system of "relationship manager + product manager" that can promote cross-selling.

Treasury and Markets Group (TMG) recorded a 40.8% year-on-year increase in operating income to HK\$1.20 billion, with fee income recorded for the debt capital markets ("DCM") business growing by 26.2%. The DCM team completed 142 deals for Chinese issuers with an aggregate issuance size of US\$57.59 billion and CNCBI was awarded the "2019 Best High Yield House in Asia" by FinanceAsia. Trading for clients in the fixed income secondary market was also buoyant with more new accounts opened. Meanwhile, the trading team focused on building the market-making business of RMB and HKD products, with trading volume doubled from the previous year while trading revenue saw an increase of 73.0% year on year, and two awards were given by Refinitiv (previously Thomson Reuters). Central Treasury Unit continued to carefully manage the mismatch in the Group's liquidity gapping positions, FX funding swaps and debt securities portfolio, delivering satisfactory performance for the year.

Personal and Business Banking Group (PBG) achieved record-breaking operating income of HK\$2.69 billion, an increase of 7.8% versus 2018, despite extremely volatile operating conditions. Deposit and loan balances also registered all-time highs, up 5.3% and 18.7% respectively to HK\$160.96 billion and HK\$61.13 billion. Retail banking, private banking and business banking operations have all performed well, contributing to a diversified income base and encouraging growth in customer base and assets under management. The Bank launched the inMotion Lab to capitalize on inMotion as the business platform to drive the Bank's Fintech transformation. Meanwhile, PBG continued to launch more products and services via inMotion such as the first truly virtual credit card in HK, a robo investment advisory service ("Robo 360") which is the pioneer among peer banks, and a securities trading platform with comprehensive functions ("inVest") to continuously enhance customer experience in investment and wealth management.



CHINA CITIC BANK INTERNATIONAL LIMITED
(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

ANNOUNCEMENT OF 2019 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 2019.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest income	12,164,025	11,460,798
Interest expense	(5,821,254)	(5,060,442)
Net interest income	6,342,771	6,400,356
Fee and commission income	1,515,893	1,566,356
Fee and commission expense	(115,025)	(107,943)
Net fee and commission income	1,400,868	1,458,413
Net trading income	600,953	588,969
Net hedging loss	(2,492)	(1,562)
Net loss on disposal of financial assets at fair value through other comprehensive income	(21,940)	(70,419)
Other operating income	31,094	34,317
Operating income	8,351,254	8,410,074
Operating expenses	(3,696,362)	(3,385,067)
Operating profit before impairment	4,654,892	5,025,007
Expected credit losses on financial assets	(1,216,032)	(1,316,500)
Impairment losses on other assets	(51,711)	(86,155)
Impairment losses	(1,267,743)	(1,402,655)
Operating profit	3,387,149	3,622,352
Net loss on disposal of property and equipment	(2,787)	(793)
Revaluation (loss)/gain on investment properties	(1,459)	190
Share of profit of associates	841	2,151
Gain on disposal of interest in associates	9,226	–
Loss on partial redemption of loan capital	(58,995)	–
Profit before taxation	3,333,975	3,623,900
Income tax	(523,674)	(615,542)
Profit for the year	2,810,301	3,008,358
Profit attributable to shareholders	2,810,301	3,008,358

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	2019 HK\$'000	2018 <i>HK\$'000</i>
Profit for the year	2,810,301	3,008,358
Other comprehensive income/(loss) for the year		
Items that will be reclassified subsequently to consolidated income statement when specific conditions are met		
Exchange differences on translation of financial statements of foreign operations	(32,073)	(88,425)
Financial assets at fair value through other comprehensive income		
– change in the fair value of debt instruments	743,630	(457,057)
– transfer to income statement on disposal	21,940	70,419
– deferred tax related to the above	(126,372)	49,254
– transfer to income statement on impairment	(75,490)	127,858
	563,708	(209,526)
Items that will not be reclassified subsequently to consolidated income statement		
Property revaluation reserve		
– surplus on revaluation of other premises upon reclassification to investment properties	–	76,245
– transfer to deferred tax on disposal	10	–
	10	76,245
Financial assets at fair value through other comprehensive income		
– change in the fair value of equity instruments	12,551	3,625
– deferred tax related to the above	(2,071)	(598)
	10,480	3,027
Other comprehensive income/(loss) for the year	542,125	(218,679)
Total comprehensive income for the year	3,352,426	2,789,679
Total comprehensive income attributable to shareholders	3,352,426	2,789,679

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**At 31 December 2019***(Expressed in Hong Kong dollars)*

	2019 HK\$'000	2018 <i>HK\$'000</i>
ASSETS		
Cash and balances with banks, central banks and other financial institutions	26,005,564	29,622,486
Placements with and advances to banks, central banks and other financial institutions	54,468,897	52,886,380
Financial assets at fair value through profit or loss	1,908,370	1,440,532
Derivative financial instruments	6,283,608	6,027,833
Loans and advances to customers and other accounts	194,251,733	203,829,256
Financial assets at fair value through other comprehensive income	76,668,300	66,977,407
Interest in associates	–	352,151
Property and equipment		
– Investment properties	229,130	241,970
– Other premises and equipment	499,033	492,854
Intangible assets	584,809	652,210
Tax recoverable	6,842	8,353
Deferred tax assets	315,216	413,359
Total Assets	361,221,502	362,944,791
LIABILITIES AND EQUITY		
Liabilities		
Deposits and balances of banks and other financial institutions	7,121,633	2,849,375
Deposits from customers	276,872,680	285,492,851
Financial liabilities at fair value through profit or loss	146,500	–
Derivative financial instruments	6,363,156	6,543,351
Certificates of deposit issued	3,112,919	3,133,151
Debt securities issued	3,346,067	3,408,077
Current tax liabilities	705,837	600,053
Deferred tax liabilities	2,191	7,940
Other liabilities	10,851,163	8,645,374
Loan capital	6,249,182	6,283,542
Total Liabilities	314,771,328	316,963,714
Equity		
Share capital	18,404,013	18,404,013
Reserves	20,275,749	17,496,484
Total shareholders' equity	38,679,762	35,900,497
Additional equity instruments	7,770,412	10,080,580
Total Equity	46,450,174	45,981,077
Total Equity and Liabilities	361,221,502	362,944,791

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Share capital <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>
At 1 January 2019	18,404,013	6,589	100,000	(63,485)	76,300	(225,266)	58,073	149,500	17,394,773	17,496,484	10,080,580	45,981,077
Changes in equity for 2019:												
Profit for the year	-	-	-	-	-	-	-	-	2,810,301	2,810,301	-	2,810,301
Other comprehensive income for the year	-	-	-	(32,073)	10	574,188	-	-	-	542,125	-	542,125
Total comprehensive income for the year	-	-	-	(32,073)	10	574,188	-	-	2,810,301	3,352,426	-	3,352,426
Release of reserve upon disposal of property	-	-	-	-	(65)	-	-	-	65	-	-	-
Transfer from retained profits	-	-	-	-	-	-	1,089	-	(531,589)	(530,500)	530,500	-
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	-	-	-	-	-	-	-	-	-	-	(530,500)	(530,500)
Redemption of AT1 Capital Securities	-	-	-	-	-	-	-	-	(42,661)	(42,661)	(2,310,168)	(2,352,829)
At 31 December 2019	18,404,013	6,589	100,000	(95,558)	76,245	348,922	59,162	149,500	19,630,889	20,275,749	7,770,412	46,450,174
At 1 January 2018	18,404,013	6,589	100,000	24,940	55	(18,767)	58,073	149,500	17,532,144	17,852,534	6,173,252	42,429,799
Changes in equity for 2018:												
Profit for the year	-	-	-	-	-	-	-	-	3,008,358	3,008,358	-	3,008,358
Other comprehensive loss for the year	-	-	-	(88,425)	76,245	(206,499)	-	-	-	(218,679)	-	(218,679)
Total comprehensive income for the year	-	-	-	(88,425)	76,245	(206,499)	-	-	3,008,358	2,789,679	-	2,789,679
Dividend paid	-	-	-	-	-	-	-	-	(2,808,437)	(2,808,437)	-	(2,808,437)
Issue of AT1 Capital Securities	-	-	-	-	-	-	-	-	-	-	3,907,328	3,907,328
Transfer from retained profits	-	-	-	-	-	-	-	-	(337,292)	(337,292)	337,292	-
Distribution payment for AT1 Capital Securities	-	-	-	-	-	-	-	-	-	-	(337,292)	(337,292)
At 31 December 2018	18,404,013	6,589	100,000	(63,485)	76,300	(225,266)	58,073	149,500	17,394,773	17,496,484	10,080,580	45,981,077

