

2023 Results Highlights

Financial Performance

- **Operating income** increased by 18.2% to HK\$10.00 billion. **Net interest income** rose 10.3% to HK\$7.60 billion. **Net interest margin** increased by 14 basis points to 1.81%. **Non-interest income** rose 52.8% to HK\$2.40 billion.
- **Operating expenses** increased 1.3% year-on-year. Cost-to-income ratio was 41.5%.
- **Operating profit before impairment** increased by 34.0% to HK\$5.85 billion.
- **Impaired loan ratio** as at end-December 2023 was 2.28%.
- **Net profit after tax** was HK\$2.59 billion, up 14.8% year-on-year.
- **ROA** was 0.56%. **ROE** was 6.00%.
- **Total assets** increased by 4.1% versus end-2022 to HK\$470.39 billion. **Customer deposits (including certificates of deposits issued)** went up 0.2% to HK\$342.29 billion. **Customer loans (including trade bills)** were down 8.3% to HK\$226.29 billion.
- **Capital adequacy ratio** and **CET1 ratio** met regulatory requirements at 20.1% and 13.4% respectively.

Core Businesses

Wholesale banking business maintained total income growth, accompanied by increases of 25.3% and 28.7% in the number of base customers and active customers respectively. A total of 22 structured finance transactions worth US\$2.93 billion were finalised throughout the course of the year. Statistics from Refinitiv indicated that the Group ranked 6th (with a 5.1% market share) in terms of transaction volume and 4th with regard to the number of transactions in the Hong Kong and Macau Syndicated Loan League Table: Mandated Lead Arranger and Bookrunner in 2023. Green and sustainable financial loans increased by 16.8% year-over-year to HK\$9.04 billion. Cash management service income increased by 51.6% year-on-year.

Treasury and markets business was awarded “Top G10 Spot Entity”, “Top G10 Spot Individual” and “Overall Top 5 Spot Trading Volume Entity” by London Stock Exchange Group, attesting to the expanding market influence of various core businesses and flagship products. For securities services business, total assets under management of more than HK\$180 billion were achieved, recording a year-on-year increase of 41.6%. For green and sustainable bond underwriting business, the issuance value amounted to approximately US\$7.51 billion, reflecting a year-on-year growth of 19.4%. For Certificates of Deposit and Medium-Term Notes businesses, an issuance volume of US\$31.39 billion was completed throughout the year.

Personal and business banking business grew progressively. Solid growth was seen, including income, deposits, customer scale, and digital and mobile banking users, all of which achieved historic record-breaking results. The establishment of private banking operations in Singapore and insurance services in Macau during the first quarter of 2023 generated regional synergistic effects and improved the ability to facilitate global financial management needs of high-net-worth customers. The private banking business demonstrated rapid expansion through the enhancement of professional service capabilities. High-net-worth segment, which exhibited double-digit year-over-year customer growth. Personal and business banking deposits reached HK\$201.53 billion, an increase of 15.1% year-over-year.



CHINA CITIC BANK INTERNATIONAL LIMITED

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

ANNOUNCEMENT OF 2023 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 2023.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

(Expressed in Hong Kong dollars)

	2023 HK\$'000	2022 HK\$'000
Interest income	20,471,084	11,811,121
Interest expense	(12,866,500)	(4,915,154)
Net interest income	7,604,584	6,895,967
Fee and commission income	1,422,928	1,403,106
Fee and commission expense	(168,410)	(161,930)
Net fee and commission income	1,254,518	1,241,176
Net trading income	1,035,805	316,998
Net gain on financial instruments mandatorily classified at fair value through profit or loss	4,076	–
Net gain/(loss) on disposal of financial investments at fair value through other comprehensive income	73,638	(8,485)
Other operating income	27,328	17,710
Operating income	9,999,949	8,463,366
Operating expenses	(4,151,415)	(4,098,936)
Operating profit before impairment	5,848,534	4,364,430
Expected credit losses on financial instruments	(2,854,333)	(1,801,946)
Impairment losses reversed on other assets	–	39,822
Impairment losses	(2,854,333)	(1,762,124)
Operating profit	2,994,201	2,602,306
Net loss on disposal of property and equipment and intangible assets	(6,735)	(5,468)
Revaluation gain/(loss) on investment properties	1,843	(47,115)
Profit before taxation	2,989,309	2,549,723
Income tax	(402,412)	(296,483)
Profit for the year	2,586,897	2,253,240

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2023
(Expressed in Hong Kong dollars)

	2023 HK\$'000	2022 <i>HK\$'000</i>
Profit for the year	2,586,897	2,253,240
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	(29,614)	(132,386)
Financial investments at fair value through other comprehensive income		
– change in the fair value of debt instruments	1,038,117	(1,720,250)
– deferred tax related to the above	(171,675)	276,500
– transfer to income statement on disposal	(73,638)	8,485
– transfer to income statement on impairment	30,989	44,325
	823,793	(1,390,940)
Items that will not be reclassified subsequently to consolidated income statement		
Financial investments at fair value through other comprehensive income		
– change in the fair value of equity instruments	808	40,560
– deferred tax related to the above	(134)	(6,692)
	674	33,868
Other comprehensive income/(loss) for the year	794,853	(1,489,458)
Total comprehensive income for the year	3,381,750	763,782

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**At 31 December 2023***(Expressed in Hong Kong dollars)*

	2023 HK\$'000	2022 <i>HK\$'000</i>
ASSETS		
Cash and balances with banks and central banks	16,931,919	19,028,255
Placements with and advances to banks	55,052,186	33,839,668
Financial assets held under resale agreements		
– at fair value through profit or loss	3,101,202	–
– at amortised cost	4,592,502	2,746,540
Derivative financial instruments	19,414,161	23,927,566
Financial investments		
– at fair value through profit or loss	2,449,217	791,802
– at fair value through other comprehensive income	128,792,744	112,894,375
– at amortised cost	–	57,739
Loans and advances to customers and other accounts	237,502,834	255,793,387
Tax recoverable	9,582	14,756
Right-of-use assets	979,571	866,853
Property and equipment		
– Investment properties	401,335	399,492
– Other premises and equipment	571,345	418,908
Intangible assets	401,188	453,944
Deferred tax assets	187,145	417,649
Total Assets	470,386,931	451,650,934
LIABILITIES AND EQUITY		
Liabilities		
Deposits and balances of banks and other financial institutions	11,531,352	9,239,533
Deposits from customers	340,730,699	340,487,879
Financial liabilities at fair value through profit or loss	8,583	249,001
Financial assets sold under repurchase agreements		
– at fair value through profit or loss	2,835,191	–
– at amortised cost	16,300,747	3,318,294
Derivative financial instruments	19,408,277	23,355,908
Certificates of deposit issued	1,561,841	1,169,709
Current tax liabilities	209,146	250,467
Deferred tax liabilities	1,194	1,764
Other liabilities	15,401,974	14,086,097
Lease liabilities	1,075,740	907,139
Loan capital	7,806,176	3,890,992
Total Liabilities	416,870,920	396,956,783
Equity		
Share capital	18,404,013	18,404,013
Reserves	25,776,602	23,047,414
Total shareholders' equity	44,180,615	41,451,427
Additional equity instruments	9,335,396	13,242,724
Total Equity	53,516,011	54,694,151
Total Equity and Liabilities	470,386,931	451,650,934

