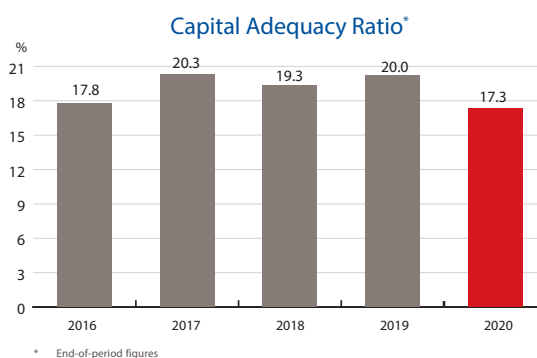
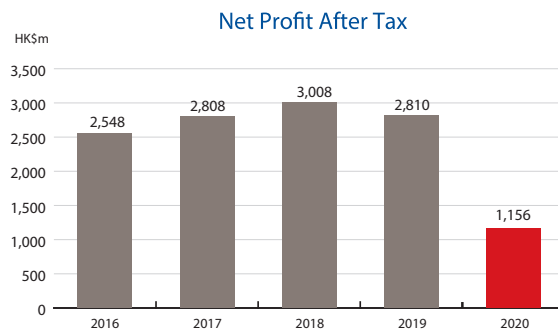


2020 Results Highlights

Financial Performance

- **Operating income** dropped by 11.9% to HK\$7.36 billion. **Net interest income** decreased by 18.2% to HK\$5.19 billion mainly due to a 38 basis points decrease in **net interest margin** to 1.47% versus FY2019 level. **Non-interest income** increased 8.0% to reach HK\$2.17 billion.
- **Operating expenses** decreased 0.9% year on year, while cost-to-income ratio was 49.8%.
- **Operating profit before impairment** decreased by 20.6% to HK\$3.69 billion.
- **Impaired loan ratio** as at end-December 2020 was 1.65%, representing a 45 basis points increase versus that of end-December 2019, largely due to the downgrading of isolated large-size loan exposures.
- **Impairment losses** were HK\$2.35 billion, versus HK\$1.27 billion in 2019, representing a year-on-year increase of 85.6%.
- **Net profit after tax** was HK\$1.16 billion, down 58.9% year on year.
- **Total assets** increased by 8.8% versus end-2019 to HK\$392.90 billion. **Customer deposits (including certificates of deposits issued)** went up 10.7% to HK\$309.88 billion while **customer loans (including trade bills)** were up 16.2% to HK\$220.10 billion.
- **Capital adequacy ratio** and **CET1 ratio** met regulatory requirements at 17.3% and 12.3% respectively.



Core Businesses

Wholesale Banking business adopted an effective marketing strategy for key products, strengthened cross-selling and improved internal control mechanism in order to ensure continued and stable business development. Customer loan and deposit balances reached HK\$138.94 billion and HK\$147.88 billion respectively, representing increases of 15.1% and 30.8% versus end-2019. Syndicated loans business achieved rapid growth, while CNCBI's ranking in the Mandated Lead Arranger League Table improved from 41 in 2019 to 6 in 2020 according to Refinitiv. Transaction Banking Department was established in March 2020 to enhance comprehensive customer servicing capabilities. In 2021, the Wholesale Banking Group ("WBG") will continue to transform into a full-service bank by offering signature products, expanding the syndicated loans business, further building out the transaction banking business, and strengthening cross-selling with the treasury and markets business as well as the retail banking business.

Treasury and Markets business achieved operating income of HK\$1.20 billion in 2020. The Debt Capital Markets team completed 149 deals for Chinese issuers with an aggregate issuance size of US\$57.06 billion, of which CNCBI acted as global coordinator for 75 transactions. According to Bloomberg's Offshore China US\$ Bonds issuance volume, CNCBI ranked third amongst all Chinese financial institutions as of end-2020. The trading team continued to focus on building out the market-making business of RMB and HK\$ products. According to Refinitiv, CNCBI ranked amongst the top five Chinese banks in Asia for RMB FX spot trading volume throughout 2020 and maintained a number 1 ranking from July to November 2020. The trading business also won nine awards from Bond Connect Company, China Foreign Exchange Trade System, Refinitiv and the Hong Kong Exchanges and Clearing Limited. The custodian business for institutional customers was officially launched in March 2020. As of end-2020, 17 clients have been successfully onboarded while US\$1.1 billion of assets under custody have been accumulated. The Central Treasury Unit enjoyed strong growth momentum in the bond investment portfolio and properly managed the Bank's liquidity ratios during volatile moments in support of the Bank's business activities.

Personal and Business Banking business maintained solid performance despite challenging operating conditions. High-net-worth customers and digital customers grew 36% and 67% year on year respectively, which helped to solidify the customer base for continuous business development. Customer loans increased 13.2% versus end-2019 to reach HK\$69.20 billion. Investment income rose 41.8% year on year driven by enhancements made to the online trading platform to encourage the selling of investment products. CNCBI continued to enhance its digital banking services via its inMotion mobile banking platform to spearhead Fintech transformation. In March 2020, CNCBI was the first bank in Hong Kong to enable its customers to open a 3-in-1 account via remote channels encompassing deposit, investment and credit card accounts. In June, the Bank further introduced money market fund investment services. CNCBI was also the first bank in Hong Kong to incorporate speech recognition and synthesis technology into phone enquiry services via the launch of iChatBot. The new CITICdiamond brand was developed to provide unique wealth management solutions for high-net-worth customers and the first CITICdiamond Banking Centre was opened in August in Admiralty. In December, a new flagship branch was launched in Quarry Bay to provide customers with a new integrated online and offline banking experience.



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

ANNOUNCEMENT OF 2020 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 2020.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

(Expressed in Hong Kong dollars)

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest income	9,038,772	12,164,025
Interest expense	(3,852,587)	(5,821,254)
Net interest income	5,186,185	6,342,771
Fee and commission income	1,401,025	1,515,893
Fee and commission expense	(139,207)	(115,025)
Net fee and commission income	1,261,818	1,400,868
Net trading income	905,560	600,953
Net hedging loss	(1,313)	(2,492)
Net loss on disposal of financial assets at fair value through other comprehensive income	(33,428)	(21,940)
Other operating income	36,805	31,094
Operating income	7,355,627	8,351,254
Operating expenses	(3,661,798)	(3,696,362)
Operating profit before impairment	3,693,829	4,654,892
Expected credit losses on financial assets	(2,356,656)	(1,216,032)
Impairment losses reversed/(charged) on other assets	4,176	(51,711)
Impairment losses	(2,352,480)	(1,267,743)
Operating profit	1,341,349	3,387,149
Net loss on disposal of property and equipment and intangible assets	(961)	(2,787)
Revaluation loss on investment properties	(34,300)	(1,459)
Share of profit of associates	–	841
Gain on disposal of interest in associates	–	9,226
Loss on partial redemption of loan capital	–	(58,995)
Profit before taxation	1,306,088	3,333,975
Income tax	(150,271)	(523,674)
Profit for the year	1,155,817	2,810,301
Profit attributable to shareholders	1,155,817	2,810,301