CONSOLIDATED CASH FLOW STATEMENT**For the year ended 31 December 2019***(Expressed in Hong Kong dollars)*

	2019 HK\$'000	2018 HK\$'000
Operating activities		
Profit before taxation	3,333,975	3,623,900
Adjustments for non-cash items:		
Expected credit losses of financial assets	1,216,032	1,316,500
Impairment losses on other assets	51,711	86,155
Net loss on disposal of financial assets at fair value through other comprehensive income	21,940	70,419
Net loss on disposal of property and equipment	2,787	793
Revaluation loss/(gain) on investment properties	1,459	(190)
Share of profit of associates	(841)	(2,151)
Gain on disposal of interest in associates	(9,226)	–
Loss on partial redemption of loan capital	58,995	–
Amortisation of deferred expenses	48,274	39,780
Amortisation of intangible assets	181,354	42,299
Depreciation on property and equipment	101,493	184,552
Depreciation on right-of-use assets	297,875	–
Dividend income from equity securities	(4,630)	(6,221)
Interest expense on loan capital and debt securities issued	543,228	575,942
Foreign exchange differences	(193,428)	(247,721)
Operating profit before changes in working capital	5,650,998	5,684,057
Net decrease/(increase) in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	(3,976,052)	733,226
Treasury bills with original maturity beyond 3 months	(863,149)	(5,484,589)
Certificates of deposit held with original maturity beyond 3 months	8,726,213	(3,948,355)
Financial assets at fair value through profit or loss	(467,838)	(411,488)
Derivative financial instruments	(255,775)	(1,257,338)
Loans and advances to customers and other accounts	8,882,524	(7,438,155)
Financial assets at fair value through other comprehensive income	(12,163,713)	(18,967)
	(117,790)	(17,825,666)
Net (decrease)/increase in operating liabilities		
Deposits and balances of banks and other financial institutions	4,272,258	(2,337,944)
Deposits from customers	(8,620,362)	14,020,795
Derivative financial instruments	(180,195)	1,718,868
Certificates of deposit issued	1,848	(370,894)
Other liabilities	1,669,777	3,191,783
	(2,856,674)	16,222,608
Cash generated from operating activities	2,676,534	4,080,999
Income tax paid		
Hong Kong Profits Tax paid	(366,897)	(496,288)
Overseas tax paid	(60,846)	(54,874)
Net cash flow generated from operating activities	2,248,791	3,529,837

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Net cash flow generated from operating activities	2,248,791	3,529,837
Cash flow generated from/(used in) investing activities		
Dividends received from equity securities	4,630	6,221
Purchase of property and equipment and intangible assets	(222,684)	(516,868)
Proceeds from disposal of property and equipment	9,192	–
Payment for purchase of associates	–	(350,000)
Proceeds from disposal of interest in associates	362,218	–
Net cash generated from/(used in) investing activities	153,356	(860,647)
Cash flow generated from/(used in) financing activities		
Dividend paid	–	(2,808,437)
Proceeds from loan capital issued	3,908,552	–
Proceeds from AT1 Capital Securities issued	–	3,907,328
Payment for redemption of loan capital	(3,960,618)	–
Payment for redemption of AT1 Capital Securities	(2,358,567)	–
Distribution paid on AT1 Capital Securities	(530,500)	(337,292)
Payment of lease liability	(312,213)	–
Interest paid on debt securities issued	(149,655)	(162,523)
Interest paid on loan capital	(324,550)	(424,775)
Net cash (used in)/generated from financing activities	(3,727,551)	174,301
Net (decrease)/increase in cash and cash equivalents	(1,325,404)	2,843,491
Cash and cash equivalents at 1 January	92,228,603	89,385,112
Cash and cash equivalents at 31 December	90,903,199	92,228,603
Analysis of the balances of cash and cash equivalents		
Cash and balances with banks, central banks and other financial institutions	25,572,830	29,187,539
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	49,913,849	52,324,189
Treasury bills and certificates of deposit held with original maturity within 3 months:		
– Financial assets at fair value through other comprehensive income	15,416,520	10,716,875
	90,903,199	92,228,603
Cash flows from operating activities included:		
Interest received	11,862,060	11,082,654
Interest paid	(5,239,643)	(3,713,760)

NOTES:

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The financial information relating to the financial year ended 31 December 2019 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. The Bank's auditor has reported on those financial statements of the Group. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance (Cap. 622).

Statutory financial statements for the year ended 31 December 2019 comply with the Banking (Disclosure) Rules and will be available from the Bank's corporate website at www.cncbinternational.com and registered office.

2 CHANGES IN ACCOUNTING POLICIES

(a) New and amended standards adopted by the Group during the year ended 31 December 2019

During the year ended 31 December 2019, the Group had to change its accounting policies as a result of adopting HKFRS 16, Leases. The impact of the adoption of HKFRS 16 and the related new accounting policies are summarised below. Please refer to the "significant accounting policies" as set out in the note 2 of the 2019 Annual Report.

Changes in accounting policies on adoption of HKFRS 16

The Group has lease contracts for various items of properties and equipment. Before the adoption of HKFRS 16, the Group classified each of its leases (as leasee) at the inception date as operating lease, which the leased property or equipment was not capitalised and the lease payments were recognised as rental expense in the income statement on a straight-line bases over the lease term. Upon the adoption of HKFRS 16, the Group applied a single recognition and measurement approach for all leases that leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The adoption of HKFRS 16 on the Group's financial statements and the related new accounting policies has been applied from 1 January 2019. The Group has applied the simplified transition approach and adopted the HKFRS 16 from 1 January 2019, and no restated comparatives required for the 2018 reporting period. The opening adjustment as at 1 January 2019 arising from the new lease rules was considered to have no material financial impact on the Group's current reporting period. The operating lease commitments disclosed as at 31 December 2018 was HK\$1,092,383,000, while the new operating lease liabilities was HK\$937,130,000 as at 1 January 2019, which the major difference was attributed by using the interest rate implicit to discount the operating lease liabilities. The opening adjustment as at 1 January 2019 arising from the adoption of HKFRS 16 increased both assets and liabilities by the same amount of HK\$937,130,000 and with no effect on net assets or retained profits.

(b) New standards and interpretations not yet adopted for the year ended 31 December 2019

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Impact of HKFRS16 recognised in the statement of financial position and income statement

The carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the year:

	Right-of-use assets			Lease liabilities <i>HK\$'000</i>
	Leased properties <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>	
At 1 January 2019	937,093	37	937,130	937,130
Additions	40,029	1,093	41,122	41,122
Depreciation expense	(297,563)	(312)	(297,875)	–
Interest expense	–	–	–	30,719
Payments	–	–	–	(312,213)
Exchange adjustments	(890)	20	(870)	(888)
At 31 December 2019	678,669	838	679,507	695,870

The amounts are recognised in the income statement for the year ended 31 December 2019:

	2019 <i>HK\$'000</i>
Depreciation of right-of-use assets	297,875
Interest expense on lease liabilities	30,719
	328,594

For the impact on the adoption of HKFRS 16, the right-of-use assets, lease liabilities and related profit or loss have been properly included in corporate assets or liabilities, and corporate expenses which grouped under "Others" segment for segmental disclosure information.