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

(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 2023	18,404,013	3,771	100,000	(80,848)	294,533	(1,196,475)	65,748	243,972	23,616,713	23,047,414	13,242,724	54,694,151
Changes in equity for 2023:												
Profit for the year	-	-	-	-	-	-	-	-	2,586,897	2,586,897	-	2,586,897
Other comprehensive (loss)/ income for the year	-	-	-	(29,614)	-	824,467	-	-	-	794,853	-	794,853
Total comprehensive income for the year	-	-	-	(29,614)	-	824,467	-	-	2,586,897	3,381,750	-	3,381,750
Transfer from retained profits	-	-	-	-	-	(43,062)	3,502	67,845	(28,285)	-	-	-
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	-	-	-	-	-	-	-	-	(656,257)	(656,257)	-	(656,257)
Redemption of AT1 Capital Securities	-	-	-	-	-	-	-	-	(3,411)	(3,411)	(3,907,328)	(3,910,739)
Other adjustments	-	-	-	-	-	7,106	-	-	-	7,106	-	7,106
At 31 December 2023	18,404,013	3,771	100,000	(110,462)	294,533	(407,964)	69,250	311,817	25,515,657	25,776,602	9,335,396	53,516,011
At 1 January 2022	18,404,013	6,589	100,000	51,538	294,533	160,597	62,835	180,267	21,971,387	22,827,746	8,554,817	49,786,576
Changes in equity for 2022:												
Profit for the year	-	-	-	-	-	-	-	-	2,253,240	2,253,240	-	2,253,240
Other comprehensive loss for the year	-	-	-	(132,386)	-	(1,357,072)	-	-	-	(1,489,458)	-	(1,489,458)
Total comprehensive income for the year	-	-	-	(132,386)	-	(1,357,072)	-	-	2,253,240	763,782	-	763,782
Transfer from retained profits	-	(2,818)	-	-	-	-	2,913	63,705	(63,800)	-	-	-
Distribution payment for AT1 Capital Securities	-	-	-	-	-	-	-	-	(544,114)	(544,114)	-	(544,114)
Issue of AT1 Capital Securities	-	-	-	-	-	-	-	-	-	-	4,687,907	4,687,907
At 31 December 2022	18,404,013	3,771	100,000	(80,848)	294,533	(1,196,475)	65,748	243,972	23,616,713	23,047,414	13,242,724	54,694,151

CONSOLIDATED CASH FLOW STATEMENT**For the year ended 31 December 2023***(Expressed in Hong Kong dollars)*

	2023 HK\$'000	2022 HK\$'000
Operating activities		
Profit before taxation	2,989,309	2,549,723
Adjustments for non-cash items:		
Expected credit losses charged on financial instruments	2,854,333	1,801,946
Impairment losses reversed on other assets	–	(39,822)
Net (gain)/loss on disposal of financial investments at fair value through other comprehensive income	(73,638)	8,485
Net loss on disposal of property and equipment and intangible assets	6,735	5,468
Revaluation (gain)/loss on investment properties	(1,843)	47,115
Net gain on financial instruments mandatorily classified at fair value through profit or loss	(4,076)	–
Amortisation of deferred expenses	317,631	268,717
Amortisation of intangible assets	212,262	231,763
Depreciation on property and equipment	131,855	152,153
Depreciation on right-of-use assets	262,326	295,896
Dividend income from equity securities	(2,934)	(3,410)
Interest expense on loan capital	217,462	187,620
Foreign exchange differences	387,816	497,626
Operating profit before changes in working capital	7,297,238	6,003,280
Net (increase)/decrease in operating assets		
Placements with and advances to banks		
with original maturity beyond 3 months	(12,430,847)	(15,051,168)
Financial assets held under resale agreements	(4,947,164)	(337,628)
Treasury bills with original maturity beyond 3 months	(22,064,124)	(5,210,619)
Certificates of deposit held with original maturity beyond 3 months	(1,280,024)	508,002
Financial investments at fair value through profit or loss	(372,224)	2,070,156
Financial investments at fair value through other comprehensive income	(5,515,204)	6,356,775
Derivative financial instruments	4,513,405	(15,038,724)
Loans and advances to customers and other accounts	13,667,715	(10,799,574)
	(28,428,467)	(37,502,780)
Net increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	2,291,819	(4,344,894)
Deposits from customers	242,820	12,719,846
Financial liabilities at fair value through profit or loss	(240,418)	(519,005)
Financial assets sold under repurchase agreements	15,817,644	3,240,065
Derivative financial instruments	(3,947,631)	14,589,573
Certificates of deposit issued	405,995	(297,060)
Other liabilities	1,360,147	3,466,171
	15,930,376	28,854,696
Cash used in operating activities	(5,200,853)	(2,644,804)
Income tax paid		
Hong Kong profits tax paid	(206,710)	(85,202)
Taxation outside Hong Kong paid	(158,223)	(49,405)
Net cash flow used in operating activities	(5,565,786)	(2,779,411)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**For the year ended 31 December 2023***(Expressed in Hong Kong dollars)*

	2023 HK\$'000	2022 <i>HK\$'000</i>
Net cash used in operating activities	(5,565,786)	(2,779,411)
Cash flow generated from/(used in) investing activities		
Dividends received from equity securities	2,934	3,410
Purchase of property and equipment and intangible assets	(450,895)	(246,073)
Proceeds from disposal of property and equipment and intangible assets	58	285
Net cash used in investing activities	(447,903)	(242,378)
Cash flow generated from/(used in) financing activities		
Proceeds from AT1 Capital Securities issuance	–	4,687,907
Proceeds from loan capital issuance	3,894,403	–
Payment for redemption of AT1 Capital Securities	(3,907,328)	–
Distribution paid on AT1 Capital Securities	(656,257)	(544,114)
Payment of lease liabilities	(238,000)	(308,414)
Interest paid on loan capital	(181,498)	(181,095)
Net cash (used in)/generated from financing activities	(1,088,680)	3,654,284
Net (decrease)/increase in cash and cash equivalents	(7,102,369)	632,495
Cash and cash equivalents at 1 January	67,858,838	67,854,091
Exchange differences in respect of cash and cash equivalents	(429,081)	(627,748)
Cash and cash equivalents at 31 December	60,327,388	67,858,838
Analysis of the balances of cash and cash equivalents		
Cash and balances with banks and central banks	16,193,816	18,415,050
Placements with and advances to banks		
with original maturity within 3 months	27,652,285	18,753,919
Treasury bills and certificates of deposit held with original maturity within 3 months:		
– Financial assets at fair value through other comprehensive income	16,481,287	30,641,825
– Amortised cost investments	–	48,044
	60,327,388	67,858,838
Cash flows from operating activities included:		
Interest received	19,435,318	11,068,828
Interest paid	(12,062,057)	(3,135,933)

NOTES:

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The financial information relating to the year ended 31 December 2023 included in this announcement of 2023 final results does not constitute the Group's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank will deliver the financial statements for the year ended 31 December 2023 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance in due course.

The Bank's auditor has reported on the financial statements of the Group for the year ended 31 December 2023. 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 reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Statutory financial statements for the year ended 31 December 2023 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 2023**

This annual financial report has been prepared on a basis consistent with the accounting policies adopted in the 2022 annual financial statements, which have been prepared in accordance with HKFRSs.

Amendments to HKFRSs effective for the financial year beginning on or after 1 January 2023 do not have a material impact on the Group.

(b) New standards and interpretations not yet adopted for the year ended 31 December 2023

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2023 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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Listed securities	1,322,899	1,141,206
Unlisted securities	2,073,239	694,054
Balances and placements with banks and advances to banks	3,089,659	956,857
Advances and other accounts	13,985,287	9,019,004
Interest income on financial assets	<u>20,471,084</u>	<u>11,811,121</u>
Of which:		
Interest income on financial assets measured at amortised cost	17,142,536	10,019,893
Interest income on financial assets measured at fair value through other comprehensive income	<u>3,328,548</u>	<u>1,791,228</u>
	<u>20,471,084</u>	<u>11,811,121</u>

4 INTEREST EXPENSE

	2023 HK\$'000	2022 HK\$'000
Deposits from customers	11,477,061	4,327,612
Deposits from banks and other financial institutions	1,051,904	357,873
Certificates of deposit issued	88,506	22,729
Loan capital issued	217,462	187,620
Lease liabilities	31,567	19,320
Interest expense on financial liabilities measured at amortised cost	12,866,500	4,915,154

5 NET FEE AND COMMISSION INCOME

	2023 HK\$'000	2022 HK\$'000
Fee and commission income:		
Bills commission	74,112	79,394
Banking services	139,908	118,074
Card-related income	52,713	38,641
Debt capital markets	37,246	64,115
Insurance brokerage	515,661	438,885
Investment and structured investment products	264,655	220,438
Loans, overdrafts and facilities fees	337,186	441,373
Others	1,447	2,186
	1,422,928	1,403,106
Fee and commission expense	(168,410)	(161,930)
	1,254,518	1,241,176
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	464,011	559,408
– Fee and commission expense	(34,284)	(32,047)
	429,727	527,361

