

Senior Executive Briefing: The Making Of An “Offshore PRC Solutions Bank”

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Situation Analysis

Why are we repositioning CKWB?

- Crowded market in Hong Kong
- Loan volume recovery trends still weak
- Depressed margins from competition and excess liquidity in the market
- Little room for service differentiation from pure lending business
- Survival of fittest as China market opens in end-2006
- Basel II calls for more prudential and disciplined use of risk capital, particularly for mid-size players

The winners are those who can ..

*...offer **value-added and differentiated financial solutions** to customers*

*... develop a **distinctive franchise***



Reposition CKWB To Be An “Offshore PRC Solutions Bank”

What are our stated objectives?

- **To reposition CKWB as a “best-in-class” full service offshore PRC bank operating within our home market of Greater China, and one that can provide value-added financial solutions for its customers**
 - Effectively leverage corporate banking, retail banking and treasury capabilities
 - Fully capitalise on our CITIC connections
- **To become a “first choice” conduit for two-way trade and capital flows between the PRC and Hong Kong / Asia / rest of the world**
- **To build international capabilities to generate own-growth impetus and as international platform for CITIC Group**
- **To adopt international business management products, standards and practices**

Reposition CKWB To Be An “Offshore PRC Solutions Bank” (Cont’d)

What does this mean?

Broaden Customer Base

Target customers with significant investment and/or trade interests in China:

- Multinational, international, regional and Hong Kong corporates
- Financial institutions and non-bank financial institutions

Broaden Product Base

- Build key centres of excellence to support our relationship management teams
- Work closely with our sister bank in China – China CITIC Bank



Reposition CKWB To Be An “Offshore PRC Solutions Bank” (Cont’d)

Our key building blocks

CENTRES OF EXCELLENCE ALREADY SET UP

- Experienced Syndications and Debt Distribution Team
- Commercial Real Estate Team
- Financial Institutions Team
- Non-Bank Financial Institutions Team

PRODUCT CAPABILITIES ALREADY / BEING ESTABLISHED

- Debt underwriting and distribution within Greater China region
- Cross-border service capabilities providing offshore and onshore loan, trade and forex lines and services to international, Hong Kong and China corporates
- Commercial real estate advisory, debt raising and distribution services to real estate funds, major developers and investors
- Insurance services

FOUNDATION PRINCIPLES

- Build fee income and broaden / build quality asset and loan portfolio
- Mobilise full potential of the CITIC Group relationship
- Joint quality corporate customer bases of CKWB and China CITIC Bank



Reposition CKWB To Be An “Offshore PRC Solutions Bank” (Cont'd)

Other areas of focus

- **Upgrade US branches and expand their operations to service CITIC Group requirements and CITIC Group customers**
- **Expand “Centres of Excellence” / “Solutions” capabilities to include**
 - Project finance and advisory services in China
 - Mergers and acquisitions, corporate advisory in China
 - Structured trade and commodity finance
- **Manage cost base through paced development**

Our China Strategy

- **Organic growth**
 - Paced expansion in strategic locations
 - Service centres in three key locations to keep close to customers
 - Focused targeting and solutions-based offering in support of CITIC Group's major customer bases
 - Cross-border teams in centres of excellence and new profit and value centres
 - Strong risk management capabilities
- **Strategic expansion**
 - Dedicated cross-border business development team
 - Leverage on China CITIC Bank in the Mainland
 - Expand international capabilities

CKWB Paced Expansion In Strategic Location 2004-2006



CKWB Wholesale Banking Universe



¹ Dual reporting to Head of China.

² Application in process to upgrade Beijing representative office to branch status - subject to regulatory approval.

³ Dual reporting to Chief Credit & Risk Officer.



Wholesale Banking Performance Metrics

- **Establish loan growth at optimal level within our CAR objectives**
 - Target 20% in next 12 months
- **Double fee income within 3 years**
- **Grow fee income to total income ratio to 40% range within 2 years**
- **Establish Financial Institutions and Non-Bank Financial Institutions Groups as major revenue sources within 2 years**
 - Target to account for 10-15% of WBG revenues
- **Establish a “One Bank Group” platform in products and service delivery with China CITIC Bank within 15 months**
- **Maintain quality of loan book and an impaired loans ratio within 2%**