3 INTEREST INCOME AND INTEREST EXPENSE

(a) Interest income

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Listed securities	1,276,535	1,078,719
Unlisted securities	634,645	642,316
Balances and placements with banks and other financial institutions	1,309,440	1,394,388
Advances and other accounts	8,943,405	8,345,375
Interest income on financial assets that are not at fair value through profit or loss	12,164,025	11,460,798

(b) Interest expense

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Deposits from customers, banks and other financial institutions and others	5,181,262	4,409,280
Certificates of deposit issued	96,764	75,220
Debt securities issued	153,701	161,091
Loan capital issued	389,527	414,851
Interest expense on financial liabilities that are not at fair value through profit or loss	5,821,254	5,060,442

4 NET FEE AND COMMISSION INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Fee and commission income:		
Bills commission	72,972	82,849
Card-related income	36,898	38,634
Banking services	424,146	372,842
Insurance	585,153	349,931
Investment and structured investment products	161,192	164,042
Loans, overdrafts and facilities fees	235,047	557,441
Others	485	617
	1,515,893	1,566,356
Fee and commission expense	(115,025)	(107,943)
	1,400,868	1,458,413
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	344,917	678,924
– Fee and commission expense	(35,971)	(35,660)
	308,946	643,264

5 NET TRADING INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Gains less losses from dealing in foreign currencies	552,969	604,449
Gains less losses from financial assets at fair value through profit or loss	10,655	(27,480)
Gains less losses from derivatives	(47,625)	(72,158)
Interest income on trading assets		
– Listed	80,467	41,163
– Unlisted	6,977	42,995
Interest expense on trading liabilities		
– Listed	(2,490)	–
	600,953	588,969

6 NET HEDGING LOSS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Net hedging (loss)/gain on fair value hedges		
– Net gain on hedged items attributable to the hedged risk	134,829	23,735
– Net loss on hedging instruments	(137,321)	(25,297)
	(2,492)	(1,562)

7 NET LOSS ON DISPOSAL OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Net loss on disposal of financial assets at fair value through other comprehensive income	<u>(21,940)</u>	<u>(70,419)</u>

8 OTHER OPERATING INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Dividend income		
– Listed investments	–	201
– Unlisted investments	4,630	6,020
	4,630	6,221
Rental income from investment properties less direct outgoings of HK\$295,000 (2018: HK\$1,095,000)	4,432	4,553
Others	22,032	23,543
	<u>31,094</u>	<u>34,317</u>

9 OPERATING EXPENSES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
(a) Staff costs		
Salaries and other staff costs	2,150,006	1,992,597
Retirement costs	116,876	107,132
	<u>2,266,882</u>	<u>2,099,729</u>
(b) Depreciation and amortisation		
Depreciation – property and equipment	101,493	184,552
Depreciation – right-of-use assets	297,875	–
Amortisation – intangible assets	181,354	42,299
	<u>580,722</u>	<u>226,851</u>
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)		
– Rental of properties	–	312,105
– Others	342,471	290,081
Auditor's remuneration	8,971	8,718
Advertising	90,247	80,740
Communication, printing and stationery	125,544	119,801
Legal and professional fees	83,352	56,260
Others	198,173	190,782
	<u>848,758</u>	<u>1,058,487</u>
Total operating expenses	<u>3,696,362</u>	<u>3,385,067</u>

10 EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

	2019			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
Balances with banks, central banks and other financial institutions	(19,037)	–	–	(19,037)
Placements with and advances to banks, central banks and other financial institutions	4,446	–	–	4,446
Loans and advances to customers	130,322	121,567	1,061,904	1,313,793
Other accounts	325	–	–	325
Financial assets at fair value through other comprehensive income	33,410	–	(76,907)	(43,497)
Loan commitments and guarantees (included in contingent liabilities and commitments)	30,512	–	–	30,512
	<u>179,978</u>	<u>121,567</u>	<u>984,997</u>	<u>1,286,542</u>
Recoveries				(70,510)
				<u>1,216,032</u>
	2018			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
Balances with banks, central banks and other financial institutions	5,738	–	–	5,738
Placements with and advances to banks, central banks and other financial institutions	(3,345)	–	–	(3,345)
Loans and advances to customers	(243,739)	889,282	622,674	1,268,217
Other accounts	(563)	(452)	–	(1,015)
Financial assets at fair value through other comprehensive income	(44,784)	(11,667)	184,883	128,432
Loan commitments and guarantees (included in contingent liabilities and commitments)	(13,593)	–	–	(13,593)
	<u>(300,286)</u>	<u>877,163</u>	<u>807,557</u>	<u>1,384,434</u>
Recoveries				(67,934)
				<u>1,316,500</u>

11 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statement

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
Provision for the year	505,227	616,263
Under-provision in respect of prior years	6,833	359
	<u>512,060</u>	<u>616,622</u>
Current tax – Overseas		
Provision for the year	50,013	79,927
Over-provision in respect of prior years	(1,940)	(13,510)
	<u>48,073</u>	<u>66,417</u>
Deferred tax		
Reversal of temporary differences	(36,459)	(67,497)
	<u>523,674</u>	<u>615,542</u>

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 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.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit before tax	<u>3,333,975</u>	<u>3,623,900</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	580,332	629,592
Tax effect of non-deductible expenses	73,258	85,397
Tax effect of non-taxable revenue	(46,483)	(35,170)
Tax effect of distribution payment of AT1 Capital Securities	(87,533)	(55,653)
Under/(over)-provision in prior years	4,893	(13,151)
Others	(793)	4,527
Actual tax expense	<u>523,674</u>	<u>615,542</u>

12 DIVIDEND PAID

The Directors do not recommend the payment of any dividends for the year ended 31 December 2019 (2018: Nil).

13 FINANCIAL ASSETS/(LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Financial assets at fair value through profit or loss

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Debt securities	1,908,370	944,630
Treasury bills	–	495,389
Investment fund	–	513
	<u>1,908,370</u>	<u>1,440,532</u>
Issued by:		
Sovereigns	341,717	495,953
Banks and other financial institutions	690,114	642,997
Corporate entities	824,619	301,582
Public entities	51,920	–
	<u>1,908,370</u>	<u>1,440,532</u>
Listed	1,907,604	931,441
Unlisted	766	509,091
	<u>1,908,370</u>	<u>1,440,532</u>

(b) Financial liabilities at fair value through profit or loss

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Short sales of debts securities	<u>146,500</u>	<u>–</u>

14 LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

(a) Loans and advances to customers and other accounts less expected credit losses/impairment allowances

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Gross loans and advances to customers	189,377,329	201,819,882
– Expected credit losses allowances	(3,596,987)	(2,658,898)
	<u>185,780,342</u>	<u>199,160,984</u>
Other accounts	7,831,244	4,785,508
– Expected credit losses allowances	(1,480)	(39,036)
– Impairment allowances for other assets	(37,880)	(78,200)
	<u>7,791,884</u>	<u>4,668,272</u>
Right-of-use assets	<u>679,507</u>	<u>–</u>
	<u>194,251,733</u>	<u>203,829,256</u>

14 LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS (CONTINUED)

(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").

	2019		2018	
	Gross loans and advances to customers <i>HK\$'000</i>	Impaired loans and advances to customers <i>HK\$'000</i>	Gross loans and advances to customers <i>HK\$'000</i>	Impaired loans and advances to customers <i>HK\$'000</i>
Industrial, commercial and financial				
– Property development	2,892,578	–	4,584,774	–
– Property investment	17,394,845	1,014,756	17,289,899	24,079
– Financial concerns	16,997,699	–	18,058,392	–
– Stockbrokers	1,929,344	–	3,131,658	–
– Wholesale and retail trade	9,427,728	181,098	9,156,964	18,162
– Manufacturing	9,940,067	31,137	12,099,051	36,071
– Transport and transport equipment	1,379,288	–	1,537,234	–
– Recreational activities	2,858,389	–	3,471,434	–
– Information technology	6,678,785	–	6,674,493	–
– Others	7,154,646	578,791	9,364,279	584,073
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	27,410	304	22,413	468
– Loans for the purchase of other residential properties	17,848,823	7,729	15,560,640	19,833
– Credit card advances	452,680	2,837	506,195	2,806
– Others	14,725,757	11,093	10,983,726	11,961
Gross loans and advances for use in Hong Kong	109,708,039	1,827,745	112,441,152	697,453
Trade finance	5,442,284	37,343	4,325,261	171,706
Gross loans and advances for use outside Hong Kong	74,227,006	405,677	85,053,469	846,979
Gross loans and advances to customers	189,377,329	2,270,765	201,819,882	1,716,138

(c) Impaired loans and advances to customers

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Gross impaired loans and advances to customers	2,270,765	1,716,138
Expected credit losses allowances – Stage 3	(1,085,502)	(399,302)
	1,185,263	1,316,836
Gross impaired loans and advances as a % of total loans and advances to customers	1.20%	0.85%

Collateral amounts of HK\$1,296,240,000 (2018: HK\$1,587,943,000) have been taken into account in respect of the assessment of the expected credit losses allowances. Collateral mainly comprises mortgages on residential or commercial properties and cash placed with the Group.