6 NET TRADING INCOME

	2023 HK\$'000	2022 HK\$'000
Net gains from dealing in foreign currencies	761,867	177,569
Net gains from financial investments at fair value through profit or loss	58,510	36,887
Net losses from other dealing activities	(141,989)	(120,104)
Net hedging loss on fair value hedges	(232)	(205)
Net interest income on trading activities		
– Listed	17,734	24,718
– Unlisted	339,915	198,133
	1,035,805	316,998

7 OTHER OPERATING INCOME

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Dividend income		
– Unlisted investments	2,934	3,410
Rental income from investment properties	7,291	4,994
Others	17,103	9,306
	<u>27,328</u>	<u>17,710</u>

8 OPERATING EXPENSES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
(a) Staff costs		
Salaries and other staff costs	2,379,179	2,361,066
Retirement costs	160,619	149,056
	<u>2,539,798</u>	<u>2,510,122</u>
(b) Depreciation and amortisation		
Depreciation – property and equipment	131,855	152,153
Depreciation – right-of-use assets	262,326	295,896
Amortisation – intangible assets	212,262	231,763
	<u>606,443</u>	<u>679,812</u>
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)	410,393	385,179
Auditor's remuneration		
– Audit fee	6,213	7,232
– Assurance related services fee	867	1,302
– Others	1,838	3,253
Advertising	67,302	71,391
Communication, printing and stationery	193,581	172,764
Electronic data processing	165,593	139,931
Legal and professional fees	50,647	47,137
Others	108,740	80,813
	<u>1,005,174</u>	<u>909,002</u>
Total operating expenses	<u>4,151,415</u>	<u>4,098,936</u>

9 EXPECTED CREDIT LOSSES ON FINANCIAL INSTRUMENTS

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

	2023			
	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 and central banks	(1,807)	–	–	(1,807)
Placements with and advances to banks	(6,395)	–	–	(6,395)
Financial investments at fair value through other comprehensive income	(1,388)	–	32,377	30,989
Financial investments at amortised cost	(3)	–	–	(3)
Loans and advances to customers and other accounts	(377,826)	221,475	3,228,365	3,072,014
Loan commitments and guarantees	(41,670)	(759)	–	(42,429)
	<u>(429,089)</u>	<u>220,716</u>	<u>3,260,742</u>	<u>3,052,369</u>
Recoveries				(198,036)
				<u>2,854,333</u>
	2022			
	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 and central banks	(2,839)	–	–	(2,839)
Placements with and advances to banks	16,102	–	–	16,102
Financial investments at fair value through other comprehensive income	(9,911)	–	54,236	44,325
Financial investments at amortised cost	–	–	–	–
Loans and advances to customers and other accounts	(441,296)	248,040	2,093,184	1,899,928
Loan commitments and guarantees	(16,995)	625	–	(16,370)
	<u>(454,939)</u>	<u>248,665</u>	<u>2,147,420</u>	<u>1,941,146</u>
Recoveries				(139,200)
				<u>1,801,946</u>

10 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT
(a) Income tax in the consolidated income statement

	2023 HK\$'000	2022 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
Provision for the year	208,809	203,531
Over-provision in respect of prior years	(9,083)	(15,811)
	199,726	187,720
Current tax – Taxation outside Hong Kong		
Provision for the year	158,004	85,849
(Over)/under-provision in respect of prior years	(20,101)	2,796
	137,903	88,645
Deferred tax		
Origination of temporary differences	64,783	20,118
	402,412	296,483

The provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: 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

	2023 HK\$'000	2022 <i>HK\$'000</i>
Profit before tax	2,989,309	2,549,723
Notional tax on profit before tax, calculated at a taxation rate of 16.5% and the different taxation rates in other countries/regions	483,883	458,771
Tax effect of non-deductible expenses	256,663	79,116
Tax effect of non-taxable revenue	(204,858)	(171,292)
Tax effect of distribution payment of AT1 Capital Securities	(108,282)	(89,779)
Over-provision in prior years	(29,184)	(13,015)
Others	4,190	32,682
Actual tax expense	402,412	296,483

11 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	2023 HK\$'000	2022 HK\$'000
By types of counterparty		
Banks	2,574,895	–
Non bank financial institutions	526,307	–
Carrying amount at fair value through profit or loss	3,101,202	–
Banks	–	167,704
Non bank financial institutions	4,592,502	2,578,836
Gross amount at amortised cost	4,592,502	2,746,540
Expected credit losses allowances	–	–
Net amount at amortised cost	4,592,502	2,746,540
Total amount	7,693,704	2,746,540

By types of collateral

As at 31 December 2023 and 31 December 2022, the Group's types of collateral for financial assets held under resale agreements are all bonds.

12 FINANCIAL INVESTMENTS

(a) At fair value through profit or loss

	2023 HK\$'000	2022 HK\$'000
Debt securities		
– Treasury bills	–	108,550
– Debt securities	1,060,285	683,252
	1,060,285	791,802
Other investment	1,388,932	–
	2,449,217	791,802
Issued by:		
Sovereigns	524,599	506,983
Banks and other financial institutions	460,518	175,321
Corporate entities	1,464,100	109,498
	2,449,217	791,802
Listed	1,046,789	645,800
Unlisted	1,402,428	146,002
	2,449,217	791,802

12 FINANCIAL INVESTMENTS (CONTINUED)
(b) At fair value through other comprehensive income

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Debt securities		
– Certificates of deposit held	5,216,357	3,990,667
– Treasury bills	64,767,618	56,691,447
– Other debt securities	58,732,952	52,092,832
	128,716,927	112,774,946
Equity securities	75,817	119,429
	128,792,744	112,894,375
Issued by:		
Sovereigns	76,457,895	64,872,217
Banks and other financial institutions	37,034,055	35,361,447
Corporate entities	10,978,955	11,182,833
Public entities	4,321,839	1,477,878
	128,792,744	112,894,375
Listed	40,342,518	44,047,192
Unlisted	88,450,226	68,847,183
	128,792,744	112,894,375

(c) At amortised costs

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Debt securities		
– Treasury bills	–	57,742
– Expected credit losses allowances – Stage 1	–	(3)
	–	57,739
Issued by:		
Sovereigns	–	57,739
Unlisted	–	57,739

13 LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Loans and advances to customers at amortised cost		
Gross loans and advances to customers	220,850,976	243,029,952
– Expected credit losses allowances	(1,193,248)	(1,377,634)
	219,657,728	241,652,318
Loans and advances to customers at fair value through profit and loss	5,435,290	3,768,163
	225,093,018	245,420,481
Other accounts	13,222,978	10,867,014
– Expected credit losses allowances	(813,162)	(494,108)
	12,409,816	10,372,906
	237,502,834	255,793,387

(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”).

	2023		2022	
	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	7,042,615	1,160,060	7,140,999	1,170,923
– Property investment	22,474,814	149,585	19,237,739	85,581
– Financial concerns	22,989,260	51,382	20,211,822	–
– Stockbrokers	1,497,664	–	4,409,499	–
– Wholesale and retail trade	8,761,242	371,978	10,065,083	213,742
– Manufacturing	5,904,061	124,833	5,079,735	81,454
– Transport and transport equipment	3,385,442	–	1,949,088	–
– Recreational activities	660,273	–	851,625	–
– Information technology	598,783	–	3,914,083	–
– Others	9,596,138	79,738	8,559,229	116,219
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	13,970	–	18,568	–
– Loans for the purchase of other residential properties	22,343,811	49,289	23,018,616	53,246
– Credit card advances	619,417	4,851	715,283	3,481
– Others	16,951,606	90,927	19,918,902	42,681
Gross loans and advances for use in Hong Kong	122,839,096	2,082,643	125,090,271	1,767,327
Trade finance	5,524,125	103,156	6,320,760	9,444
Gross loans and advances for use outside Hong Kong	97,923,045	2,981,621	115,387,084	2,390,194
Gross loans and advances to customers	226,286,266	5,167,420	246,798,115	4,166,965

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

(c) Impaired loans and advances to customers

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Gross impaired loans and advances to customers	5,167,420	4,166,965
Expected credit losses allowances – Stage 3	(224,673)	(252,572)
	<u>4,942,747</u>	<u>3,914,393</u>
Gross impaired loans and advances as a % of total loans and advances to customers	<u>2.28%</u>	<u>1.69%</u>

As at 31 December 2023, the secured gross impaired loans and advances to customers amounts to HK\$3,374,297,000 (2022: HK\$2,502,023,000) are backed by collateral, collateral mainly comprises mortgages on residential or commercial properties and cash placed with the Group.

