Professional Inquiries

In line with our aim towards higher transparency and more disclosures, we have included the following Q & As in this annual report, outlining management responses to inquiries made by analysts and communications professionals.

1

Over the past three years the Bank has succeeded in actively expanding the scope of its businesses, which resulted in significant growth in loans and record profits in 2000. Given the increasingly competitive operating environment and narrowing margins in Hong Kong, how will the Bank enhance its long-term competitiveness and deliver sustainable earnings accretion?

To enhance our long-term competitiveness and profitability amid an increasingly challenging operating environment, we will focus on the development of high yield products and services and continue to explore additional non-interest income avenues to increase profitability. Internally we will exercise stringent control over our operating expenses and funding costs while raising operating efficiency through systems enhancement, streamlining operations and improving departmental co-ordination. As a result of further resolution of the problem loans issue and enhanced credit risk profile, we envisage there will be further reductions in the level of provisioning. We will also actively pursue appropriate M&A activities to complement organic growth.

2

The reduction of classified exposure is not as visible as many of its peers. How will the Bank go about resolving its problem loans issue?

The Bank has made significant progress in the recovery of problem loans in the past three years. Through the efforts of our specialized Risk Assets Management Department, we have reduced the level of problem loans from HK$6.9 billion in the beginning of 1998 down to HK$2.1 billion. Classified exposure, as of 2000 year-end, represented a near-market level of 6.3% of total loans, down from the 8.4% in 1999. As a result of the further resolution of the issue, we recorded a substantial drop in loan loss provisions from HK$938 million in 1999 to HK$319 million. We will continue to deal with the problem loans issue, aiming for a complete resolution and the improvement of the various indicators through the adoption of a flexible approach.

3

Through the active recruitment of experienced banking professionals in recent years, the Bank has enhanced its management capability resulting in significant improvements in its performance. Given an increasingly competitive human resources market, what is the Bank's policy towards retaining its workforce?

The Bank's human resources management is built on a philosophy which recognizes people as its most important asset. To attract and retain quality people, we have made a continuous effort in benchmarking and improving our remuneration structure. The aim is at least match, if not surpass, the market median in all practices. At the start of 2000 the Bank initiated its inaugural bonus scheme. The objectives of the scheme were to cultivate common goals amongst our employees, stimulate functional and cross-functional teamwork and drive performance. A Mandatory Provident Fund ('MPF') scheme, together with an improved Occupational Retirement Schemes Ordinance ('ORSO') scheme, were implemented, effective 1 December 2000. To continuously develop our people and increase their skills, various professional and management training courses were organized. A total attendance of 3,314 was recorded in 2000, meaning each member of staff attended an average of more than three training courses during the year. We will continue to invest in our people and provide them with a dynamic and challenging environment that is conducive to teamwork and employee satisfaction.

4 ***The Bank recorded an increase in operating expenses for 2000 that is above the industry average. How will the Bank contain these costs and keep them in line with revenue growth?***

The increase in operating expenses in 2000 was still below that of operating income, and largely resulted from the Bank's business development program and new product launches. In 2001, while we will continue to invest in people and systems to enhance our competitiveness, we will exercise more stringent control to keep operating expenses at a level that is in line with revenue growth. At the same time, we will closely monitor interest rate trends and take effective measures to control funding costs. Our key objective will be to improve our cost-to-income ratio and measure our performance against that of comparable banks.

5 ***With restructuring plans for CITIC's financial and banking interests well documented and given the uncertainties regarding CITIC's strategy for the Bank, what role does the Bank envisage playing in the group's plans for re-organization?***

With tremendous support from CITIC, the Bank has turned its business around and achieved satisfactory profit growth as a result of its proven strategy of progressive business development and internal reforms. Being a long established listed bank with a proven record, we envisage playing an important role in the group's development and the re-organization of its financial assets and interests. With China's imminent admission into the World Trade Organization, the Bank will continue to adopt an active and prudent approach to complement CITIC's network and strengths in China, and to create synergy through co-operation with CITIC Industrial Bank and CITIC Securities in the development of its businesses in China.

6 ***The SME segment in Hong Kong will be worst hit by the recession of the US economy, immediately leading to shrinking loan demand and thinning interest margins. Given the Bank's focus and concentration in this segment, how will it mitigate this impact?***

We will continue to selectively expand our SME business, focusing on the development of profitable account relationships. Through the acquisition of new quality assets, we aim to continuously bring down the lending risk exposure and diversify our loan portfolio. In order to mitigate the negative impact of shrinking interest margins, we will exercise more stringent efforts on funding cost control and raise overall yield of the loan portfolio.

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