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Debt securities		
– Certificates of deposit held	5,438,918	14,394,029
– Treasury bills	21,767,173	15,975,480
– Other debt securities	49,353,873	36,512,097
	76,559,964	66,881,606
Equity securities	108,336	95,801
	76,668,300	66,977,407
Issued by:		
Sovereigns	23,516,040	16,277,569
Banks and other financial institutions	41,724,151	41,427,485
Corporate entities	11,048,234	7,175,580
Public entities	379,875	2,096,773
	76,668,300	66,977,407
Listed	43,990,382	31,181,259
Unlisted	32,677,918	35,796,148
	76,668,300	66,977,407

16 CAPITAL AND RESERVES

(a) Share capital

(i) Ordinary share, issued and fully paid

	2019		2018	
	Number of shares	Share capital <i>HK\$'000</i>	Number of shares	Share capital <i>HK\$'000</i>
At 1 January/31 December	12,111,121,568	18,404,013	12,111,121,568	18,404,013

(i) Shares issued during the year

The Bank did not issue any shares during the year ended 31 December 2019 (2018: Nil).

(b) Dividend

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

16 CAPITAL AND RESERVES (CONTINUED)

(c) Reserves

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Capital reserve	6,589	6,589
General reserve	100,000	100,000
Exchange differences reserve	(95,558)	(63,485)
Property revaluation reserve	76,245	76,300
Investment revaluation reserve	348,922	(225,266)
Statutory reserve	59,162	58,073
Regulatory general reserve	149,500	149,500
Retained profits*	19,630,889	17,394,773
Total	<u>20,275,749</u>	<u>17,496,484</u>

* 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 2019, HK\$243,313,000 (2018: HK\$855,457,000) was included in the retained profits in this respect, which is distributable to equity holders of the Bank subject to consultation with the HKMA.

17 CONTINGENT LIABILITIES, COMMITMENTS AND DERIVATIVES

Contingent liabilities and commitments

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Direct credit substitutes	1,972,142	2,196,356
Transaction-related contingencies	435,981	253,309
Trade-related contingencies	3,059,713	1,215,101
Forward forward deposits placed	12,873,035	4,056,917
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	80,912,845	76,834,222
– with an original maturity of not more than 1 year	1,967,519	1,100,493
– with an original maturity of more than 1 year	3,812,284	3,789,368
	<u>105,033,519</u>	<u>89,445,766</u>
Credit risk-weighted amounts	<u>7,599,154</u>	<u>5,036,814</u>

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2018: 0% to 150%).

Derivative financial instruments**(a) Notional amounts of derivatives**

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these investments indicate the volume of outstanding transactions and do not represent amounts at risk.

The following is a summary of the notional amounts of each significant type of derivative entered into by the Group:

	2019			2018		
	Held for hedging HK\$'000	Others (including held for trading) HK\$'000	Total HK\$'000	Held for hedging HK\$'000	Others (including held for trading) HK\$'000	Total HK\$'000
Currency derivatives						
Forwards	–	84,167,658	84,167,658	–	95,174,835	95,174,835
Swaps	–	696,539,371	696,539,371	–	790,579,491	790,579,491
Options purchased	–	34,547,603	34,547,603	–	15,197,059	15,197,059
Options written	–	34,563,815	34,563,815	–	14,869,761	14,869,761
Interest rate derivatives						
Forwards/Futures	–	3,858,214	3,858,214	–	23,169,653	23,169,653
Swaps	3,230,287	687,402,549	690,632,836	9,545,458	255,835,562	265,381,020
	<u>3,230,287</u>	<u>1,541,079,210</u>	<u>1,544,309,497</u>	<u>9,545,458</u>	<u>1,194,826,361</u>	<u>1,204,371,819</u>

Trading includes the Group's proprietary positions in financial instruments, positions which arise from the execution of trade orders from customers and market making, and positions taken in order to hedge other elements of the trading book.

(b) Fair value and credit risk-weighted amounts of derivatives

	2019			2018		
	Fair value assets HK\$'000	Fair value liabilities HK\$'000	Credit risk- weighted amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000	Credit risk- weighted amount HK\$'000
Currency derivatives	5,271,339	5,365,547	6,333,303	5,453,679	6,066,637	7,492,494
Interest rate derivatives	1,012,269	997,609	200,143	574,154	476,714	358,462
	<u>6,283,608</u>	<u>6,363,156</u>	<u>6,533,446</u>	<u>6,027,833</u>	<u>6,543,351</u>	<u>7,850,956</u>

The credit risk-weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules on capital adequacy, and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 150% (2018: 0% to 150%) for exchange rate, interest rate and other derivatives contracts.

The Group did not enter into any bilateral netting arrangements during the year, and accordingly, these amounts are shown on a gross basis.

18 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 MRC. 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 2019, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK\$1,135,000 (2018: a profit of HK\$869,000) with a standard deviation of HK\$5,094,000 (2018: HK\$7,395,000).

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

Equivalent in HK\$' 000	2019			
	USD	RMB	Others	Total
Spot assets	155,397,093	21,679,191	26,317,487	203,393,771
Spot liabilities	(111,503,584)	(21,591,724)	(15,393,598)	(148,488,906)
Forward purchases	366,026,392	122,622,627	79,498,934	568,147,953
Forward sales	(406,919,637)	(122,158,607)	(89,612,241)	(618,690,485)
Net options position	(1,720,295)	1,521,451	235,996	37,152
Net long position	1,279,969	2,072,938	1,046,578	4,399,485
Net structural position	–	669,549	48,518	718,067
Equivalent in HK\$' 000	2018			
	USD	RMB	Others	Total
Spot assets	163,317,203	18,729,493	24,865,103	206,911,799
Spot liabilities	(125,601,331)	(23,488,739)	(16,142,278)	(165,232,348)
Forward purchases	427,931,000	208,884,284	44,451,537	681,266,821
Forward sales	(462,883,922)	(203,302,636)	(53,567,017)	(719,753,575)
Net options position	(1,177,930)	793,289	382,033	(2,608)
Net long/(short) position	1,585,020	1,615,691	(10,622)	3,190,089
Net structural position	–	675,965	48,549	724,514

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

19 SEGMENT REPORTING

Segment information is prepared consistently with reportable segments. Information is regularly reported to the chief operating decision-maker, including management committee members, to allocate resources to the segments and to assess their performance. The Group has identified the following four main reportable segments:

Wholesale banking business includes wholesale banking business in Hong Kong and overseas branches. Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing deposit account services and cash management. Overseas branches include the management office unit in Hong Kong and the branches operated overseas.

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.

19 SEGMENT REPORTING (CONTINUED)

Others mainly comprises unallocated revenue and expenses, head office and corporate expenses, and China banking which mainly includes a subsidiary bank in China.

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.

During the year ended 31 December 2019, the Group has revised its segment allocation and certain cost allocation methods among different operating units and unallocated unit in preparing the information reported to the Group's senior executive management for the purposes of performance assessment. China banking business is also included in unallocated unit which has been reallocated from wholesale banking business in 2019. Corresponding amounts have been provided on a basis consistent with the revised segment information.

(a) Reportable segments

	2019				
	Wholesale banking HK\$'000	Personal and business banking HK\$'000	Treasury and markets HK\$'000	Others HK\$'000	Consolidated HK\$'000
Net interest income	3,604,863	1,714,081	557,235	466,592	6,342,771
Other operating income/(expenses)	682,461	979,780	675,661	(307,479)	2,030,423
Net (loss)/gain on disposal of financial assets at fair value through other comprehensive income	(4)	–	(34,794)	12,858	(21,940)
Operating income	4,287,320	2,693,861	1,198,102	171,971	8,351,254
Operating expenses	(399,227)	(895,003)	(206,924)	(2,195,208)	(3,696,362)
Inter-segment (expenses)/income	(44,394)	(144,639)	(21,994)	211,027	–
Operating profit/(loss) before impairment	3,843,699	1,654,219	969,184	(1,812,210)	4,654,892
Expected credit losses on financial assets	(1,195,548)	(56,454)	67,411	(31,441)	(1,216,032)
Impairment losses on other assets	–	–	–	(51,711)	(51,711)
Operating profit/(loss)	2,648,151	1,597,765	1,036,595	(1,895,362)	3,387,149
Net loss on disposal of property and equipment	(19)	(458)	–	(2,310)	(2,787)
Revaluation loss on investment properties	–	–	–	(1,459)	(1,459)
Share of profit of associates	–	–	–	841	841
Gain on disposal of interest in associates	–	–	–	9,226	9,226
Loss on partial redemption of loan capital	–	–	–	(58,995)	(58,995)
Profit/(loss) before taxation	2,648,132	1,597,307	1,036,595	(1,948,059)	3,333,975
Income tax					(523,674)
Profit for the year					2,810,301
Other segment items:					
Depreciation and amortisation	30,460	20,510	3,527	526,225	580,722
Segment assets	135,992,312	62,151,038	180,396,357	(17,318,205)	361,221,502
Segment liabilities	141,281,253	167,175,470	19,064,935	(12,750,330)	314,771,328
Capital expenditure incurred during the year	21,769	52,459	13,174	135,282	222,684