14 CAPITAL AND RESERVES

(a) Share capital

(i) Ordinary shares, issued and fully paid:

	2023		2022	
	No. of shares	Share capital <i>HK\$'000</i>	No. of shares	Share capital <i>HK\$'000</i>
At 1 January/31 December	<u>12,111,121,568</u>	<u>18,404,013</u>	<u>12,111,121,568</u>	<u>18,404,013</u>

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

(ii) Shares issued during the year

The Bank did not issue any shares during the year ended 31 December 2023 (2022: 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.

14 CAPITAL AND RESERVES (CONTINUED)

(c) Reserves

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Capital reserve	3,771	3,771
General reserve	100,000	100,000
Exchange differences reserve	(110,462)	(80,848)
Property revaluation reserve	294,533	294,533
Investment revaluation reserve	(407,964)	(1,196,475)
Statutory reserve	69,250	65,748
Regulatory general reserve	311,817	243,972
Retained profits*	25,515,657	23,616,713
Total	<u>25,776,602</u>	<u>23,047,414</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 2023, HK\$2,219,486,000 (2022: HK\$2,326,333,000) was included in the retained profits in this respect, which is distributable to equity holders of the Bank subject to consultation with the HKMA.

15 CREDIT RELATED COMMITMENTS AND FINANCIAL GUARANTEES, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

The following is a summary of the contractual amounts of each significant class of credit related commitments and financial guarantees, other commitments and contingent liabilities and is prepared with reference to the completion instructions for the HKMA return of capital adequacy ratio.

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Direct credit substitutes	449,180	897,471
Transaction-related contingencies	957,848	869,517
Trade-related contingencies	10,225,885	5,610,019
Forward forward deposits placed	122,761	37,977
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	120,841,630	109,189,888
– with an original maturity of not more than 1 year	3,612,805	3,952,746
– with an original maturity of more than 1 year	10,065,860	12,822,564
	<u>146,275,969</u>	<u>133,380,182</u>
Credit risk-weighted amounts	<u>7,925,419</u>	<u>9,496,598</u>

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2022: 0% to 150%).

16 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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Currency derivatives		
Forwards	68,190,274	56,628,912
Swaps	1,108,997,386	956,687,728
Options purchased	71,129,225	58,106,983
Options written	65,478,211	56,956,703
Interest rate derivatives		
Forwards/Futures	554,454	3,134,821
Swaps	1,036,122,182	978,677,761
Options purchased	1,000,000	3,036,822
Options written	1,000,000	3,036,822
	2,352,471,732	2,116,266,552

At 31 December 2023, the interest rate swaps held for hedging amounted to HK\$788,730,000 (2022: HK\$678,431,000).

Trading includes the Group's principal risk taking 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 of derivatives

	2023		2022	
	Fair value assets <i>HK\$'000</i>	Fair value liabilities <i>HK\$'000</i>	Fair value assets <i>HK\$'000</i>	Fair value liabilities <i>HK\$'000</i>
Currency derivatives	10,974,026	11,104,705	11,960,459	11,398,101
Interest rate derivatives	8,440,135	8,303,572	11,967,107	11,957,807
	19,414,161	19,408,277	23,927,566	23,355,908

17 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 2023, the Group's average daily trading profit and loss from foreign exchange positions was a gain of HK\$760,000 (2022: a gain of HK\$537,000) with a standard deviation of HK\$15,661,000 (2022: HK\$14,620,000).

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

Equivalent in HK\$'000	2023				2022			
	USD	RMB	Others	Total	USD	RMB	Others	Total
Spot assets	163,866,606	38,667,648	32,370,316	234,904,570	190,664,917	27,691,136	29,613,849	247,969,902
Spot liabilities	(183,282,438)	(35,419,889)	(14,247,147)	(232,949,474)	(152,381,891)	(33,160,325)	(12,817,827)	(198,360,043)
Forward purchases	597,655,659	362,751,221	68,659,310	1,029,066,190	486,344,635	311,452,359	43,455,934	841,252,928
Forward sales	(568,170,894)	(369,306,138)	(88,628,791)	(1,026,105,823)	(521,304,735)	(306,190,843)	(59,970,233)	(887,465,811)
Net options position	(7,155,375)	4,067,009	2,056,612	(1,031,754)	258,124	388,282	(505,029)	141,377
Net long/(short) position	<u>2,913,558</u>	<u>759,851</u>	<u>210,300</u>	<u>3,883,709</u>	<u>3,581,050</u>	<u>180,609</u>	<u>(223,306)</u>	<u>3,538,353</u>
Net structural position	<u>-</u>	<u>659,869</u>	<u>48,497</u>	<u>708,366</u>	<u>-</u>	<u>671,212</u>	<u>48,519</u>	<u>719,731</u>

18 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 five reportable segments:

Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing, deposit account services and cash management in Hong Kong and at overseas branches.

Personal and business banking mainly comprises deposit account services, residential mortgages, other consumer lending, credit card services, Small and Medium Enterprises ("SMEs") banking business, wealth management services and private banking in Hong Kong and at overseas branches.

Treasury and markets covers the provision of foreign exchange services, money market activities, the management of investment securities and central funding management in Hong Kong and at overseas branches.

Mainland subsidiary is the Bank's wholly owned banking subsidiary operating in Mainland China.

Others mainly comprises unallocated revenue and expenses as well as corporate expenses.

18 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.

Income and cost allocation amongst reportable segments are reviewed from time to time as management deems fit and in the event of change, corresponding segment reporting information will be updated to conform with latest allocation basis.

(a) Reportable segments

	2023							
	Wholesale banking HK\$'000	Personal and business banking HK\$'000	Treasury and markets HK\$'000	Mainland subsidiary HK\$'000	Others HK\$'000	Subtotal HK\$'000	Elimination and consolidation adjustments HK\$'000	Consolidated HK\$'000
Net interest income	3,883,341	2,155,789	(176,462)	280,909	1,463,754	7,607,331	(2,747)	7,604,584
Other operating income	610,625	1,038,179	581,206	106,298	45,352	2,381,660	(59,933)	2,321,727
Net gain on disposal of financial investments at fair value through other comprehensive income	-	-	70,028	3,610	-	73,638	-	73,638
Operating income	4,493,966	3,193,968	474,772	390,817	1,509,106	10,062,629	(62,680)	9,999,949
Operating (expenses)/income	(408,032)	(1,262,279)	(348,004)	(230,328)	(1,964,053)	(4,212,696)	61,281	(4,151,415)
Inter-segment (expenses)/income	(142,262)	(582,746)	(110,902)	-	835,910	-	-	-
Operating profit/(loss) before impairment	3,943,672	1,348,943	15,866	160,489	380,963	5,849,933	(1,399)	5,848,534
Expected credit (losses)/reversed on financial instruments	(2,571,862)	(221,398)	(61,542)	269	200	(2,854,333)	-	(2,854,333)
Operating profit/(loss)	1,371,810	1,127,545	(45,676)	160,758	381,163	2,995,600	(1,399)	2,994,201
Net loss on disposal of property and equipment and intangible assets	(52)	(166)	(13)	(50)	(6,454)	(6,735)	-	(6,735)
Revaluation surplus on investment properties	-	-	-	-	1,843	1,843	-	1,843
Profit/(loss) before taxation	1,371,758	1,127,379	(45,689)	160,708	376,552	2,990,708	(1,399)	2,989,309
Income tax								(402,412)
Profit for the year								2,586,897
Other segment items:								
Depreciation and amortisation	20,712	130,481	13,712	29,939	411,599	606,443	-	606,443
Segment assets	141,110,553	72,727,048	256,394,264	19,877,993	10,149,503	500,259,361	(29,872,430)	470,386,931
Segment liabilities	129,470,043	210,486,287	77,606,473	18,029,599	11,275,116	446,867,518	(29,996,598)	416,870,920
Capital expenditure incurred during the year	4,430	4,453	1,584	4,770	435,658	450,895	-	450,895