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	2020 HK\$'000	2019 <i>HK\$'000</i>
Profit for the year	1,155,817	2,810,301
Other comprehensive income 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	98,906	(32,073)
Financial assets at fair value through other comprehensive income		
– change in the fair value of debt instruments	228,445	743,630
– transfer to income statement on disposal	33,428	21,940
– deferred tax related to the above	(42,036)	(126,372)
– transfer to income statement on impairment	22,853	(75,490)
	242,690	563,708
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	58,686	–
– transfer to deferred tax on disposal	–	10
	58,686	10
Financial assets at fair value through other comprehensive income		
– change in the fair value of equity instruments	1,686	12,551
– deferred tax related to the above	(278)	(2,071)
	1,408	10,480
Other comprehensive income for the year	401,690	542,125
Total comprehensive income for the year	1,557,507	3,352,426
Total comprehensive income attributable to shareholders	1,557,507	3,352,426

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**At 31 December 2020***(Expressed in Hong Kong dollars)*

	2020 HK\$'000	2019 <i>HK\$'000</i>
ASSETS		
Cash and balances with banks, central banks and other financial institutions	32,783,916	26,005,564
Placements with and advances to banks, central banks and other financial institutions	28,969,830	54,468,897
Financial assets at fair value through profit or loss	2,649,076	1,908,370
Derivative financial instruments	14,378,601	6,283,608
Loans and advances to customers and other accounts	226,789,958	193,572,226
Financial assets at fair value through other comprehensive income	84,950,868	76,668,300
Amortised cost investments	48,493	–
Property and equipment		
– Investment properties	254,830	229,130
– Other premises and equipment	511,806	499,033
Right-of-use assets	696,653	679,507
Intangible assets	635,101	584,809
Tax recoverable	55,449	6,842
Deferred tax assets	174,107	315,216
Total Assets	392,898,688	361,221,502
LIABILITIES AND EQUITY		
Liabilities		
Deposits and balances of banks and other financial institutions	5,326,408	7,121,633
Deposits from customers	309,877,016	276,872,680
Financial liabilities at fair value through profit or loss	290,185	146,500
Derivative financial instruments	15,160,283	6,363,156
Certificates of deposit issued	–	3,112,919
Debt securities issued	–	3,346,067
Current tax liabilities	19,656	705,837
Deferred tax liabilities	904	2,191
Other liabilities	10,078,174	10,155,293
Lease liabilities	722,894	695,870
Loan capital	3,855,374	6,249,182
Total Liabilities	345,330,894	314,771,328
Equity		
Share capital	18,404,013	18,404,013
Reserves	21,393,369	20,275,749
Total shareholders' equity	39,797,382	38,679,762
Other equity instruments	7,770,412	7,770,412
Total Equity	47,567,794	46,450,174
Total Equity and Liabilities	392,898,688	361,221,502

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

(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>	Other equity instruments <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2020	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
Changes in equity for 2020:												
Profit for the year	-	-	-	-	-	-	-	-	1,155,817	1,155,817	-	1,155,817
Other comprehensive income for the year	-	-	-	98,906	58,686	244,098	-	-	-	401,690	-	401,690
Total comprehensive income for the year	-	-	-	98,906	58,686	244,098	-	-	1,155,817	1,557,507	-	1,557,507
Transfer from retained profits	-	-	-	-	-	-	946	-	(440,833)	(439,887)	439,887	-
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	-	-	-	-	-	-	-	-	-	-	(439,887)	(439,887)
At 31 December 2020	18,404,013	6,589	100,000	3,348	134,931	593,020	60,108	149,500	20,345,873	21,393,369	7,770,412	47,567,794
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 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

CONSOLIDATED CASH FLOW STATEMENT**For the year ended 31 December 2020***(Expressed in Hong Kong dollars)*

	2020 HK\$'000	2019 <i>HK\$'000</i>
Operating activities		
Profit before taxation	1,306,088	3,333,975
Adjustments for non-cash items:		
Expected credit losses on financial assets	2,356,656	1,216,032
Impairment losses (reversed)/charged on other assets	(4,176)	51,711
Net loss on disposal of financial assets at fair value through other comprehensive income	33,428	21,940
Net loss on disposal of property and equipment	961	2,787
Revaluation loss on investment properties	34,300	1,459
Share of profit of associates	–	(841)
Gain on disposal of interest in associates	–	(9,226)
Loss on partial redemption of loan capital	–	58,995
Amortisation of deferred expenses	89,954	48,274
Amortisation of intangible assets	207,597	181,354
Depreciation on property and equipment	113,458	101,493
Depreciation on right-of-use assets	291,776	297,875
Dividend income from equity securities	(4,330)	(4,630)
Interest expense on loan capital and debt securities issued	315,332	543,228
Foreign exchange differences	(650,433)	196,307
Operating profit before changes in working capital	4,090,611	6,040,733
Net (increase)/decrease in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	4,203,829	(3,976,052)
Treasury bills with original maturity beyond 3 months	(403,416)	(863,149)
Certificates of deposit held with original maturity beyond 3 months	797,370	8,726,213
Financial assets at fair value through profit or loss	(740,706)	(467,838)
Derivative financial instruments	(8,094,993)	(255,775)
Loans and advances to customers and other accounts	(35,549,178)	8,882,524
Financial assets at fair value through other comprehensive income	(6,573,671)	(12,163,713)
	(46,360,765)	(117,790)
Net increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	(1,795,225)	4,272,258
Deposits from customers	32,993,142	(8,620,362)
Derivative financial instruments	8,797,128	(180,195)
Certificates of deposit issued	(3,107,444)	1,848
Other liabilities	23,703	1,669,777
	36,911,304	(2,856,674)
Cash (used in)/generated from operating activities	(5,358,850)	3,066,269
Income tax paid		
Hong Kong Profits Tax paid	(730,888)	(366,897)
Overseas tax paid	(37,747)	(60,846)
Net cash flow (used in)/generated from operating activities	(6,127,485)	2,638,526

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**For the year ended 31 December 2020***(Expressed in Hong Kong dollars)*

	2020 HK\$'000	2019 <i>HK\$'000</i>
Net cash flow (used in)/generated from operating activities	(6,127,485)	2,638,526
Cash flow generated from/(used in) investing activities		
Dividends received from equity securities	4,330	4,630
Purchase of property and equipment and intangible assets	(385,507)	(222,684)
Proceeds from disposal of property and equipment	26	9,192
Proceeds from disposal of interest in associates	–	362,218
Net cash (used in)/generated from investing activities	(381,151)	153,356
Cash flow generated from/(used in) financing activities		
Proceeds from loan capital issued	–	3,908,552
Payment for redemption of debt securities issued	(3,252,833)	–
Payment for redemption of loan capital	(2,359,017)	(3,960,618)
Payment for redemption of AT1 Capital Securities	–	(2,358,567)
Distribution paid on AT1 Capital Securities	(439,887)	(530,500)
Payment of lease liabilities	(313,626)	(312,213)
Interest paid on debt securities issued	(59,195)	(149,655)
Interest paid on loan capital	(256,137)	(324,550)
Net cash used in financing activities	(6,680,695)	(3,727,551)
Net decrease in cash and cash equivalents	(13,189,331)	(935,669)
Cash and cash equivalents at 1 January	90,903,199	92,228,603
Exchange differences in respect of cash and cash equivalents	591,181	(389,735)
Cash and cash equivalents at 31 December	78,305,049	90,903,199
Analysis of the balances of cash and cash equivalents		
Cash and balances with banks, central banks and other financial institutions	32,181,569	25,572,830
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	17,336,484	49,913,849
Treasury bills and certificates of deposit held with original maturity within 3 months:		
– Financial assets at fair value through other comprehensive income	28,786,996	15,416,520
	78,305,049	90,903,199
Cash flows from operating activities included:		
Interest received	8,585,922	11,862,060
Interest paid	(4,036,553)	(5,239,643)

NOTES:

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The financial information relating to the financial year ended 31 December 2020 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 2020 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 2020**

During the year ended 31 December 2020, the Group had to change its accounting policies as a result of adopting the amendment to HKFRS 16, Leases, which impact of the adoption is summarised in the following note 2(a)(i). Please refer to the "significant accounting policies" as set out in the note 2 of the 2020 Annual Report.