19 SEGMENT REPORTING (CONTINUED)
(a) Reportable segments (continued)

	2018 (Restated)				
	Wholesale banking <i>HK\$'000</i>	Personal and business banking <i>HK\$'000</i>	Treasury and markets <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Net interest income	3,762,471	1,765,429	375,189	497,267	6,400,356
Other operating income/(expenses)	1,026,506	733,436	557,391	(237,196)	2,080,137
Net (loss)/gain on disposal of financial assets at fair value through other comprehensive income	–	–	(81,418)	10,999	(70,419)
Operating income	4,788,977	2,498,865	851,162	271,070	8,410,074
Operating expenses	(386,008)	(787,290)	(150,091)	(2,061,678)	(3,385,067)
Inter-segment (expenses)/income	(36,092)	(124,709)	(18,174)	178,975	–
Operating profit/(loss) before impairment	4,366,877	1,586,866	682,897	(1,611,633)	5,025,007
Expected credit losses on financial assets	(1,120,127)	34,297	(148,345)	(82,325)	(1,316,500)
Impairment losses on other assets	–	–	–	(86,155)	(86,155)
Operating profit/(loss)	3,246,750	1,621,163	534,552	(1,780,113)	3,622,352
Net loss on disposal of property and equipment	(7)	(531)	–	(255)	(793)
Revaluation gain on investment properties	–	–	–	190	190
Share of profit of associates	–	–	–	2,151	2,151
Profit/(loss) before taxation	3,246,743	1,620,632	534,552	(1,778,027)	3,623,900
Income tax					(615,542)
Profit for the year					3,008,358
Other segment items:					
Depreciation and amortisation	5,018	17,069	582	204,182	226,851
Segment assets	154,548,668	52,226,341	176,523,533	(20,353,751)	362,944,791
Segment liabilities	155,718,075	159,124,190	19,289,708	(17,168,259)	316,963,714
Capital expenditure incurred during the year	9,406	62,209	3,960	441,293	516,868

19 SEGMENT REPORTING (CONTINUED)

(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.

	2019				
	Profit/(Loss) before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Operating income/ (expenses) HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	3,213,613	343,007,576	296,942,701	7,645,619	80,208,797
Mainland China	(63,271)	10,947,855	9,558,607	171,999	971,421
United States	164,017	15,820,276	15,609,316	230,402	1,795,241
Singapore	(16,516)	14,365,643	14,384,483	236,822	21,846,811
Others	36,155	2,407,534	2,371,791	67,035	211,249
Inter-segment items	(23)	(25,327,382)	(24,095,570)	(623)	–
	<u>3,333,975</u>	<u>361,221,502</u>	<u>314,771,328</u>	<u>8,351,254</u>	<u>105,033,519</u>
	2018				
	Profit/(Loss) before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Operating income/ (expenses) HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	3,448,531	350,012,740	304,619,968	7,622,889	68,026,229
Mainland China	(76,244)	8,964,339	7,477,234	263,027	418,104
United States	197,890	13,509,382	13,276,532	248,720	1,984,408
Singapore	18,163	12,425,457	12,402,980	203,834	18,306,578
Others	35,706	2,790,436	2,749,565	72,266	710,447
Inter-segment items	(146)	(24,757,563)	(23,562,565)	(662)	–
	<u>3,623,900</u>	<u>362,944,791</u>	<u>316,963,714</u>	<u>8,410,074</u>	<u>89,445,766</u>

20 NON-ADJUSTING POST BALANCE SHEET EVENT

The expected credit losses allowances at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Since early January 2020, the coronavirus outbreak has started to spread across globally, causing major disruption across different economies. The impact on various economic indicators will be considered when determining the likelihood of economic downturn of different severity in estimating our Group's expected credit losses allowances under HKFRS 9 in 2020.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

(A) REGULATORY DISCLOSURE STATEMENTS AVAILABLE ON THE BANK'S CORPORATE WEBSITE

The Group's regulatory disclosure information will be published by using standard disclosure templates as specified by the HKMA ('Regulatory Disclosure Statement') and that will be viewed in the Regulatory Disclosures section of our Bank's corporate website www.cncbinternational.com. The Bank's Regulatory Disclosure Statement, together with the 2019 Annual Report will be published before the end of April 2020.

(B) CAPITAL ADEQUACY

(i) Capital base

Capital adequacy ratios ("CARs") are complied 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.

	2019 HK\$'000	2018 HK\$'000
Common Equity Tier 1 ("CET1") capital instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	18,404,013	17,931,698
Retained earnings	19,681,132	17,411,498
Disclosed reserves	646,882	101,710
CET1 capital before regulatory deductions	38,732,027	35,444,906
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	315,216	413,359
Other intangible assets (net of related deferred tax liability)	584,809	652,210
Cumulative fair value gains arising from the revaluation of land and buildings (own use and investment properties)	149,436	160,768
Regulatory reserve for general banking risks	243,313	855,457
Valuation adjustments	6,409	6,602
Debt valuation adjustments in respect of derivative contracts	2,512	1,884
Total regulatory deductions to CET1 capital	1,301,695	2,090,280
CET1 capital	37,430,332	33,354,626
Additional Tier 1 ("AT1") capital		
AT1 capital	7,772,060	10,085,527
Tier 1 capital	45,202,392	43,440,153
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	4,365,474	3,915,898
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	67,246	72,346
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	2,841,791	2,957,962
Tier 2 capital base before deductions	7,274,511	6,946,206
Tier 2 capital: regulatory deductions		
Regulatory deductions to Tier 2 capital	–	–
Tier 2 capital	7,274,511	6,946,206
Total capital	52,476,903	50,386,359
(ii) Risk-weighted assets		
– Credit risk	234,172,753	239,247,171
– Market risk	12,866,425	7,337,525
– Operational risk	15,393,163	14,184,325
	262,432,341	260,769,021

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(B) CAPITAL ADEQUACY (CONTINUED)

(iii) Capital adequacy ratios

	2019	2018
– CET1 capital ratio	14.3%	12.8%
– Tier 1 capital ratio	17.2%	16.7%
– Total capital ratio	20.0%	19.3%

(iv) Capital conservation buffer ratio and countercyclical capital buffer ratio

The capital buffer ratios are applicable to the Group on a consolidated basis are as follows:

	2019	2018
Capital conservation buffer ratio	2.000%	1.875%
Countercyclical capital buffer (“CCyB”) ratio	1.119%	1.071%
	3.119%	2.946%

The detail relevant disclosure of the CCyB ratio for each jurisdiction and the geographical breakdown of risk-weighted assets in relation to private sector credit exposures using the standard templates as specified by the HKMA can be viewed in the Regulatory Disclosure section of our Bank’s website.

(v) Capital instruments

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

	2019 HK\$’000	2018 HK\$’000
CET 1 capital instruments issued by the Bank		
Ordinary shares:		
12,111,121,568 issued and fully paid ordinary shares	18,404,013	18,404,013

	2019 HK\$’000	2018 HK\$’000
Additional Tier 1 Capital Securities		
Undated non-cumulative subordinated capital securities with US\$300 million	–	2,310,168
Undated non-cumulative subordinated capital securities with US\$500 million	3,863,084	3,863,084
Undated non-cumulative subordinated capital securities with US\$500 million	3,907,328	3,907,328
	7,770,412	10,080,580

	2019 HK\$’000	2018 HK\$’000
Tier 2 capital instruments		
Issued by the Bank		
– US\$500 million Subordinated Fixed Rate Notes at 6.875%, due 2020	2,384,710	3,943,791
– US\$300 million Subordinated Fixed Rate Notes at 6.000%, due 2024	–	2,339,751
– US\$500 million Subordinated Fixed Rate Notes at 4.625%, due 2029	3,864,472	–
	6,249,182	6,283,542

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(B) CAPITAL ADEQUACY (CONTINUED)

(vi) Leverage ratio

The Bank is required to disclose its leverage ratio calculated on a consolidated basis covering the Bank and some of its subsidiaries.

	2019	2018
Leverage ratio	<u>11.8%</u>	<u>11.4%</u>

The detail relevant disclosure of the leverage exposure using the standard templates as specified by the HKMA can be viewed in the Regulatory Disclosure section of our Bank's website.

(C) LIQUIDITY RATIOS

Under the Banking (Liquidity) Rules, the Group being a Category 1 institution is required to maintain a Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") above the statutory minimum requirements.