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

	2022							
	Wholesale banking <i>HK\$'000</i>	Personal and business banking <i>HK\$'000</i>	Treasury and markets <i>HK\$'000</i>	Mainland subsidiary <i>HK\$'000</i>	Others <i>HK\$'000</i>	Subtotal <i>HK\$'000</i>	Elimination and consolidation adjustments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Net interest income	3,523,428	1,788,395	888,453	276,408	418,864	6,895,548	419	6,895,967
Other operating income	711,274	853,316	43,367	77,218	(43,604)	1,641,571	(65,687)	1,575,884
Net (loss)/gain on disposal of financial investments at fair value through other comprehensive income	–	–	(23,968)	15,483	–	(8,485)	–	(8,485)
Operating income	4,234,702	2,641,711	907,852	369,109	375,260	8,528,634	(65,268)	8,463,366
Operating (expenses)/income	(381,513)	(1,229,237)	(317,368)	(227,433)	(1,995,477)	(4,151,028)	52,092	(4,098,936)
Inter-segment (expenses)/income	(143,198)	(597,098)	(104,835)	–	845,131	–	–	–
Operating profit/(loss) before impairment	3,709,991	815,376	485,649	141,676	(775,086)	4,377,606	(13,176)	4,364,430
Expected credit (losses)/reversed on financial instruments	(1,625,671)	(109,270)	(57,302)	(9,872)	169	(1,801,946)	–	(1,801,946)
Impairment losses reversed on other assets	–	–	–	39,822	–	39,822	–	39,822
Operating profit/(loss)	2,084,320	706,106	428,347	171,626	(774,917)	2,615,482	(13,176)	2,602,306
Net loss on disposal of property and equipment and intangible assets	(215)	(2,578)	(118)	–	(2,557)	(5,468)	–	(5,468)
Revaluation loss on investment properties	–	–	–	–	(47,115)	(47,115)	–	(47,115)
Profit/(loss) before taxation	2,084,105	703,528	428,229	171,626	(824,589)	2,562,899	(13,176)	2,549,723
Income tax								(296,483)
Profit for the year								2,253,240
Other segment items:								
Depreciation and amortisation	8,880	85,283	5,767	36,380	543,502	679,812	–	679,812
Segment assets	155,245,016	79,518,003	219,382,533	15,811,362	9,544,143	479,501,057	(27,850,123)	451,650,934
Segment liabilities	159,247,457	183,437,843	61,908,198	14,085,298	6,705,421	425,384,217	(28,427,434)	396,956,783
Capital expenditure incurred during the year	1,101	19,425	35	8,639	216,873	246,073	–	246,073

(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.

2023					
	Profit before taxation <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Operating income/ (expenses) <i>HK\$'000</i>	Credit related commitments and financial guarantees, other commitments and contingent liabilities <i>HK\$'000</i>
Hong Kong	2,561,957	431,973,570	379,144,093	9,115,423	106,364,731
Mainland China	155,559	21,667,334	19,954,556	391,693	3,591,961
United States	(112,796)	16,500,733	16,861,135	324,556	4,700,619
Singapore	380,288	22,304,857	21,840,705	335,467	30,591,081
Others	4,309	2,410,842	2,355,930	39,600	1,027,577
Inter-segment items	(8)	(24,470,406)	(23,285,499)	(206,790)	–
	<u>2,989,309</u>	<u>470,386,930</u>	<u>416,870,920</u>	<u>9,999,949</u>	<u>146,275,969</u>
2022					
	Profit before taxation <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Operating income/ (expenses) <i>HK\$'000</i>	Credit related commitments and financial guarantees, other commitments and contingent liabilities <i>HK\$'000</i>
Hong Kong	1,886,353	414,503,842	360,410,937	7,452,666	100,304,370
Mainland China	185,059	17,721,065	16,118,384	393,182	505,364
United States	228,343	16,785,875	16,622,008	339,076	4,002,663
Singapore	237,616	21,712,359	21,461,099	289,039	28,511,386
Others	12,374	2,136,733	2,050,278	43,001	56,399
Inter-segment items	(22)	(21,208,940)	(19,705,923)	(53,598)	–
	<u>2,549,723</u>	<u>451,650,934</u>	<u>396,956,783</u>	<u>8,463,366</u>	<u>133,380,182</u>

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 is 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 disclosures in the annual report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA. Certain comparatives have been revised in order to align with the latest books and records and banking returns submitted to the HKMA.

(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.

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Common Equity Tier 1 ("CET1") capital instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	18,058,853	18,058,853
Retained earnings	25,588,691	23,823,093
Disclosed reserves	194,057	(627,239)
CET1 capital before regulatory deductions	43,841,601	41,254,707
CET1 capital: regulatory deductions		
Deferred tax assets in excess of deferred tax liabilities	187,145	417,649
Other intangible assets (net of related deferred tax liability)	401,188	453,944
Cumulative fair value gains arising from the revaluation of land and buildings (own use and investment properties)	294,930	293,087
Regulatory reserve for general banking risks	2,219,486	2,326,333
Valuation adjustments	50,357	38,641
Debt valuation adjustments in respect of derivative contracts	3,538	5,362
Total regulatory deductions to CET1 capital	3,156,644	3,535,016
CET1 capital	40,684,957	37,719,691
Additional Tier 1 ("AT1") capital		
AT1 capital	9,335,396	13,243,907
Tier 1 capital	50,020,353	50,963,598
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	7,809,206	3,899,031
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	132,719	131,889
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	3,287,942	3,523,657
Tier 2 capital base before deductions	11,229,867	7,554,577
Tier 2 capital: regulatory deductions		
Regulatory deductions to Tier 2 capital	—	—
Tier 2 capital	11,229,867	7,554,577
Total capital	61,250,220	58,518,175

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(B) CAPITAL ADEQUACY (CONTINUED)

(ii) Risk-weighted assets

	2023 HK\$'000	2022 HK\$'000
– Credit risk	270,835,420	283,157,088
– Market risk	16,806,075	15,966,100
– Operational risk	16,669,988	15,001,688
	304,311,483	314,124,876

(iii) Capital adequacy ratios

	2023	2022
– CET1 capital ratio	13.4%	12.0%
– Tier 1 capital ratio	16.4%	16.2%
– Total capital ratio	20.1%	18.6%

(iv) Capital instruments

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

	2023 HK\$'000	2022 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

	2023 HK\$'000	2022 HK\$'000
Additional Tier 1 Capital Securities		
Undated non-cumulative subordinated capital securities with US\$500 million (issued in 2018)	–	3,907,328
Undated non-cumulative subordinated capital securities with US\$600 million (issued in 2021)	4,647,489	4,647,489
Undated non-cumulative subordinated capital securities with US\$600 million (issued in 2022)	4,687,907	4,687,907
	9,335,396	13,242,724

	2023 HK\$'000	2022 HK\$'000
Tier 2 capital instruments		
Issued by the Bank		
– US\$500 million Subordinated Fixed Rate Notes at 4.625% (due in 2029)	3,903,198	3,890,992
– US\$500 million Subordinated Fixed Rate Notes at 6.00% (due in 2033)	3,902,978	–
	7,806,176	3,890,992

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(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 2023	For quarter ended 30 September 2023	For quarter ended 30 June 2023	For quarter ended 31 March 2023	For quarter ended 31 December 2022
Average LCR	241 %	207 %	186 %	188 %	209 %
	Quarter ended 31 December 2023	Quarter ended 30 September 2023	Quarter ended 30 June 2023	Quarter ended 31 March 2023	Quarter ended 31 December 2022
NSFR	157 %	147 %	136 %	132 %	137 %

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 (CONTINUED)

(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.