(i) Changes in accounting policies on the adoption of an amendment to HKFRS 16 Leases

The HKICPA issued "COVID-19-Related Rent Concessions Amendment to HKFRS 16 Leases (the "Amendment to HKFRS 16") in June 2020 and a lessee shall apply that amendment for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. The Amendment to HKFRS 16 provides leases with a practical expedient for COVID-19-related rent concessions which can only be applied if such concessions occurring as a direct consequence of the COVID-19 pandemic and also certain conditions must be met. The Group has made an assessment on the impact of the Amendment to HKFRS 16, and so far concluded that it is not expected to have any material impact on the Group's financial performance in the current or future reporting periods.

(b) New standards and interpretations not yet adopted for the year ended 31 December 2020

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 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.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Listed securities	1,334,070	1,276,535
Unlisted securities	402,904	634,645
Balances and placements with banks and other financial institutions	501,356	1,309,440
Advances and other accounts	6,800,442	8,943,405
Interest income on financial assets that are not at fair value through profit or loss	9,038,772	12,164,025

3 INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)

(b) Interest expense

	2020 HK\$'000	2019 HK\$'000
Deposits from customers, banks and other financial institutions and others	3,495,667	5,150,543
Certificates of deposit issued	13,323	96,764
Debt securities issued	59,195	153,701
Loan capital issued	256,137	389,527
Lease liabilities	28,265	30,719
Interest expense on financial liabilities that are not at fair value through profit or loss	3,852,587	5,821,254

4 NET FEE AND COMMISSION INCOME

	2020 HK\$'000	2019 HK\$'000
Fee and commission income:		
Bills commission	69,097	72,972
Banking services	135,425	128,354
Card-related income	28,872	36,898
Debt capital markets	265,267	295,792
Insurance	409,820	585,153
Investment and structured investment products	256,746	161,192
Loans, overdrafts and facilities fees	228,523	235,047
Others	7,275	485
	1,401,025	1,515,893
Fee and commission expense	(139,207)	(115,025)
	1,261,818	1,400,868

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	326,492	344,917
– Fee and commission expense	(22,122)	(35,971)
	304,370	308,946

5 NET TRADING INCOME

	2020 HK\$'000	2019 HK\$'000
Net gains from dealing in foreign currencies	118,078	552,969
Net (losses)/gains from financial assets at fair value through profit or loss	(80,722)	10,655
Net gains/(losses) from other dealing activities	247,113	(47,625)
Net interest income on trading activities		
– Listed	122,842	77,977
– Unlisted	498,249	6,977
	905,560	600,953

6 NET HEDGING LOSS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Net hedging (loss)/gain on fair value hedges		
– Net loss on hedging instruments	(57,210)	(137,321)
– Net gain on hedged items attributable to the hedged risk	55,897	134,829
	<u>(1,313)</u>	<u>(2,492)</u>

7 GAIN ON DISPOSAL OF INTEREST IN ASSOCIATES

There has been no disposal of interest in associates for the year ended 31 December 2020. During the year ended 31 December 2019, the Group disposed of its interest in an associate at a consideration of HK\$362,218,000, a gain on disposal of HK\$9,226,000 was recognised.

8 OTHER OPERATING INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Dividend income		
– Unlisted investments	4,330	4,630
Rental income from investment properties		
less direct outgoings of HK\$227,000 (2019: HK\$295,000)	3,069	4,432
Other banking service income	15,405	18,553
Others	14,001	3,479
	<u>36,805</u>	<u>31,094</u>

9 OPERATING EXPENSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
(a) Staff costs		
Salaries and other staff costs (Note)	1,948,422	2,150,006
Retirement costs	124,372	116,876
	<u>2,072,794</u>	<u>2,266,882</u>
(b) Depreciation and amortisation		
Depreciation – property and equipment	113,458	101,493
Depreciation – right-of-use assets	291,776	297,875
Amortisation – intangible assets	207,597	181,354
	<u>612,831</u>	<u>580,722</u>
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)	415,801	342,471
Auditor's remuneration	8,804	8,971
Advertising	82,727	90,247
Communication, printing and stationery	146,809	125,544
Electronic data processing	154,235	115,372
Legal and professional fees	65,822	83,352
Others	101,975	82,801
	<u>976,173</u>	<u>848,758</u>
Total operating expenses	<u>3,661,798</u>	<u>3,696,362</u>

Note:

During the year ended 31 December 2020, the Group received an amount of HK\$58,137,000 (2019: Nil) from the Government of the Hong Kong Special Administrative Region under the Employment Support Scheme and such government subsidy was deducted from the staff cost.

10 EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

Expected credit losses (“ECL”) charged/(reversed) on financial assets

	2020			
	Stage 1 <i>HK\$'000</i>	Stage 2 <i>HK\$'000</i>	Stage 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balances with banks, central banks and other financial institutions	(925)	–	–	(925)
Placements with and advances to banks, central banks and other financial institutions	(303)	–	–	(303)
Loans and advances to customers	(172,720)	(1,172,053)	3,825,043	2,480,270
Other accounts	(697)	–	(35,373)	(36,070)
Financial assets at fair value through other comprehensive income	(19,249)	–	42,102	22,853
Loan commitments and guarantees (included in contingent liabilities and commitments)	55,098	892	–	55,990
	<u>(138,796)</u>	<u>(1,171,161)</u>	<u>3,831,772</u>	<u>2,521,815</u>
Recoveries				<u>(165,159)</u>
				<u>2,356,656</u>
	2019			
	Stage 1 <i>HK\$'000</i>	Stage 2 <i>HK\$'000</i>	Stage 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
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				<u>(70,510)</u>
				<u>1,216,032</u>

11 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statement

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
Provision for the year	30,129	505,227
(Over)/under-provision in respect of prior years	(23,644)	6,833
	<u>6,485</u>	<u>512,060</u>
Current tax – Overseas		
Provision for the year	67,921	50,013
Over-provision in respect of prior years	(23,877)	(1,940)
	<u>44,044</u>	<u>48,073</u>
Deferred tax		
Origination/(reversal) of temporary differences	99,742	(36,459)
	<u>150,271</u>	<u>523,674</u>

The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit before tax	<u>1,306,088</u>	<u>3,333,975</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	270,026	580,332
Tax effect of non-deductible expenses	51,355	73,258
Tax effect of non-taxable revenue	(51,000)	(46,483)
Tax effect of distribution payment of AT1 Capital Securities	(72,581)	(87,533)
(Over)/under-provision in prior years	(47,521)	4,893
Others	(8)	(793)
Actual tax expense	<u>150,271</u>	<u>523,674</u>

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

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

	2020 HK\$'000	2019 HK\$'000
Debt securities	2,351,288	1,908,370
Treasury bills	297,788	–
	<u>2,649,076</u>	<u>1,908,370</u>
Issued by:		
Sovereigns	1,314,180	341,717
Banks and other financial institutions	754,442	690,114
Corporate entities	538,656	824,619
Public entities	41,798	51,920
	<u>2,649,076</u>	<u>1,908,370</u>
Listed	2,341,585	1,907,604
Unlisted	307,491	766
	<u>2,649,076</u>	<u>1,908,370</u>

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

	2020 HK\$'000	2019 HK\$'000
Short sales of debts securities	<u>290,185</u>	<u>146,500</u>

13 LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

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

	2020 HK\$'000	2019 HK\$'000
Gross loans and advances to customers	220,096,434	189,377,329
– Expected credit losses allowances	(2,440,456)	(3,596,987)
	<u>217,655,978</u>	<u>185,780,342</u>
Other accounts	9,385,838	7,831,244
– Expected credit losses allowances		
– Stage 1	(783)	(1,480)
– Stage 3	(251,075)	(37,880)
	<u>(251,858)</u>	<u>(39,360)</u>
	<u>9,133,980</u>	<u>7,791,884</u>
	<u>226,789,958</u>	<u>193,572,226</u>

13 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").