	Weighted amount (average value)				
	For quarter ended 31 December 2019	For quarter ended 30 September 2019	For quarter ended 30 June 2019	For quarter ended 31 March 2019	For quarter ended 31 December 2018
Average LCR	<u>225.7%</u>	<u>207.6%</u>	<u>224.0%</u>	<u>249.4%</u>	<u>258.5%</u>

The Group also maintains sufficient available stable funding in support of its longer-term assets to meet the statutory NSFR requirements. The changes in the NSFR in the second half of 2019 was mainly driven by the movements in deposits from retail and wholesale banking customers. There is no interdependent asset and liability as defined in the Banking (Liquidity) Rules in the Group.

The NSFRs as at the quarter-end in 2019 are as follows:

	Weighted amount (average value)				
	Quarter ended 31 December 2019	Quarter ended 30 September 2019	Quarter ended 30 June 2019	Quarter ended 31 March 2019	Quarter ended 31 December 2018
NSFR	<u>145.0%</u>	<u>139.5%</u>	<u>143.1%</u>	<u>141.1%</u>	<u>141.5%</u>

For the purposes of compliance with Banking (Disclosure) Rules, information relating to the Group's liquidity are published by using standard disclosure templates as specified by the HKMA and they can be viewed in the Regulatory Disclosures section of our Bank's corporate website at www.cncbinternational.com.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(D) 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.

	2019		2018	
	Gross loans and advances to customers <i>HK\$'000</i>	% of gross loans and advances to customers covered by collateral	Gross loans and advances to customers <i>HK\$'000</i>	% of gross loans and advances to customers covered by collateral
Industrial, commercial and financial				
– Property development	2,892,578	31	4,584,774	44
– Property investment	17,394,845	94	17,289,899	91
– Financial concerns	16,997,699	40	18,058,392	24
– Stockbrokers	1,929,344	26	3,131,658	9
– Wholesale and retail trade	9,427,728	77	9,156,964	77
– Manufacturing	9,940,067	32	12,099,051	22
– Transport and transport equipment	1,379,288	32	1,537,234	28
– Recreational activities	2,858,389	6	3,471,434	11
– Information technology	6,678,785	6	6,674,493	5
– Others	7,154,646	81	9,364,279	79
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	27,410	100	22,413	100
– Loans for the purchase of other residential properties	17,848,823	100	15,560,640	100
– Credit card advances	452,680	–	506,195	–
– Others	14,725,757	93	10,983,726	91
Gross loans and advances for use in Hong Kong	109,708,039	67	112,441,152	59
Trade finance	5,442,284	28	4,325,261	37
Gross loans and advances for use outside Hong Kong	74,227,006	20	85,053,469	25
Gross loans and advances to customers	189,377,329	47	201,819,882	44

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:

	2019				
	Overdue loans and advances to customers <i>HK\$'000</i>	Impaired loans and advances to customers <i>HK\$'000</i>	Stage 1 ECL allowances <i>HK\$'000</i>	Stage 2 ECL allowances <i>HK\$'000</i>	Stage 3 ECL allowances <i>HK\$'000</i>
Gross loans and advances for use outside Hong Kong	213,257	405,677	422,424	1,520,150	145,667
	<u>213,257</u>	<u>405,677</u>	<u>422,424</u>	<u>1,520,150</u>	<u>145,667</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(D) FURTHER ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

2018					
	Overdue loans and advances to customers <i>HK\$'000</i>	Impaired loans and advances to customers <i>HK\$'000</i>	Stage 1 ECL allowances <i>HK\$'000</i>	Stage 2 ECL allowances <i>HK\$'000</i>	Stage 3 ECL allowances <i>HK\$'000</i>
					Expected credit losses on income statement during the year <i>HK\$'000</i>
Gross loans and advances for use outside Hong Kong	381,594	846,979	292,892	837,706	317,605
					822,556
By geographical areas					
2019					
	Loans and advances to customers <i>HK\$'000</i>	Overdue loans and advances to customers <i>HK\$'000</i>	Impaired loans and advances to customers <i>HK\$'000</i>	Stage 1 ECL allowances <i>HK\$'000</i>	Stage 2 ECL allowances <i>HK\$'000</i>
					Stage 3 ECL allowances <i>HK\$'000</i>
Hong Kong	112,057,703	256,698	314,262	329,070	1,594,234
Mainland China	54,737,559	1,520,887	1,553,281	294,806	148,190
United States	7,812,490	164,436	323,273	11,770	299
Singapore	2,305,334	–	–	27,211	–
Others	12,464,243	79,949	79,949	98,835	7,070
	189,377,329	2,021,970	2,270,765	761,692	1,749,793
					1,085,502
2018					
	Loans and advances to customers <i>HK\$'000</i>	Overdue loans and advances to customers <i>HK\$'000</i>	Impaired loans and advances to customers <i>HK\$'000</i>	Stage 1 ECL allowances <i>HK\$'000</i>	Stage 2 ECL allowances <i>HK\$'000</i>
					Stage 3 ECL allowances <i>HK\$'000</i>
Hong Kong	114,341,202	123,082	753,215	282,575	776,875
Mainland China	55,148,825	1,035	648,527	209,139	817,621
United States	7,303,786	19,345	19,345	27,470	25,753
Singapore	5,625,789	256,362	256,362	6,040	–
Others	19,400,280	38,689	38,689	106,146	7,977
	201,819,882	438,513	1,716,138	631,370	1,628,226
					399,302

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.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(E) OVERDUE ASSETS

Overdue loans and advances to customers

	2019		2018	
	<i>HK\$'000</i>	% of total loans and advances to customers	<i>HK\$'000</i>	% of total loans and advances to customers
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	1,273,990	0.67	92,265	0.05
– 1 year or less but over 6 months	113,496	0.06	174	0.00
– over 1 year	634,484	0.34	346,074	0.17
	2,021,970	1.07	438,513	0.22
Secured overdue loans and advances	866,415		257,944	
Unsecured overdue loans and advances	1,155,555		180,569	
	2,021,970		438,513	
Market value of collateral held against the secured overdue loans and advances	1,031,977		341,501	
Expected credit losses allowances	1,045,362		160,224	

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:

- The market value of the asset is readily determinable or can be reasonably established and verified.
- The asset is marketable and there exists a readily available secondary market for disposal of the asset.
- The Bank's right to repossess the asset is legally enforceable and without impediment.
- 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 2019 and 2018.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(F) RESCHEDULED LOANS

	2019		2018	
	<i>HK\$'000</i>	% of total loans and advances to customers	<i>HK\$'000</i>	% of total loans and advances to customers
Rescheduled loans	36,160	0.019	5,588	0.003

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 (E).

There were no advances to banks and other financial institutions which were rescheduled at 31 December 2019 and 2018.

(G) REPOSSESSED ASSETS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Included in loans and advances to customers and other accounts	118,334	166,617

The amount represents the estimated market value of the repossessed assets at 31 December 2019 and 2018.

(H) INTERNATIONAL CLAIMS

International claim refers to the sum of cross-border claims in all currencies and local claims in foreign currencies determined as based on the calculation methodology specified in the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures of counterparties which attributable to the country or segment, after taking into account risk recognised transfer, constitute to not less than 10% of the aggregate claims are disclosed as follows.

	2019				
	Non-bank private sector				Total
	Banks <i>HK\$'000</i>	Official Sector <i>HK\$'000</i>	Non-bank financial institutions <i>HK\$'000</i>	Non-financial private sector <i>HK\$'000</i>	<i>HK\$'000</i>
Developed countries	32,246,182	33,691	2,628,932	4,531,552	39,440,357
Offshore centres	13,106,799	32,505	9,613,134	41,823,801	64,576,239
of which Hong Kong	6,293,883	32,003	9,203,500	30,860,173	46,389,559
Developing Asia-Pacific	46,644,129	2,400,773	8,683,970	53,873,468	111,602,340
of which Mainland China	42,891,517	2,400,110	8,683,970	52,313,249	106,288,846
	2018				
	Non-bank private sector				Total
	Banks <i>HK\$'000</i>	Official Sector <i>HK\$'000</i>	Non-bank financial institutions <i>HK\$'000</i>	Non-financial private sector <i>HK\$'000</i>	<i>HK\$'000</i>
Developed countries	22,881,847	30,452	1,787,729	5,265,326	29,965,354
Offshore centres	14,938,225	792	17,107,420	46,162,347	78,208,784
of which Hong Kong	11,879,024	116	10,418,174	32,477,257	54,774,571
Developing Asia-Pacific	65,752,116	512,056	6,628,107	47,932,710	120,824,989
of which Mainland China	65,577,390	511,443	6,628,107	47,021,182	119,738,122

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(I) MAINLAND ACTIVITIES

Mainland Activities are Mainland China exposures to non-bank counterparties and their categories and the type of direct exposures defined by the HKMA's Return of Mainland Activities.