	2023		2022	
	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	7,042,615	79	7,140,999	56
– Property investment	22,474,814	98	19,237,739	98
– Financial concerns	22,989,260	5	20,211,822	6
– Stockbrokers	1,497,664	31	4,409,499	40
– Wholesale and retail trade	8,761,242	84	10,065,083	85
– Manufacturing	5,904,061	28	5,079,735	31
– Transport and transport equipment	3,385,442	13	1,949,088	23
– Recreational activities	660,273	4	851,625	3
– Information technology	598,783	7	3,914,083	1
– Others	9,596,138	75	8,559,229	89
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	13,970	100	18,568	100
– Loans for the purchase of other residential properties	22,343,811	100	23,018,616	100
– Credit card advances	619,417	–	715,283	–
– Others	16,951,606	87	19,918,902	93
Gross loans and advances for use in Hong Kong	122,839,096	68	125,090,271	68
Trade finance	5,524,125	22	6,320,760	22
Gross loans and advances for use outside Hong Kong	97,923,045	22	115,387,084	18
Gross loans and advances to customers	226,286,266	47	246,798,115	44

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

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

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:

	2023						Written off during the year HK\$'000
	Overdue loans and advances to customers HK\$'000	Impaired loans and advances to customers HK\$'000	Stage 1 ECL allowances HK\$'000	Stage 2 ECL allowances HK\$'000	Stage 3 ECL allowances HK\$'000	Expected credit losses on income statement during the year HK\$'000	
Financial concerns	51,382	51,382	28,739	4,175	18,189	11,168	–
Gross loans and advances for use outside Hong Kong	2,459,613	2,981,621	215,761	596,181	26,285	2,427,416	2,518,497
	2022						Written off during the year HK\$'000
	Overdue loans and advances to customers HK\$'000	Impaired loans and advances to customers HK\$'000	Stage 1 ECL allowances HK\$'000	Stage 2 ECL allowances HK\$'000	Stage 3 ECL allowances HK\$'000	Expected credit losses on income statement during the year HK\$'000	
Gross loans and advances for use outside Hong Kong	1,587,732	2,390,194	512,865	370,087	114,926	1,075,963	1,368,811

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

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

By geographical areas

	2023					
	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	159,004,495	3,139,502	3,716,065	164,664	344,564	195,537
Mainland China	36,274,617	481,778	599,441	70,682	169,881	2,957
United States	10,364,300	580,515	580,515	50,762	19,370	–
Singapore	7,471,950	244,140	244,140	18,046	73,898	26,179
Others	13,170,904	2,567	27,259	19,939	36,769	–
	<u>226,286,266</u>	<u>4,448,502</u>	<u>5,167,420</u>	<u>324,093</u>	<u>644,482</u>	<u>224,673</u>
	2022					
	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	173,079,464	2,618,209	3,399,730	417,432	311,552	177,206
Mainland China	40,471,020	761,442	761,442	162,778	40,774	75,366
United States	12,060,909	–	–	29,921	–	–
Singapore	7,810,685	–	–	58,922	5,869	–
Others	13,376,037	5,793	5,793	33,002	64,812	–
	<u>246,798,115</u>	<u>3,385,444</u>	<u>4,166,965</u>	<u>702,055</u>	<u>423,007</u>	<u>252,572</u>

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 (CONTINUED)

(E) OVERDUE ASSETS

Overdue loans and advances to customers

	2023		2022	
	<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	631,341	0.28	1,363,091	0.55
– 1 year or less but over 6 months	1,322,114	0.58	862,803	0.35
– over 1 year	2,495,047	1.10	1,159,550	0.47
	4,448,502	1.96	3,385,444	1.37
Secured overdue loans and advances	3,136,342		2,309,299	
Unsecured overdue loans and advances	1,312,160		1,076,145	
	4,448,502		3,385,444	
Market value of collateral held against the secured overdue loans and advances	5,193,325		4,923,948	
Expected credit losses allowances	197,775		241,784	

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 and trade bills which were overdue for over three months at 31 December 2023 and 2022.

Other overdue assets

There was financial assets at fair value through other comprehensive income amounted HK\$43,363,000, which were overdue for over three months at 31 December 2023 (2022: HK\$11,720,000).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(F) RESCHEDULED LOANS

	2023		2022	
	<i>HK\$'000</i>	% of total loans and advances to customers	<i>HK\$'000</i>	% of total loans and advances to customers
Rescheduled loans	<u>154,445</u>	<u>0.068</u>	<u>149,986</u>	<u>0.061</u>

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 2023 and 2022.

(G) REPOSSESSED ASSETS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Included in loans and advances to customers and other accounts	<u>285,257</u>	<u>149,251</u>

The amount represents the estimated market value of the repossessed assets at 31 December 2023 and 2022.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(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.

	2023				
			Non-bank private sector		
	Banks	Official	Non-bank	Non-financial	Total
	HK\$'000	Sector	financial	private sector	
		HK\$'000	institutions	HK\$'000	HK\$'000
			HK\$'000		
Developed countries	35,366,170	28,616,141	1,953,132	3,742,970	69,678,413
Offshore centres	13,182,262	429,752	25,379,500	44,945,252	83,936,766
of which Hong Kong	3,572,608	429,223	22,464,099	33,528,626	59,994,556
Developing Asia-Pacific	45,466,135	2,515,369	5,109,123	30,458,781	83,549,408
of which Mainland China	41,119,763	2,514,485	4,751,233	26,484,499	74,869,980
				</	

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(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.

	2023		
	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")	41,070,652	1,880,540	42,951,192
(2) Local governments, local government-owned entities and their subsidiaries and JVs	19,155,037	2,359,642	21,514,679
(3) PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	31,897,446	4,409,326	36,306,772
(4) Other entities of central government not reported in item 1 above	3,185,422	593,691	3,779,113
(5) Other entities of local governments not reported in item 2 above	1,183,888	–	1,183,888
(6) PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	22,779,817	1,453,676	24,233,493
(7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	6,420,088	147,011	6,567,099
Total	125,692,350	10,843,886	136,536,236
Total assets after provision	444,615,600		
On-balance sheet exposures as percentage of total assets	28.3%		

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(I) MAINLAND ACTIVITIES (CONTINUED)

	2022		
	On-statement of financial position exposure <i>HK\$'000</i>	Off-statement of financial position exposure <i>HK\$'000</i>	Total <i>HK\$'000</i>
(1) Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	39,988,887	3,334,745	43,323,632
(2) Local governments, local government-owned entities and their subsidiaries and JVs	15,963,526	1,648,227	17,611,753
(3) PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	42,109,952	4,030,950	46,140,902
(4) Other entities of central government not reported in item 1 above	5,202,575	1,183,666	6,386,241
(5) Other entities of local governments not reported in item 2 above	2,141,272	–	2,141,272
(6) PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	33,865,994	1,995,551	35,861,545
(7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	6,623,779	123,818	6,747,597
Total	145,895,985	12,316,957	158,212,942
Total assets after provision	423,372,148		
On-balance sheet exposures as percentage of total assets	34.5%		

REPORT OF THE CHIEF EXECUTIVE OFFICER

In 2023, China CITIC Bank International Limited (“CNCBI” or “the Bank”) and its subsidiaries (together “the Group”), establishing itself as the core offshore business platform and main cross-border collaboration channel of its parent bank, China CITIC Bank Corporation Limited (“CNCB”), collaborated with CITIC Group and CNCB in an effort to demonstrate its accomplishments in supporting the real economy of Hong Kong. Business opportunities in a volatile market environment and as a result of the progressive opening of Mainland China’s financial sector as well as the close bilateral cooperation between Mainland China & Hong Kong were captured, while risks were strictly monitored to promote high-quality business development. Simultaneously, the Group persisted in promoting the implementation of the 4C (Culture, Customer, Collaboration, Cyberspace) strategies, focused on customer-centricity, promoted business innovation and sustainable development, fortified Agile Culture and Fintech transformation to ensure the stability of overall operations. During the reporting period, operating income and profit both increased by double digits.