	2020		2019	
	Gross loans and advances to customers HK\$'000	Impaired loans and advances to customers HK\$'000	Gross loans and advances to customers HK\$'000	Impaired loans and advances to customers HK\$'000
Industrial, commercial and financial				
– Property development	11,268,407	–	2,892,578	–
– Property investment	13,460,635	272,556	17,394,845	1,014,756
– Financial concerns	12,698,994	–	16,997,699	–
– Stockbrokers	4,044,282	–	1,929,344	–
– Wholesale and retail trade	9,618,761	197,481	9,427,728	181,098
– Manufacturing	9,762,067	35,794	9,940,067	31,137
– Transport and transport equipment	3,326,439	–	1,379,288	–
– Recreational activities	1,891,488	–	2,858,389	–
– Information technology	6,759,381	–	6,678,785	–
– Others	12,454,426	373,936	7,154,646	578,791
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	25,360	175	27,410	304
– Loans for the purchase of other residential properties	21,168,747	24,858	17,848,823	7,729
– Credit card advances	434,591	3,207	452,680	2,837
– Others	16,152,868	10,903	14,725,757	11,093
Gross loans and advances for use in Hong Kong	123,066,446	918,910	109,708,039	1,827,745
Trade finance	5,441,544	32,771	5,442,284	37,343
Gross loans and advances for use outside Hong Kong	91,588,444	2,679,495	74,227,006	405,677
Gross loans and advances to customers	220,096,434	3,631,176	189,377,329	2,270,765

(c) Impaired loans and advances to customers

	2020 HK\$'000	2019 HK\$'000
Gross impaired loans and advances to customers	3,631,176	2,270,765
Expected credit losses allowances – Stage 3	(1,273,744)	(1,085,502)
	2,357,432	1,185,263
Gross impaired loans and advances as a % of total loans and advances to customers	1.65%	1.20%

Collateral amounts of HK\$2,799,388,000 (2019: HK\$1,296,240,000) 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.

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Debt securities		
– Certificates of deposit held	5,179,894	5,438,918
– Treasury bills	23,503,712	21,767,173
– Other debt securities	56,157,194	49,353,873
	84,840,800	76,559,964
Equity securities	110,068	108,336
	84,950,868	76,668,300
Issued by:		
Sovereigns	25,390,319	23,516,040
Banks and other financial institutions	42,392,498	41,724,151
Corporate entities	14,846,212	11,048,234
Public entities	2,321,839	379,875
	84,950,868	76,668,300
Listed	49,755,786	43,990,382
Unlisted	35,195,082	32,677,918
	84,950,868	76,668,300

15 CAPITAL AND RESERVES

(a) Share capital

(i) Ordinary shares, issued and fully paid:

	2020		2019	
	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

(ii) Shares issued during the year

The Bank did not issue any shares during the year ended 31 December 2020 (2019: 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.

15 CAPITAL AND RESERVES (CONTINUED)

(c) Reserves

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Capital reserve	6,589	6,589
General reserve	100,000	100,000
Exchange differences reserve	3,348	(95,558)
Property revaluation reserve	134,931	76,245
Investment revaluation reserve	593,020	348,922
Statutory reserve	60,108	59,162
Regulatory general reserve	149,500	149,500
Retained profits*	20,345,873	19,630,889
Total	21,393,369	20,275,749

* 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 2020, HK\$1,926,768,000 (2019: HK\$243,313,000) was included in the retained profits in this respect, which is distributable to equity holders of the Bank subject to consultation with the HKMA.

16 CONTINGENT LIABILITIES, COMMITMENTS AND DERIVATIVES

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Direct credit substitutes	482,575	1,972,142
Transaction-related contingencies	977,663	435,981
Trade-related contingencies	5,871,861	3,059,713
Forward forward deposits placed	12,920,238	12,873,035
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	89,362,475	80,912,845
– with an original maturity of not more than 1 year	4,017,915	1,967,519
– with an original maturity of more than 1 year	4,511,472	3,812,284
	118,144,199	105,033,519
Credit risk-weighted amounts	7,254,665	7,599,154

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2019: 0% to 150%).

17 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:

	2020			2019		
	Held for hedging <i>HK\$'000</i>	Others (including held for trading) <i>HK\$'000</i>	Total <i>HK\$'000</i>	Held for hedging <i>HK\$'000</i>	Others (including held for trading) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Currency derivatives						
Forwards	–	60,610,924	60,610,924	–	84,167,658	84,167,658
Swaps	–	728,792,077	728,792,077	–	696,539,371	696,539,371
Options purchased	–	26,329,946	26,329,946	–	34,547,603	34,547,603
Options written	–	29,158,079	29,158,079	–	34,563,815	34,563,815
Interest rate derivatives						
Forwards/Futures	–	5,488,630	5,488,630	–	3,858,214	3,858,214
Swaps	–	819,149,400	819,149,400	3,230,287	687,402,549	690,632,836
Options purchased	–	3,019,001	3,019,001	–	–	–
Options written	–	3,019,001	3,019,001	–	–	–
	–	<u>1,675,567,058</u>	<u>1,675,567,058</u>	3,230,287	<u>1,541,079,210</u>	<u>1,544,309,497</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

	2020			2019		
	Fair value assets <i>HK\$'000</i>	Fair value liabilities <i>HK\$'000</i>	Credit risk- weighted amount <i>HK\$'000</i>	Fair value assets <i>HK\$'000</i>	Fair value liabilities <i>HK\$'000</i>	Credit risk- weighted amount <i>HK\$'000</i>
Currency derivatives	10,520,010	11,463,378	9,873,251	5,271,339	5,365,547	6,333,303
Interest rate derivatives	3,858,591	3,696,905	733,781	1,012,269	997,609	200,143
	<u>14,378,601</u>	<u>15,160,283</u>	<u>10,607,032</u>	<u>6,283,608</u>	<u>6,363,156</u>	<u>6,533,446</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% as at 31 December 2020 (31 December 2019: 0% to 150%) for exchange rate, interest rate and other derivatives contracts. Both of the fair values and credit risk-weighted amounts of derivative financial instruments are shown on a gross basis and do not take into account the effect of any bilateral netting arrangements.

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 2020, the Group's average daily trading profit and loss from foreign exchange positions was a loss of HK\$1,796,000 (2019: a profit of HK\$1,135,000) with a standard deviation of HK\$13,750,000 (2019: HK\$5,094,000).