		2019		
		On-statement of financial position exposure HK\$'000	Off-statement of financial position exposure HK\$'000	Total HK\$'000
(1)	Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	38,930,094	1,047,110	39,977,204
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	12,837,141	713,237	13,550,378
(3)	PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	59,852,632	3,776,776	63,629,408
(4)	Other entities of central government not reported in item 1 above	5,695,927	491,794	6,187,721
(5)	Other entities of local governments not reported in item 2 above	299,800	10,295	310,095
(6)	PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	19,289,655	2,767,733	22,057,388
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	9,120,511	144,720	9,265,231
Total		146,025,760	8,951,665	154,977,425
Total assets after provision		361,221,502		
On-balance sheet exposures as percentage of total assets		40.4%		
		2018		
		On-statement of financial position exposure HK\$'000	Off-statement of financial position exposure HK\$'000	Total HK\$'000
(1)	Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	31,479,387	472,197	31,951,584
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	12,284,640	549,357	12,833,997
(3)	PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	67,756,250	3,906,080	71,662,330
(4)	Other entities of central government not reported in item 1 above	15,222,043	162,342	15,384,385
(5)	Other entities of local governments not reported in item 2 above	756,526	137,980	894,506
(6)	PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	17,432,219	2,365,071	19,797,290
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	13,992,493	57,433	14,049,926
Total		158,923,558	7,650,460	166,574,018
Total assets after provision		362,944,791		
On-balance sheet exposures as percentage of total assets		43.8%		

REPORT OF THE CHIEF EXECUTIVE OFFICER

2019 was an exceptionally challenging year. While China-US trade tensions continued to escalate, persistent social events in the second half of the year caused significant disruptions especially to retail business. China CITIC Bank International Limited (“CNCBI” or “the Bank”) and its subsidiaries (together “the Group”) remained undaunted, keeping revenues largely stable while expenses increased as a result of continued investments to drive business transformation. Net profits at HK\$2.81 billion represented a mild setback from the previous year but was still the second highest in the Group’s history. Meanwhile, retail and treasury businesses were bolstered by the Group’s transformation initiatives, resulting in a better business structure. Moreover, general management, risk management and internal controls have been further strengthened, enhancing the Group’s foundations to overcome multiple adversities and achieve sustainable growth ahead.

OPERATING ENVIRONMENT

Global economic growth slowed markedly in 2019 to an estimated 2.9%, 70 basis points weaker than in 2018, with the US and the Eurozone showing slowdown of 60 and 70 basis points respectively. Apart from structural and cyclical factors, the China-US trade war as well as trade frictions between the US and other countries took a toll on global trade flows, heightened market volatility and dented business confidence. In response, led by the US Federal Reserve, most central banks have launched a new round of monetary easing.

During the period under review, China’s economy continued to weaken as a result of repeated escalations of the China-US trade war. Expectations of a partial trade agreement between the two countries and emerging benefits of supportive monetary and fiscal policies helped stabilize economic growth at 6.0% for the last quarter of 2019, and full-year growth was 6.1%. While the rate of expansion was 50 basis points lower year on year, it was in line with the annual target of 6.0-6.5%. On the other hand, debt default cases related to small and medium-sized private enterprises increased, resulting in several financial institutions being taken over. Although the situation was under control, the potential risks should not be overlooked.

For the Hong Kong economy, the challenge it faced in 2019 was enormous. Growth in the first half was considerably slower given the impact of external headwinds, while the economy was further badly hit by domestic social events in the second half and plunged into recession. For the first three quarters, gross domestic product (GDP) shrank by 2.9% and with more downside expected for the fourth quarter, Hong Kong’s economy is estimated to have contracted by 1.2% for the whole year. The operating environment of the banking industry has therefore been deteriorating. Pre-tax profits for the sector as a whole increased by merely 1.8% in the first three quarters of 2019, compared to 22.4% for the same period in 2018.

FINANCIAL REVIEW

The Group’s 2019 profit attributable to shareholders decreased 6.6% year on year to HK\$2.81 billion. Return on average assets was 0.79% while return on average shareholders’ equity was 7.44%.

Operating income last year remained stable at HK\$8.35 billion. Net interest income was slightly down by 0.9% to HK\$6.34 billion as a result of lower outstanding loans, while net interest margin edged up 3 basis points from 1.82% in the previous year to 1.85% on the back of an increase in assets yields in excess of the rise in funding costs. Non-interest income was maintained at HK\$2.01 billion. Despite lower contribution from loan fees and sale of treasury products, insurance-related income increased noticeably, and the revenues derived from debt capital markets and trading operations also continued to rise.

While strengthening cost controls, the Group remained committed to driving its business transformation, continuing to increase investments in technology and human capital. Total operating expenses were up by 9.2% year on year.

Impairment for 2019 was HK\$1.27 billion, compared with HK\$1.40 billion of the preceding year. Impaired loan balance as at 31 December 2019 increased from a year earlier due to the downgrade of a loan asset. Yet thanks to stronger collection efforts, impaired loan ratio dropped from a peak of 1.38% in the middle of the year to 1.20%, while non-performing loan coverage ratio also improved to 158.4% from a low of 107.7% as at 30 June 2019.

In the face of market uncertainties and rising corporate credit risk, the Group was prudent in granting new loans and proactively adjusted its asset mix to enhance capital efficiency. Total assets as at 31 December 2019 stood at HK\$361.22 billion, similar to the end-2018 level. Customer loans (including trade bills) and total deposits (including certificates of deposit issued) dropped by 6.2% and 3.0% from a year ago respectively to HK\$189.38 billion and HK\$279.99 billion. Balance sheet structure continued to improve with increases in retail deposits and lending, which accounted for 57.5% and 32.3% of total deposits and loans respectively.

In February 2019, CNCBI successfully issued US\$500 million Tier 2 Subordinated Notes to replenish its capital. As at 31 December 2019, the Group's total capital adequacy ratio, tier 1 capital ratio and common equity tier 1 capital ratio stood at 20.0%, 17.2% and 14.3% respectively, meeting regulatory requirements. Meanwhile, the Group continued to maintain ample liquidity to safeguard against potential market volatilities, with an average liquidity coverage ratio of 225.7% for 2019.

BUSINESS REVIEW

Wholesale Banking Group

Last year, due to negative factors such as the China-US trade war and a decline in cross-border mergers and acquisitions activities of Chinese enterprises, Wholesale Banking Group ("WBG") experienced a period of consolidation after rapid growth in the preceding few years. Operating income in 2019 amounted to HK\$4.29 billion, down 10.5% year on year, while loan and deposit balances as at the end of the year were around 16.2% and 13.7% lower respectively versus a year earlier.

In a bid to resume growth quickly, WBG has carried out transformation in its customer base, product support, management system, etc. Going forward, it will further enhance the collaboration with parent bank China CITIC Bank Corporation Limited ("CNCB")/the CITIC Group, the cooperation with Chinese non-bank financial institutions, customer referrals among different product groups and the marketing capabilities of relationship managers, attempting to acquire more customers via multiple channels to resolve the issue of a narrow core customer base at this juncture. Meanwhile, the product teams will be further strengthened, with product managers participating in a marketing pitch at an earlier stage and the establishment of a professional marketing system of "relationship manager + product manager" to spur cross-selling. Moreover, the responsibilities of various units will further be clearly defined, while the performance appraisal of relationship managers/product managers will be improved, and the collaboration (1) across various teams in the Hong Kong headquarters and (2) between overseas branches and the headquarters will be enhanced.

Treasury and Markets Group

Treasury and Markets Group ("TMG") saw a 40.8% year-on-year increase in 2019 operating income to HK\$1.20 billion, with fee income recognized for the debt capital markets ("DCM") business growing by 26.2%. During the period under review, the DCM team completed 142 deals for Chinese issuers with an aggregate issuance size of US\$57.59 billion. As at the end of the year, according to Bloomberg Offshore China Bonds issuance volume, CNCBI ranked the fifth among all Chinese financial institutions. The Bank was also awarded the "2019 Best High Yield House in Asia" by FinanceAsia. In the fixed income secondary market, trading volume increased considerably year on year, bringing in substantial revenues.