The Group’s achievement at each stage was contingent upon the backing of its customers, employees, and all stakeholders. I would like to express my heartfelt thanks!

OPERATING ENVIRONMENT

In 2023, global inflation pressure eased notably. The rate-hike cycles had largely come to an end. However, the growth momentum of many economies weakened, international trade was anaemic, and the Eurozone inched towards stagnation. The global macro environment remained rather challenging.

Mainland China’s economy continued to recover, with real GDP rising 5.2% in 2023, but the uneven recovery still needs to be improved. On one hand, manufacturing growth was fairly stable, while services and retail sales rose strongly. On the other hand, sentiment in the real estate sector and related industries has yet to meaningfully improve.

Hong Kong’s real GDP rose 3.2% in 2023. The labour market remained robust, with unemployment hovering near cyclical lows of under 3%. The rebound in retail sales and private consumption also supported economic growth. Nevertheless, weak global growth fundamentals depressed international trade, pressuring Hong Kong’s exports. As for the interest rate environment, the Federal funds rate target was raised to 5.5% and remained unchanged. Hong Kong dollar interest rates remained elevated as a result.

FINANCIAL REVIEW

In 2023, the Group recorded profit attributable to shareholders of HK\$2.59 billion, representing an increase of 14.8% year-on-year. Operating income was HK\$10.00 billion, increased 18.2% year-on-year. Net interest income rose 10.3% year-on-year to HK\$7.60 billion, net interest margin also increased by 14 basis points year-on-year to 1.81%. Non-interest income rose 52.8% to HK\$2.40 billion. Net trading income recorded favourable growth, and net fee and commission income from insurance products, investment and structured investment products increased.

Operating expenses increased 1.3% year-on-year to HK\$4.15 billion and the cost-to-income ratio was 41.5%, dropping by 6.9 percentage points year-on-year. The Group is committed to strengthening its cost management and promoting Agile Culture transformation. At the same time, the Group continued to invest in Fintech and talent development.

Impairment losses increased 62.0% year-on-year to HK\$2.85 billion, resulting from the downgrades of certain large-scale loans. Impaired loan ratio stood at 2.28% at the end of 2023. The Group will strengthen credit risk management and improve the quality of credit assets persistently.

Under the complicated and challenging operating environment, the Group continued to strengthen asset and liability management, control funding costs and enhance capital efficiency. As of the end of 2023, total assets of the Group amounted to HK\$470.39 billion, representing 4.1% growth as compared to the end of last year. Customer loans (including trade bills) decreased by 8.3% from the end of last year to HK\$226.29 billion. Customer deposits (including certificates of deposit issued) increased by 0.2% from the end of last year to HK\$342.29 billion. The loan-to-deposit ratio was 66.1%, dropped by 6.1 percentage points year-on-year, and remained at a healthy level.

In addition to having adequate capital, the Group satisfies all regulatory requirements with regard to its total capital ratio, Tier 1 capital ratio and common equity tier 1 capital ratio. In November 2023, the Group redeemed US\$500 million of Additional Tier 1 Capital Securities issued in 2018. In December 2023, the Group successfully issued US\$500 million in Tier 2 subordinated notes to replenish capital. At the same time, the Group maintained sufficient liquidity, with both the liquidity coverage ratio and the net stable funding ratio managed at a stable level.

BUSINESS REVIEW

Wholesale Banking Business

The total income of wholesale banking business reached HK\$4.49 billion this year, representing a 6.1% year-on-year increase. The overseas branches of wholesale banking business experienced rapid growth, as evidenced by an 11.7% year-on-year increase in total income. Both the number of base customers and active customers increased by 25.3% and 28.7% respectively.

A total of 22 structured finance transactions worth US\$2.93 billion were finalised throughout the course of the year, indicating that the business remained active. Statistics from Refinitiv indicated that the Group ranked 6th (with a 5.1% market share) in terms of transaction volume and 4th with regard to the number of transactions in the Hong Kong and Macau Syndicated Loan League Table: Mandated Lead Arranger and Bookrunner in 2023. The Group actively promoted green and sustainable financial loan products, and relevant loans encompassing approximately 12 industries increased by 16.8% year-over-year to HK\$9.04 billion. According to Bloomberg statistics, the Group ascended from 15th place last year to 7th place in the sustainability-linked loan market ranking in the Asia-Pacific region (excluding Japan), marking the first time the Group entered the top ten in the ranking, and ranked 3rd in terms of the number of completed transactions.

The Group further enhanced the product and service channels of transaction banking business to upgrade settlement service capabilities and elevate the customer experience. Corporate customers were provided with listed company settlement services, cash management and payment services, trade financing services, account opening and other account services, etc. Cash management service income increased by 51.6% year-on-year.

Treasury and Markets Business

The global markets business achieved a 91.2% year-on-year surge in total operating income. For trading and marketing business, a 54.2% year-on-year increase in trading and marketing income was recognized. Besides, “Top G10 Spot Entity”, “Top G10 Spot Individual” and “Overall Top 5 Spot Trading Volume Entity” were awarded by London Stock Exchange Group.

For securities services business, the Group has gradually rolled out corporate trustee, paying agent, fund administration and fund trustee services since 2022, which further enhanced customer service capabilities. More than 20 agency and trustee projects were accomplished. Total assets under management of more than HK\$180 billion were achieved, recording a year-on-year increase of 41.6%. A 106.2% year-on-year increase in security service fee income was recorded, with approximately 2.6 times the net interest income as compared to 2022.

Regarding capital debt market business, the Group has a stable business foundation in bond issuance in China’s offshore market. The Group engaged in a total of 23 green and sustainable bond issuances pertaining to green bond underwriting. The issuance value amounted to approximately US\$7.51 billion, reflecting a year-on-year growth of 19.4%. In addition, the “Outstanding Award for Green and Sustainable Bond Lead Manager (Financial Holding Industry) – Visionary Sustainability Bond Framework” was awarded by the Hong Kong Quality Assurance Agency. For Certificates of Deposit and Medium-Term Notes businesses, a total of 544 transactions were completed throughout the year, with an issuance volume of US\$31.39 billion.

With regard to funding management, prominent growth in the bond investment business was achieved through active monitoring in the international financial market. The Group was awarded “Top Investment House in Asian G3 Bonds” in the Asset Benchmark Research Awards for 2023 held by the Asset and ranked No. 1 among Hong Kong banks and securities companies. It was also the only awardee to rank among the top 3 Hong Kong banks and securities companies in the past three consecutive years, reflecting that the Group was highly recognised by the industry despite the challenging investment environment.

Personal and Business Banking Business

Personal and business banking business grew progressively in 2023. Solid growth was seen, including income, deposits, customer scale, and digital and mobile banking users, all of which achieved historic record-breaking results.

The establishment of private banking operations in Singapore and insurance services in Macau during the first quarter of 2023 generated regional synergistic effects and improved the ability to facilitate global financial management needs of high-net-worth customers.

The private banking business demonstrated rapid expansion through the enhancement of professional service capabilities. An innovative “Financial + Non-financial” servicing model was developed with the aim of fostering stronger customer relationships. This model offers customers a variety of premium benefits and exceptional experiences. Strong business momentum was maintained by the high-net-worth segment, which exhibited double-digit year-over-year customer growth.

With the optimisation of the “MONOPOLY Deposit” product, personal and business banking deposits reached a record high of HK\$201.53 billion, an increase of 15.1% year-over-year. Three brand-new credit cards were launched, each featuring a distinct positioning tailored to specific customer segments. These cards included the World Mastercard credit cards, which offer customers access to global experiences; the prestigious “JEWEL” World Elite Mastercard card, which cater exclusively to the high-net-worth segment; and co-branded card with Dah Chong Hong, which offer exclusive card benefits. When compared to last year, the issuance of new credit cards more than doubled.