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

Equivalent in HK\$' 000	2020			
	USD	RMB	Others	Total
Spot assets	164,369,879	22,409,162	26,200,137	212,979,178
Spot liabilities	(120,232,212)	(20,069,718)	(14,058,439)	(154,360,369)
Forward purchases	362,454,488	194,205,562	71,795,914	628,455,964
Forward sales	(402,141,228)	(199,504,087)	(83,411,374)	(685,056,689)
Net options position	(3,634,671)	4,018,861	(359,109)	25,081
Net long position	816,256	1,059,780	167,129	2,043,165
Net structural position	–	714,898	48,542	763,440
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

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:

The Group operates a wholesale banking business in Hong Kong and at overseas branches. Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing deposit account services and cash management. Overseas branches include the branches operated overseas and their management office unit 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, corporate expenses and China banking which mainly includes a subsidiary bank in China.

19 SEGMENT REPORTING (CONTINUED)

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 2020, 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. Corresponding amounts have been provided on a basis consistent with the revised segment information.

(a) Reportable segments

	2020				
	Wholesale banking HK\$'000	Personal and business banking HK\$'000	Treasury and markets HK\$'000	Others HK\$'000	Consolidated HK\$'000
Net interest income	2,963,302	1,548,415	348,445	326,023	5,186,185
Other operating income/(expenses)	886,646	883,480	917,038	(484,294)	2,202,870
Net (loss)/gain on disposal of financial assets at fair value through other comprehensive income	21,569	–	(66,103)	11,106	(33,428)
Operating income	3,871,517	2,431,895	1,199,380	(147,165)	7,355,627
Operating expenses	(421,591)	(964,099)	(198,349)	(2,077,759)	(3,661,798)
Inter-segment (expenses)/income	(11,053)	(119,553)	(16,659)	147,265	–
Operating profit/(loss) before impairment	3,438,873	1,348,243	984,372	(2,077,659)	3,693,829
Expected credit losses on financial assets	(2,248,838)	(73,874)	(26,962)	(6,982)	(2,356,656)
Impairment losses reversed on other assets	–	–	–	4,176	4,176
Operating profit/(loss)	1,190,035	1,274,369	957,410	(2,080,465)	1,341,349
Net loss on disposal of property and equipment and intangible assets	–	(711)	(16)	(234)	(961)
Revaluation loss on investment properties	–	–	–	(34,300)	(34,300)
Profit/(loss) before taxation	1,190,035	1,273,658	957,394	(2,114,999)	1,306,088
Income tax					(150,271)
Profit for the year					1,155,817
Other segment items:					
Depreciation and amortisation	31,376	22,153	2,609	556,693	612,831
Segment assets	149,287,611	70,215,429	188,380,101	(14,984,453)	392,898,688
Segment liabilities	174,208,724	163,365,046	24,777,321	(17,020,197)	345,330,894
Capital expenditure incurred during the year	12,603	150,067	15,855	206,982	385,507

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

	2019 (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	3,604,863	1,714,081	555,168	468,659	6,342,771
Other operating income/(expenses)	897,242	979,780	670,163	(516,762)	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	4,502,101	2,693,861	1,190,537	(35,245)	8,351,254
Operating expenses	(399,227)	(895,003)	(169,586)	(2,232,546)	(3,696,362)
Inter-segment (expenses)/income	(20,188)	(144,639)	(21,994)	186,821	–
Operating profit/(loss) before impairment	4,082,686	1,654,219	998,957	(2,080,970)	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)	2,887,138	1,597,765	1,066,368	(2,164,122)	3,387,149
Net loss on disposal of property and equipment and intangible assets	(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	2,887,119	1,597,307	1,066,368	(2,216,819)	3,333,975
Income tax					(523,674)
Profit for the year					2,810,301
Other segment items:					
Depreciation and amortisation	30,460	20,510	1,478	528,274	580,722
Segment assets	135,990,322	62,150,272	176,976,416	(13,895,508)	361,221,502
Segment liabilities	141,279,263	167,174,705	16,103,728	(9,786,368)	314,771,328
Capital expenditure incurred during the year	21,769	52,459	5,817	142,639	222,684

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.

	2020				
	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	1,746,615	378,296,661	331,157,516	6,755,712	92,198,530
Mainland China	(3,513)	11,342,549	9,860,818	167,346	1,264,343
United States	102,053	13,972,966	13,874,622	236,321	2,022,635
Singapore	(595,312)	14,155,015	14,697,014	132,492	22,341,620
Others	56,244	4,755,024	4,701,906	74,446	317,071
Inter-segment items	1	(29,623,527)	(28,960,982)	(10,690)	–
	1,306,088	392,898,688	345,330,894	7,355,627	118,144,199
	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)	–
	3,333,975	361,221,502	314,771,328	8,351,254	105,033,519

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 can 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 2020 annual report will be published before the end of April 2021.

(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.

	2020 HK\$'000	2019 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	18,404,013
Retained earnings	20,416,204	19,681,132
Disclosed reserves	1,050,761	646,882
CET1 capital before regulatory deductions	39,870,978	38,732,027
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	174,107	315,216
Other intangible assets (net of related deferred tax liability)	635,101	584,809
Cumulative fair value gains arising from the revaluation of land and buildings (own use and investment properties)	173,822	149,436
Regulatory reserve for general banking risks	1,926,768	243,313
Valuation adjustments	26,117	6,409
Debt valuation adjustments in respect of derivative contracts	2,330	2,512
Total regulatory deductions to CET1 capital	2,938,245	1,301,695
CET1 capital	36,932,733	37,430,332
Additional Tier 1 ("AT1") capital		
AT1 capital	7,772,060	7,772,060
Tier 1 capital	44,704,793	45,202,392
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	3,876,149	4,365,474
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	78,220	67,246
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	3,234,537	2,841,791
Tier 2 capital base before deductions	7,188,906	7,274,511
Tier 2 capital: regulatory deductions		
Regulatory deductions to Tier 2 capital	—	—
Tier 2 capital	7,188,906	7,274,511
Total capital	51,893,699	52,476,903

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(B) CAPITAL ADEQUACY (CONTINUED)

	2020 HK\$'000	2019 HK\$'000
(ii) Risk-weighted assets		
– Credit risk	268,859,749	234,172,753
– Market risk	15,406,250	12,866,425
– Operational risk	15,050,538	15,393,163
	299,316,537	262,432,341
(iii) Capital adequacy ratios	2020	2019
– CET1 capital ratio	12.3%	14.3%
– Tier 1 capital ratio	14.9%	17.2%
– Total capital ratio	17.3%	20.0%

(iv) **Capital instruments**

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

	2020 HK\$'000	2019 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
Additional Tier 1 Capital Securities		
Undated non-cumulative subordinated capital securities with US\$500 million (issued in 2016)	3,863,084	3,863,084
Undated non-cumulative subordinated capital securities with US\$500 million (issued in 2018)	3,907,328	3,907,328
	7,770,412	7,770,412
Tier 2 capital instruments		
<u>Issued by the Bank</u>		
– US\$500 million Subordinated Fixed Rate Notes at 6.875% (due in 2020)	–	2,384,710
– US\$500 million Subordinated Fixed Rate Notes at 4.625% (due in 2029)	3,855,374	3,864,472
	3,855,374	6,249,182

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(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 2020	For quarter ended 30 September 2020	For quarter ended 30 June 2020	For quarter ended 31 March 2020	For quarter ended 31 December 2019
Average LCR	<u>217%</u>	<u>240%</u>	<u>224%</u>	<u>272%</u>	<u>226%</u>

The Group also maintains sufficient available stable funding in support of its longer-term assets to meet the statutory NSFR requirements. The decrease in the NSFR in the second half of 2020 was mainly driven by the increase in the customer loans, partly offset by the increases in the customer deposits. There is no interdependent asset and liability as defined in the Banking (Liquidity) Rules in the Group.