The trading team focused on building the market-making business of RMB and HKD products. According to Refinitiv (previously Thomson Reuters), CNCBI ranked among the top three Chinese banks in Asia for RMB FX spot trading volume throughout 2019 and attained number 1 from August to November 2019 in a row. CNCBI has also received two awards from Refinitiv: (1) 2019 Top 5 Trading Volume in FX Spot (across all currencies) in Hong Kong; (2) Top CNH Spot Trader by volume among all individual traders in Hong Kong. In March 2019, the trading team completed the first HKEx centrally cleared CNH FX swap transaction in Hong Kong and HKEx presented CNCBI with the "Key Business Partner in FIC Market" award as well as various awards in relation to clearing business in recognition of the Bank's contribution to the development of the offshore RMB market.

The Central Treasury Unit (“CTU”) carefully managed the mismatch in the Group’s liquidity gapping positions, FX funding swaps and debt securities portfolio, delivering satisfactory financial performance. Starting from October 2019, CNCBI has been a CNH HIBOR contributing bank as appointed by the Treasury Markets Association, which is an acknowledgement of the Bank’s increasing presence in the CNH market.

Personal and Business Banking Group

Despite an extremely volatile operating environment, Personal and Business Banking Group (“PBG”) successfully achieved record-breaking operating income of HK\$2.69 billion, representing a 7.8% increase over 2018. Deposit and loan balances also registered all-time highs, up 5.3% and 18.7% respectively to HK\$160.96 billion and HK\$61.13 billion. Retail banking, private banking and business banking businesses have all performed well, contributing to a diversified income base of PBG.

In the meantime, CNCBI has launched the inMotion Lab, capitalizing on inMotion as the business platform to drive the Bank’s Fintech transformation. Further to being the first bank in Hong Kong to provide truly remote account opening services via a mobile app, CNCBI has continued to introduce more innovative products and services on the inMotion platform. In February 2019, CNCBI led the market again by launching the first truly virtual credit card. Later in November, the Bank was also the pioneer among its peers to introduce a robo investment advisory service (“Robo 360”). In addition, a securities trading platform with comprehensive functions, “inVest” was launched to enhance customer experience in investment and wealth management.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group attaches great importance to rigorous risk governance and strives to maintain robust risk management and internal control practices. Hence the Group has continued to enhance its “three lines of defence”, namely (1) business units where risks are taken (including related frontline and support staff), (2) independent risk management and compliance functions and (3) an independent internal audit function, in order to effectively manage the risks faced by the Group. The actions taken include regular reviews and updates of risk appetite and policies as well as controls, procedures and reporting to ensure that they remain in line with relevant laws, regulations and regulatory requirements for sound corporate governance.

To match the standards set by the Basel Committee on Banking Supervision, the HKMA has imposed increasingly stringent requirements on the banking industry. With a view to strengthening the risk infrastructure and coping with a tighter regulatory environment, the Group implemented a number of risk management enhancement initiatives in 2019. At the same time, by undertaking extensive preparations internally and engaging external consultants, timely completion of various regulatory projects was ensured. These projects included the new standards of Interest Rate Risk in the Banking Book (“IRRBB”) and the Banking (Exposure Limits) Rules (“BELR”) large exposure limits monitoring. Other key regulatory projects underway comprise initial margining for non-centrally cleared over-the-counter derivatives, standardized approach to counterparty credit risk, central clearing of derivatives related to secured overnight financing rate in lieu of LIBOR, reform of interest rate benchmarks, Basel III reform on the calculation of risk-weighted assets for credit risk and Basel III reform on the fundamental review of the trading book in relation to minimum capital requirements for market risk.

In 2019, the Bank also implemented several initiatives to proactively manage anti-money laundering risk, cybersecurity risk and operational risk in response to evolving regulatory requirements.

HUMAN RESOURCES DEVELOPMENT

In line with the Group’s strategic development, its organizational design underwent a holistic review in 2019 with some adjustments made. For instance, Information Technology Group and Operations Management Group have become two individual units. The establishment of an independent Information Technology Group can help further enhance the IT infrastructure, system maintenance and security as well as strengthening the safeguards against IT and cybersecurity risks.

Meanwhile, to cultivate a sound corporate culture, performance management and incentive systems have been strengthened. The use of 360-degree performance assessment has been extended from a group of senior managers to middle managers for a more comprehensive evaluation, while the staff recognition scheme has been improved to encourage exemplary behaviours. In addition, senior managers have been offered training courses to help them set the tone from the top and lead by example.

The Group has also organized many recreational activities to help its staff achieve a work-life balance. For the sake of promoting interaction across various departments and team spirit, several sports teams have been formed, with a number of awards in basketball, bowling, dragon-boat racing and hiking competitions.

CORPORATE SOCIAL RESPONSIBILITY

With a commitment to honouring the responsibility of a corporate citizen while conducting its banking business, CNCBI seeks to plough back resources in society. In 2019, two of the Group's key Corporate Social Responsibility ("CSR") programmes delivered encouraging results. "Speak Along", which aimed at providing timely, fundamental and effective training for pre- and primary-school students with speech impediments through an online knowledge platform, a gamified mobile app, seminars and workshops for parents and direct speech therapies, benefited more than 10,000 children over a three-year span ending 2019. Another large-scale CSR programme "Draw HK", which comprised artist-in-residence programmes and workshops, an exhibition as well as an event day, supported underprivileged students to discover their artistic talents, raise their creativity and self-confidence, and promoted art to various layers of our society. The programme put 700 primary and secondary school students in touch with a colourful array of innovative approaches to creativity while the exhibition and event day held in March 2019 attracted 30 education organizations to take part in art tours and inspired 18,000 local and overseas visitors to pick up the pen for the fun of drawing.

OUTLOOK

For 2020, the global economy will be hard hit by persistently weak demand and unabated trade frictions, as well as serious repercussions of the novel coronavirus outbreak. Despite a series of powerful supportive measures introduced by various governments as led by the US, the growth of major economies will slow down markedly. 2020 global economic growth is projected at 1.5%, which is lower than 2019 by 1.5 percentage points and 2.1 percentage points below the average growth rate between 2012 and 2018. Although the partial trade agreement is a boon to China's economy during the first quarter of the year, negative growth is likely to be recorded in light of a severe blow dealt by the virus outbreak. Assuming that the pandemic can generally subside after the second quarter, coupled with the central government launching substantially more stimulus measures, a strong rebound of China's economy may be in store, with full-year growth forecast at 4.5%, which is 1.6 percentage points lower than in 2019. Meanwhile, it will be difficult for the Hong Kong economy to stage a recovery given the significant adverse impact of the virus outbreak while it is in the throes of social events. A deep recession is expected for the first six months. The recession may moderate in the second half, but that depends on the development of the virus outbreak, and GDP for the whole year is still forecast to be down about 1.5%. The banking industry is poised to see tougher operating conditions in the first half of the year. While the prospect of some improvement beckons in the second half, the overall operating environment should remain challenging.

Despite many hurdles ahead, the Group will continue to pursue a 4C strategy (Culture, Customer, Collaboration, Cyberspace), promoting a sound corporate culture, upholding the principle of putting our customers first, encouraging collaboration and achieving technology-led development, in order that the vision of becoming "the best integrated financial services institution" can ultimately be realized by our sustained effort.

In the face of intensifying competition from both traditional and virtual banks, CNCBI will keep developing the inMotion Lab and use this platform as the basis to steadfastly press ahead with the Bank's gradual Fintech transformation.

We firmly believe in the importance of collaboration. The Group will continue to work closely with the CITIC Group and parent bank to serve corporate and retail customers with cross-border financing needs or desires for offshore asset allocation. The Group will also step up internal collaboration across various departments and offer more incentives to encourage cross-selling among the business units, focusing on diversifying the Group's income base and generating non-interest income which can contribute to higher capital efficiency. Meanwhile, frontline and mid-and-back office operations will join hands to ensure healthy business development with due regards paid to upholding high standards of corporate governance and risk management.

In union there is strength. I would like to take this opportunity to thank all our customers, the shareholders of the Bank and the Board of Directors. It is your unflinching trust and support that has equipped us with the strength to move on with determination. Moreover, I would like to express my deepest appreciation to the entire staff for the hard work and dedication that has ensured the Group's stable operations. Your unwavering tenacity and sense of responsibility will certainly contribute to the Bank's sustainable success.

Bi Mingqiang

President & Chief Executive Officer

Hong Kong, 25 March 2020