FINTECH TRANSFORMATION

In an effort to improve banking service capabilities, the Group has expanded Fintech transformation across all businesses and processes, and integrated business development with Fintech. The Group recorded year-on-year growth in digital banking customer base in 2023. A notable surge in overall digital penetration and monthly active users was observed. Among them, inMotion customers increased more than 30% year-on-year, and transactions increased substantially, around 85% year-on-year. Through the utilisation of big data technology to analyse customer needs in conjunction with the marketing initiative “Rewards GO!”, exclusive discounts and services could be offered to improve customers’ personalised service experiences, thereby enhancing customer loyalty and engagement. In addition, through the implementation of the next generation of Corporate Online Banking, corporate customers could have access to a host of online financial products and convenient services. A new mobile application, “FX Go”, was introduced to enable customers to access real-time, comprehensive foreign exchange data and facilitate the opening of accounts for trading foreign exchange and gold investments.

The Group leverages Fintech to facilitate business growth, enhance operational and risk management capacities, and improve the capabilities and applications of data governance analysis. The active promotion of robotic process automation has enhanced efficacy. With the aim of ensuring risk management and regulatory compliance, the Group has utilised Regtech to launch fraud monitoring systems and automate customer due diligence systems. Machine learning technology has been implemented to improve suspicious transaction detection.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group emphasises the importance of rigorous corporate governance and risk management, and strives to maintain robust risk management and internal control systems.

As part of its efforts to implement regulatory requirements in 2023, the Group continued to bolster its risk management capabilities and actively pursued a number of risk management enhancement initiatives, including the implementation of the Basel III Reform Package and Operational Resilience, to ensure that the Group could measure and calculate risk-weighted assets in accordance with the new capital management measures. In addition, the Group actively strengthened its resilience against climate-related risks through the effective implementation of a climate risk management framework.

The Group further strengthened its internal control and compliance capabilities in 2023, with a specific focus on adopting technology solutions to enhance compliance risk management. In addition to the three lines of defence control assurance framework to manage the ever-changing business environment and new regulatory rules, the Group continued to promote employees' compliance awareness, a sound risk culture and proactive management of all business risks. The Group was also awarded the "2023 Privacy-Friendly" Gold Award by The Privacy Commissioner for Personal Data in recognition of the Group's efforts in promoting the protection of personal data privacy.

The Group will continue to manage business and operational technology developments and challenges, monitor market trends, and work closely with all stakeholders. Prudent underwriting practices will be upheld in order to ensure the credit quality of our customer base. The Group will also perform ongoing stress tests and portfolio reviews on various risk factors and scenarios in response to any alterations in the external environment in order to assess the potential impact of stressed environments on the Group's asset quality and financial positions. Appropriate risk mitigation measures will be adopted accordingly, when necessary. Also, the Group will establish robust data collection processes to enhance the efficiency of data asset utilisation and ensure effective risk management and control.

HUMAN RESOURCES DEVELOPMENT

The Group aims to cultivate a positive bank culture and drive Agile Culture transformation. During the year, to deepen employees' understanding of the Group's Vision, "Agile. Professional. Simple.", an annual recognition program "The Best of CNCBI" and the first "Agile Week" were held, and employees were encouraged to leverage digital badges of the "You are my STAR" program. The Group also provided bank culture training for employees of different seniorities to cultivate a positive bank culture.

The Group always values employees' opinions and suggestions, and has established various communication channels for the employees, including the Employee Voice mailbox, Whistleblowing mailbox, regular Employee Engagement Survey, etc. Enhancement plans have been developed, such as the Group Medical Insurance Scheme and the Staff Mortgage Plan, to provide employees with better benefits.

The Group fully understands the importance of employee training and talent development. With the support of CNCB, the Group organised two exchange programs in the Greater Bay Area and Beijing in 2023 to facilitate cross-border collaboration and integration with the CITIC ecosystem. By partnering with HKU Business School, the Group organised the Executive Development Program to develop the leadership capabilities of the employees. The Group continued to sponsor employees to obtain professional qualifications as defined by the Hong Kong Monetary Authority's Enhanced Competency Framework, and actively participated in "the Fintech Career Accelerator Scheme" and "the Greater Bay Area Youth Employment Scheme". Through campus recruitment with the aim of attracting young talents and establishing a talent pipeline to support the Group's sustainable development.

The Group cares for the employee's wellbeing. Various festive activities and health talks were arranged throughout the year. The Group resumed bank-wide team-building events in 2023, including the "Team Power", to increase team cohesiveness and encourage collaboration within and across departments.

ESG AND SUSTAINABLE GROWTH

The Group actively pursues green and sustainable finance business, integrates ESG concepts into daily operations and management to accelerate business transformation and structural adjustment in response to the nation's "Dual Carbon" target strategy, and works with the government of the Hong Kong Special Administrative Region for the purpose of developing Hong Kong as a regional green and sustainable finance hub. For green and sustainable finance products and services, green product system was established with finance products such as green loans, green bonds, green funds, etc. were developed.

The Group is dedicated to managing climate risks, integrating them into a comprehensive risk management framework, and establishing a clear climate risk-related governance structure. The Board delegated the Credit and Risk Management Committee to assist in fulfilling climate-related risk responsibilities and work. To facilitate green and low-carbon business practices, the first ESG branch was established in Tsim Sha Tsui, and environmentally sustainable office practices were implemented, including conserving energy and resources and reducing emissions and pollutants.

For corporate social responsibilities, CNCBI volunteer team participated in a number of activities, including beach cleanup, resource recycling, financial workshops for children and youths, etc. Such commitment and contribution were recognised by society.

OUTLOOK

2024 will likely witness the reversal of monetary policy. It is anticipated that a cycle of interest rate cuts will begin. Mainland China's economy may grow by about 5%. With subdued international trade and the continued risk of estate development, retail sales and services will remain important growth drivers. In Hong Kong, the labour market remains stable, and private consumption continues to improve, supporting economic growth. In 2024, Hong Kong's GDP growth may reach 3%, and the performance of imports and exports may turn positive. As for the interest rate environment, after the Federal Reserve Board's rate-cut cycle begins, Hong Kong dollar interest rates will decline subsequently.

The Group will maintain its dedication to business transformation and innovation, and further consolidate and strengthen the market position and influence of its core products in order to cater to customers' diversified and personalised financial needs. In response to the reciprocal interoperability of the financial markets of Mainland China, Hong Kong, and Macau, and the measures for cross-border wealth management, the Group will maximise the benefits of its core platform in offshore business and the main channel of cross-border collaboration. The Group will work closely with CITIC Group and CNCB through the "CITIC Group Collaboration Committee Hong Kong and Macau Regional Branch" to enhance collaboration across all aspects in order to provide sophisticated and streamlined cross-border financial services to customers.

In response to the Fintech development trend, the Group will continue to promote the Fintech transformation, increase investments in technology, streamline business operations, enhance customer experience, and bolster competitiveness, all with the aim of generating value and convenience for customers. The Group will proactively advance green financial business, establish the "net zero" roadmap, develop a climate risk management system, advocate for green and low-carbon operations, and fulfil social responsibilities in the interest of sustainable development.

The Group will continue to stabilise asset quality, monitor non-performing loans, and strengthen risk management. The optimisation of the business structure and product portfolio will serve to control expenses and enhance competitiveness. In an effort to generate greater shareholder value, the Group will concurrently implement proactive measures to optimise its capital structure, capital utilisation efficiency, and rate of return.

Looking forward to 2024, global economic challenges and opportunities coexist. We will maintain strategic focus with a prudent and energetic attitude, progress steadily, and seize new opportunities for business development. We will develop and implement the new three-year strategic development plan, adhere to the Vision "Agile. Professional. Simple.", actively integrate into the development of the nation and Hong Kong, provide comprehensive support to Hong Kong in leveraging its unique advantages under "One Country, Two Systems", consolidate and enhance Hong Kong as an international financial centre, and play an active role as "Super-Connector" and "Super Value-Adder". Development opportunities such as RMB internationalisation, the Guangdong-Hong Kong-Macao Greater Bay Area, and One Belt and One Road will be seized to strive for business growth and bolster the Group's comprehensive financial service capabilities. We continue to maintain a collaborative approach with customers, shareholders, employees and society in order to foster trust and mutual benefit, attain objectives that benefit all parties involved, and strive for progress and stability, all while creating value.

Bi Mingqiang

Executive Director, President & Chief Executive Officer

20 March 2024