	Quarter ended 31 December 2020	Quarter ended 30 September 2020	Quarter ended 30 June 2020	Quarter ended 31 March 2020	Quarter ended 31 December 2019
NSFR	<u>129%</u>	<u>134%</u>	<u>140%</u>	<u>138%</u>	<u>145%</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.

	2020		2019	
	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	11,268,407	70	2,892,578	31
– Property investment	13,460,635	97	17,394,845	94
– Financial concerns	12,698,994	31	16,997,699	40
– Stockbrokers	4,044,282	24	1,929,344	26
– Wholesale and retail trade	9,618,761	81	9,427,728	77
– Manufacturing	9,762,067	18	9,940,067	32
– Transport and transport equipment	3,326,439	15	1,379,288	32
– Recreational activities	1,891,488	3	2,858,389	6
– Information technology	6,759,381	5	6,678,785	6
– Others	12,454,426	54	7,154,646	81
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	25,360	100	27,410	100
– Loans for the purchase of other residential properties	21,168,747	100	17,848,823	100
– Credit card advances	434,591	–	452,680	–
– Others	16,152,868	94	14,725,757	93
Gross loans and advances for use in Hong Kong	123,066,446	64	109,708,039	67
Trade finance	5,441,544	30	5,442,284	28
Gross loans and advances for use outside Hong Kong	91,588,444	25	74,227,006	20
Gross loans and advances to customers	220,096,434	47	189,377,329	47

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:

	2020				
	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>	Expected credit losses on income statement during the year <i>HK\$'000</i>
Gross loans and advances for use outside Hong Kong	2,687,898	2,679,495	382,154	429,761	1,804,363

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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

	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>
					Expected credit losses on income statement during the year <i>HK\$'000</i>
Gross loans and advances for use outside Hong Kong	213,257	405,677	422,424	1,520,150	145,667
					845,373

By geographical areas

	2020					
	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	134,762,429	2,796,234	2,910,148	246,920	52,691	996,222
Mainland China	56,988,621	595,434	595,434	218,086	524,840	191,534
United States	9,265,895	–	–	26,765	–	–
Singapore	5,333,136	–	–	29,220	–	–
Others	13,746,353	125,594	125,594	67,981	209	85,988
	220,096,434	3,517,262	3,631,176	588,972	577,740	1,273,744

	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	38,488
Mainland China	54,737,559	1,520,887	1,553,281	294,806	148,190	913,919
United States	7,812,490	164,436	323,273	11,770	299	85,989
Singapore	2,305,334	–	–	27,211	–	–
Others	12,464,243	79,949	79,949	98,835	7,070	47,106
	189,377,329	2,021,970	2,270,765	761,692	1,749,793	1,085,502

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

	2020		2019	
	<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	66,950	0.03	1,273,990	0.67
– 1 year or less but over 6 months	2,610,339	1.19	113,496	0.06
– over 1 year	839,973	0.38	634,484	0.34
	3,517,262	1.60	2,021,970	1.07
Secured overdue loans and advances	2,729,091		866,415	
Unsecured overdue loans and advances	788,171		1,155,555	
	3,517,262		2,021,970	
Market value of collateral held against the secured overdue loans and advances	2,995,913		1,031,977	
Expected credit losses allowances	1,244,814		1,045,362	

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 2020 and 2019.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(F) RESCHEDULED LOANS

	2020		2019	
	<i>HK\$'000</i>	% of total loans and advances to customers	<i>HK\$'000</i>	% of total loans and advances to customers
Rescheduled loans	4,903	0.002	36,160	0.019

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 2020 and 2019.

(G) REPOSSESSED ASSETS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Included in loans and advances to customers and other accounts	54,166	118,334

The amount represents the estimated market value of the repossessed assets at 31 December 2020 and 2019.

(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.

	2020				
	Non-bank private sector				Total <i>HK\$'000</i>
	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>	
Developed countries	39,453,287	12,547	1,881,172	3,940,096	45,287,102
Offshore centres	6,601,830	57,092	11,815,208	49,912,640	68,386,770
of which Hong Kong	2,299,845	56,694	11,061,809	36,818,921	50,237,269
Developing Asia-Pacific	31,866,827	6,025,006	11,336,385	58,151,874	107,380,092
of which Mainland China	27,800,973	6,012,021	10,813,919	55,408,772	100,035,685
	2019				
	Non-bank private sector				Total <i>HK\$'000</i>
	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>	
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

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.

		2020		
		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")	49,751,958	1,625,825	51,377,783
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	13,632,994	1,137,829	14,770,823
(3)	PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	61,898,135	6,897,396	68,795,531
(4)	Other entities of central government not reported in item 1 above	7,711,206	49,608	7,760,814
(5)	Other entities of local governments not reported in item 2 above	1,006,014	25,591	1,031,605
(6)	PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	17,250,211	1,058,969	18,309,180
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	10,094,457	56,883	10,151,340
Total		161,344,975	10,852,101	172,197,076
Total assets after provision		392,898,688		
On-balance sheet exposures as percentage of total assets		41.1%		
		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%		

REPORT OF THE CHIEF EXECUTIVE OFFICER

2020 was exceptionally challenging with the global COVID-19 outbreak resulting in significant disruptions to business activities and volatility in the financial markets, while tensions between China and the US continued to intensify. US sanctions imposed on individuals in China and Hong Kong also resulted in political uncertainties and a more unstable operating environment. Stagnant cross-border activities between Hong Kong and China as well as weak consumer demand on the back of pandemic control measures resulted in the largest recession on the records of Hong Kong with GDP declining by 6.1% for the full year, while unemployment rate reached a 16-year high of 6.6%.

China CITIC Bank International Limited (“CNCBI” or “the Bank”) and its subsidiaries (together “the Group”) remained resilient and ensured that normal business activities remained on track while business continuity plans and pandemic control measures were implemented to ensure safety of its customers and staff. Amidst an increasingly difficult operating environment, income and profitability of the Group decreased, but risk management and compliance capabilities were enhanced. At the same time, the Group remained committed to forge ahead with transformation via the adoption of Fintech and product innovation via the adoption of the agile method. Product and service offerings on the inMotion mobile banking platform were further enriched, enabling the Group to maintain its competitive advantages in digital banking in Hong Kong. Such achievements were accomplished because the Group’s staff were able to collaborate with each other, press ahead bravely, remain resilient despite significant challenges and steadily spearhead the implementation of the Bank’s strategic plans in the midst of a difficult operating environment.

OPERATING ENVIRONMENT

Hit severely by the COVID-19 pandemic, the global economy fell into a deep recession in 2020, with GDP estimated to have dropped significantly by 4.9% relative to 2019. The drop was bigger at above 5% for developed economies and roughly 2.5% for developing economies as a whole. Global trade performed worse with an estimated double-digit decline. In response, various national governments reinforced monetary and fiscal easing, particularly with a further advancement in monetary easing, which mitigated the economic downturn to a certain extent but exacerbated the excess liquidity situation and intensified market volatility.

The Hong Kong economy took a more severe hit in 2020. Following the shock by social events during the second half of 2019, all walks of life in Hong Kong suffered heavy losses from the COVID-19 pandemic in 2020. As a result, GDP contracted by 9.0% for the first half of the year and 6.1% for the full year despite a narrower decline in the second half of the year. Meanwhile, unemployment rate reached a 16-year high of 6.6%. Sectors highly reliant on cross-border flows of people suffered particularly disastrous losses, in which many firms saw business activities almost ceased and unemployment rates hitting double-digits.

The business environment of the retail banking industry in Hong Kong therefore deteriorated sharply in 2020, with pre-tax profits of the sector as a whole plunging by 26.1% for the first three quarters of the year, which is 27.9 percentage points lower than the growth of 1.8% over the same period in 2019.

Mainland China’s economy exhibited a notable “low to high” growth pattern during the period under review. GDP slumped by 6.8% for the first quarter of 2020 due to the COVID-19 pandemic, and embarked on a quarter-by-quarter recovery in the following three quarters with expansions of 3.2%, 4.9% and 6.5% respectively as the COVID-19 situation came under control. The recovery was however unbalanced among sectors as well as corporates, with a slower pace of recovery for the service sector, traditional manufacturing industry and small and micro firms, leading to increased corporate failures and defaults on bonds or loans. Meanwhile, tensions between China and the US escalated sharply, hurting many trade, high-tech and financial companies.

FINANCIAL REVIEW

The Group's operating income in 2020 decreased by 11.9% year on year to reach HK\$7.36 billion. Net interest income dropped 18.2% year on year to HK\$5.19 billion on the back of a lower net interest margin. Net interest margin decreased 38 basis points from 1.85% of the previous year to 1.47%. Non-interest income rose 8.0% year on year to HK\$2.17 billion. Despite lower contributions from loan fees, sale of insurance products and debt capital markets operations, fee income from the sale of treasury products continued to rise while income from FX swap transactions also increased.

The Group remained committed to spearhead business transformation via the adoption of advanced financial technologies; hence, investments in technology continued to rise. At the same time, the Group was able to strengthen its comprehensive cost control capabilities and achieved a 0.9% year-on-year decrease in total operating expenses and a cost-to-income ratio of 49.8%.

Impairment losses for 2020 were HK\$2.35 billion, compared with HK\$1.27 billion of the preceding year. Impaired loan balance as at 31 December 2020 increased from a year earlier due to the downgrading of isolated large-size loan exposures. Impaired loan ratio rose from 1.20% of the preceding year to 1.65% for 2020. Excluding these isolated large-size loans, the overall quality of the Group's loan portfolio remains healthy. The Group shall continue to step up collection efforts for impaired loans and strive to improve the quality of its loan portfolio.

The Group remained prudent in granting new loans in the midst of a challenging operating environment. Total assets as at 31 December 2020 stood at HK\$392.90 billion, which was 8.8% higher than that as of end-2019. Customer loans (including trade bills) and customer deposits (including certificates of deposit issued) increased by 16.2% and 10.7% from a year ago respectively to HK\$220.10 billion and HK\$309.88 billion. Balance sheet structure remained healthy with retail deposits and lending accounting for 50.8% and 31.4% of total deposits and loans respectively. The loan-to-deposit ratio also remained healthy at 71.0%.

As at 31 December 2020, the Group's total capital adequacy ratio, tier 1 capital ratio and common equity tier 1 capital ratio stood at 17.3%, 14.9% and 12.3% respectively, meeting regulatory requirements. Meanwhile, the Group maintained sufficient liquidity and achieved an average liquidity coverage ratio of 238.5% for 2020.

BUSINESS REVIEW

Wholesale Banking Business

In 2020, amidst very challenging operating conditions, the Wholesale Banking Group ("WBG") adopted an effective marketing strategy for key products, strengthened cross-selling and improved internal control mechanism in order to ensure continued and stable business development. During the period under review, WBG's customer loan and deposit balances reached HK\$138.94 billion and HK\$147.88 billion respectively, representing increases of 15.1% and 30.8% versus end-2019. The syndicated loans business achieved rapid growth; as of end-2020, CNCBI was ranked number 6 in the Mandated Lead Arranger League Table according to Refinitiv, which was an improvement of 35 ranks versus the previous year. In order to enhance comprehensive customer servicing capabilities, the Transaction Banking Department was established in March 2020.

In 2021, WBG will continue to solidify its customer base and expand the number of customers. The goal is to transform from a lender to a full-service bank by offering signature products, expanding the syndicated loans business, further building out the transaction banking business, and strengthening cross-selling with the treasury and markets business as well as the retail banking business. Meanwhile, WBG will further optimize the collaboration mechanism with parent bank China CITIC Bank Corporation Limited ("CNCB") and continue to provide global and seamless services to its customers; strengthen its business infrastructure and enhance its customer servicing capabilities and management efficiency.

Treasury and Markets Business

The various teams within the Treasury and Markets Group (“TMG”) collaborated actively in light of a highly volatile market environment and managed to achieve operating income of HK\$1.20 billion in 2020. During the period under review, the Debt Capital Markets team completed 149 deals for Chinese issuers with an aggregate issuance size of US\$57.06 billion, of which CNCBI acted as global coordinator for 75 transactions. As at the end of the year, according to Bloomberg’s Offshore China US\$ Bonds issuance volume, CNCBI ranked third amongst all Chinese financial institutions. In the fixed income secondary market, trading volume increased considerably year on year, bringing in substantial revenues.

The trading team continued to focus on building out the market-making business of RMB and HK\$ products. According to Refinitiv, CNCBI ranked amongst the top five Chinese banks in Asia for RMB FX spot trading volume throughout 2020 and maintained a number 1 ranking from July to November 2020. Its active participation in the market has earned awards from the Bond Connect Company as “Outstanding commercial bank” for 2019-2020, as well as from China Foreign Exchange Trade System (“CFETS”) as the “Best Overseas Participant member”. CNCBI also received five awards from Refinitiv covering 2020 Top 5 Trading Volume in FX Spot and FX Swaps in Hong Kong, Top RMB FX Spot Trader and Entity in Hong Kong, and Top G10 FX Spot Trader in Hong Kong. The Hong Kong Exchanges and Clearing Limited presented CNCBI with two awards in relation to the clearing business in recognition of the Bank’s active participation in the development of the OTC Derivatives clearing business.

The custodian business for institutional customers was officially launched in March 2020. As of the end of 2020, 17 clients were successfully onboarded while US\$1.1 billion of assets under custody was accumulated.

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. CTU enjoyed strong growth momentum in the bond investment portfolio and properly managed the Bank’s liquidity ratios during volatile moments in support of the Bank’s business activities.

Personal and Business Banking Business

Despite the unprecedented challenging operating conditions caused by the COVID-19 outbreak, foundation of the Personal and Business Banking Group’s (“PBG”) business remained solid. High-net-worth customers and digital customers grew 36% and 67% year on year, which helped to form a solid customer base for continuous business development. Customer loans increased 13.2% to reach HK\$69.20 billion. Customer deposits decreased slightly by 2.2% versus end-2019 to HK\$157.48 billion as PBG strived to strike a balance between scale and returns. Investment income significantly increased by 41.8% versus 2019 mainly driven by PBG’s continuous efforts in promoting digital transformation and development as well as the enhancement of the online banking platform to encourage the selling of investment products.

CNCBI continued to enhance its digital banking services via its inMotion mobile banking platform and spearhead transformation via the adoption of Fintech. In March 2020, CNCBI was the first bank to enable its customers to open a 3-in-1 account via remote channels encompassing deposit, investment and credit card accounts. Later in June, the Bank further introduced money market fund investment services, providing customers with more flexible and convenient new investment experiences. Furthermore, PBG launched iChatBot last year and was the first bank in Hong Kong to incorporate speech recognition and synthesis technology into phone enquiry services.

PBG also launched the new CITIC*diamond* brand to provide unique wealth management solutions for high-net-worth customers and opened its first new CITIC*diamond* Banking Centre in August at Admiralty. In December, a new flagship branch was launched in Quarry Bay to provide customers with a new integrated online and offline banking experience.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group continued to emphasize the importance of rigorous risk governance and strived to maintain robust risk management and internal control practices. Hence, the Group has continued to enhance its “three lines of defence” to ensure that the roles and responsibilities in relation to risk management within the Group are clearly defined, 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 performed included regular reviews and updates of the Group’s risk appetite and policies as well as controls, procedures and reporting to ensure that they remain in-line with applicable laws and regulatory requirements for sound corporate governance.

In 2020, the Group implemented a number of risk management enhancement initiatives and undertook extensive preparations via internal efforts and the engagement of external consultants in order to ensure timely completion of various regulatory projects. These projects included the new standards of Interest Rate Risk in the Banking Book (“IRRBB”) and the Banking (Exposure Limits) Rules (“BELR”) with respect to control and monitoring of large exposures etc. Furthermore, the Group has been actively pressing forward with the reform of interest rate benchmarks as requested by the Hong Kong Monetary Authority.

In 2020, the Group continued to enhance internal control and compliance management capabilities and further strengthened assurance review in accordance with the latest regulatory focuses. The Group also proactively promoted risk management and sound risk culture to all departments and raised staff awareness on risk in order to reduce the Group’s exposure to potential risks.

Various uncertainties lead to challenges in 2021, so the Group will continue to perform stress tests and loan portfolio reviews on the key risks to assess the potential impact under stressed environment (including the on-going COVID-19 pandemic, global economic recession and heightened geopolitical tensions) on the Group’s asset quality and financial situation, and adopt appropriate risk mitigation measures when necessary.

BUSINESS CONTINUITY PLANS

With the persistence of COVID-19 situation in Hong Kong, the Group has been closely monitoring the development of the pandemic, making necessary work arrangements according to the pandemic prevention measures instructed by the Hong Kong Government as well as CNCB, and ensuring sufficient pandemic prevention supplies.

The Group has been activating business continuity plans throughout the year to ensure stable operations, keeping daily business activities on track and reducing the occurrence of major risk incident. At the same time, various measures have been implemented to ensure the safety of our customers and staff including continuous fine-tuning of flexible work arrangements and providing support to staff working from home. The Group has enhanced the preventive measures at offices and business premises by providing pandemic prevention supplies and increasing the frequency of cleaning at all locations. The Group has also participated in the “LeaveHomeSafe” launched by the Government and will continue to closely monitor the developments of the pandemic and enhance relevant measures in a timely manner to ensure smooth operations of business activities.

HUMAN RESOURCES DEVELOPMENT

In 2020, the Group continued to optimize its organizational structure. Apart from setting up the Shenzhen Fintech Development Center to spearhead Fintech transformation, manpower allocation from front, middle to back offices in respective departments were also timely reviewed and adjusted, creating greater business value and improving the Group's risk management capabilities.

At the same time, the Group devoted greater efforts to staff training and development, and a brand new online learning platform was launched to provide flexibility and drive enthusiasm for staff to self-learn proactively. The Group also participated in campus recruitment programs to attract young professionals and bring in vitality and creativity. The Group continued to re-inforce sound bank culture, fine-tuned its performance assessment mechanism via scientific methods, strengthened staff awareness of risk management and compliance holistically, and deepened the establishment of corporate culture.

The Group cares about each and every staff and promoted the physical and emotional health of employees via regular cultural and recreational activities, health seminars and emotional support services. During the period under review, the Group also achieved satisfactory results in the employee engagement survey.

CORPORATE SOCIAL RESPONSIBILITY

The Group proactively fulfilled its responsibilities as a sound corporate citizen and strived to give back to the Hong Kong community. In response to the impact of the COVID-19 outbreak on the local economy, the Group rolled out a series of relief measures since February 2020 and launched a Donation Matching Programme to help ease the financial woes of corporations and private individuals, in order to overcome difficult times together with the community.

The key corporate social responsibility programme "Speak Along" achieved encouraging results with a far-more-than-expected number of beneficiaries. Meanwhile, the Group also retained The Hong Kong Council of Social Service's 15 Years Plus "Caring Company Logo" and was for the first time honored with the "Social Capital Builder Logo Award" by the Community Investment and Inclusion Fund established by the Hong Kong Government.

OUTLOOK

In 2021, the COVID-19 pandemic should gradually come under control with the launch of effective COVID-19 vaccines. Hence, economic recovery should occur with varying degrees across the globe. Mainland China's economy may rebound in a revengeful way with GDP predicted to expand by 8.7% in 2021, which would largely make up for the growth that was lost due to the pandemic in 2020. Yet imbalances in economic recovery would persist, while some sectors/corporates may find it hard to get out of the difficult situation quickly. Hong Kong's economy is expected to turn positive with GDP projected to grow by 3.6% in 2021. However, recovery for sectors highly reliant on cross-border people flow would continue to lag behind. Recovery will be faster for developed countries that suffered more during the COVID-19 pandemic relative to developing countries that suffered less, with global GDP growth expected to turn from -4.9% in 2020 to 4.2% in 2021. Tensions between China and the US may ease somewhat in the new year, but the degree of easing remains a big uncertainty. As such, the operating environment for Hong Kong banks in 2021 is expected to improve but significant challenges shall remain.

2021 marks the beginning of the Group's new 3-year strategic plans, which will ride on what was accomplished before to spearhead future development plans. Under the guidance from CNCB, the Group will continue to forge ahead with the implementation of its 4C strategy (Culture, Customer, Collaboration, Cyberspace). The Group will promote sound corporate culture and focus on driving agile culture transformation as well as process-re-engineering to enhance efficiency. The principle of putting our customers first involves the Group's continued efforts in strengthening relationships with existing customers, expanding its customer base and spearheading product innovation to enhance customer experience. Collaboration remains one of the most important focuses of the Group, so internal communication across departments should be strengthened, cooperation amongst business units should be encouraged, while collaboration with CNCB and the CITIC Group should be enhanced. The Group shall also press ahead with transformation via the adoption of advanced financial technologies, further build out a leading digital banking platform, and adopt regulatory technologies to strengthen its risk management and internal control capabilities.

The Group shall strive to strike a balance between business development and risk management. Management shall continue to strengthen its risk management and internal control capabilities to ensure compliance with regulatory requirements. Credit risk remains a concern in light of the volatile market conditions, so the Group will step up collection efforts of non-performing loans, closely monitor its lending portfolio and asset quality, and strive to minimize concentration risks. Cost control capabilities have been strengthened over the past year, but the Group shall remained focused on cost control and efficiency enhancement in the coming year.

Despite slower business momentum in 2020, the Group still managed to achieve many significant milestones that all staff members should be proud of. The near-term outlook may remain challenging, but the impact of the COVID-19 outbreak will eventually fade away. Hence, the Group remains positive on its long-term outlook and shall steadfastly press ahead with the implementation of its strategic plans to strive to become “the best integrated financial services provider” by leveraging on collaboration with CNCB and the CITIC Group to capitalize on strategic opportunities arising from the Greater Bay Area initiatives etc.

Management team and the entire staff shall remain united to spearhead sustainable and healthy business development of the Group. Last but not least, I would like to take this opportunity to thank all our customers, shareholders and the Board of Directors for their support and encouragement. I would also like to thank all staff members under the Group for their hard work during such challenging times.

Bi Mingqiang

President & Chief Executive Officer

Hong Kong, 24 March 2021