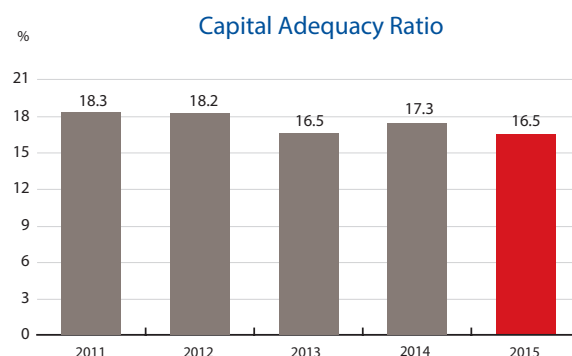
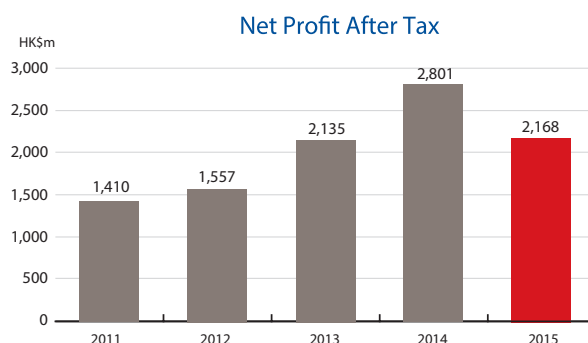


2015 Results Highlights

Financial Performance

- **Net profit after tax** was HK\$2.17 billion, down 22.6% year-on-year, yet still the second highest recorded in the Group's history.
- **Operating profit after impairment** was HK\$2.60 billion, down 22.9% year-on-year. In view of market volatility, the Group adopted a prudent provisioning policy and so the year-end impairment was increased by HK\$0.49 billion.
- **Operating income** decreased slightly by 2.9% year-on-year to HK\$5.83 billion mainly due to a substantial 17.7% drop in **net interest income** to HK\$3.42 billion. Although customer loans continued to grow with stable yields, RMB interbank loans decreased significantly while yields were also markedly lower. Overall net interest margin narrowed to 1.38% from 1.84% in 2014.
- **Non-interest income** increased by 30.4% year-on-year to HK\$2.41 billion mainly due to a surge in loan fees and income from sales of investment and insurance products.
- **ROA** was down 36 basis points year-on-year to 0.83%.
- **ROE** dropped by 4.6 percentage points year-on-year to 10.24%.
- **Total assets** continued to grow to HK\$282.53 billion, up 13.4% year-on-year.
- **Customer loans** rose by 12.7% year-on-year to HK\$169.87 billion.
- **Total deposits** amounted to HK\$231.07 billion, up 13.8% year-on-year, with retail deposits at a record high of HK\$102.6 billion.
- **Capital adequacy ratio** and **CET1 ratio** were above regulatory requirements at 16.50% and 10.50% respectively.



Core Businesses

- **Wholesale and cross-border banking business** continued to explore new business models. Taking advantage of the Chinese government's key strategic policy initiatives such as developing "One Belt, One Road", encouraging Chinese enterprises to "Go Global" and establishing four major free-trade zones, the Group collaborated closely with CNCB and CITIC Group to develop business with big corporations related to key industries and large-scale projects, with increasing involvement in structured finance and a balance between asset growth and quality. Besides, the potential and capability of the overseas branches in Singapore, the US and Macau were fully leveraged, with good performances in loan growth, deposit growth, product innovation and operating income. Aggregate profit after impairment of overseas branches soared by 118% year-on-year, accounting for 17% of the Group's total. As at end-2015, wholesale customer loans amounted to HK\$128.86 billion, up 15.6% year-on-year.
- **Retail banking business** achieved breakthroughs in customer deposits, cross-border business and e-banking business. "Diamond Wealth Management" was launched in late March last year to satisfy the demand of high-end customers for cross-border wealth management services, signifying a milestone of collaboration with CNCB in servicing these customers. Meanwhile, the Group was the first bank in Hong Kong to cooperate with Tencent to implement the account binding function on WeChat and to settle payment for travel insurance via WeChat Pay. It was also the first bank in Hong Kong to provide customers with access to account information by fingerprint authentication on mobile phones, which has expedited the log-in process. These two innovations have greatly enhanced customer experience and the leading position of the Bank in mobile e-banking business. As at end-2015, retail customer deposits amounted to HK\$102.60 billion, up 16.5% year-on-year.



CHINA CITIC BANK INTERNATIONAL LIMITED

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

ANNOUNCEMENT OF 2015 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 2015.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

(Expressed in Hong Kong dollars)

	2015 HK\$'000	2014 HK\$'000
Interest income	6,568,868	7,414,726
Interest expense	(3,148,559)	(3,258,058)
Net interest income	3,420,309	4,156,668
Fee and commission income	1,124,194	1,005,511
Fee and commission expense	(55,779)	(34,219)
Net fee and commission income	1,068,415	971,292
Net trading income	1,231,547	769,804
Net gain from financial instruments designated at fair value through profit or loss	–	1,073
Net hedging gain/(loss)	999	(2,584)
Net gain on disposal of available-for-sale securities	59,715	14,879
Other operating income	50,028	94,795
Operating income	5,831,013	6,005,927
Operating expenses	(2,564,206)	(2,453,169)
Operating profit before impairment	3,266,807	3,552,758
Impairment losses on loans and advances and other accounts	(667,677)	(180,857)
Operating profit	2,599,130	3,371,901
Net loss on disposal of property and equipment	(730)	(334)
Revaluation gain on investment properties	3,046	2,842
Profit before taxation	2,601,446	3,374,409
Income tax	(433,239)	(573,264)
Profit for the year	2,168,207	2,801,145
Attributable to equity shareholders of the Bank	2,168,207	2,801,145

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**For the year ended 31 December 2015***(Expressed in Hong Kong dollars)*

	2015 HK\$'000	2014 HK\$'000
Profit for the year	2,168,207	2,801,145
Other comprehensive income for the year		
Items that may be reclassified subsequently to income statement:		
Exchange differences on translation of financial statements of overseas subsidiaries	(98,176)	(43,347)
Available-for-sale securities		
– change in fair value	(58,804)	127,443
– transfer from income statement on disposal	(58,110)	(14,613)
– transfer to/(from) deferred tax	18,306	(21,094)
Other comprehensive income for the year	(196,784)	48,389
Total comprehensive income for the year	1,971,423	2,849,534
Attributable to equity shareholders of the Bank	1,971,423	2,849,534

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**At 31 December 2015***(Expressed in Hong Kong dollars)*

	2015 HK\$'000	2014 <i>HK\$'000</i>
Assets		
Cash and balances with banks, central banks and other financial institutions	20,322,734	20,676,200
Placements with and advances to banks, central banks and other financial institutions	30,390,640	43,893,840
Trading assets	4,277,539	3,291,332
Loans and advances to customers and other accounts	173,479,925	153,872,296
Available-for-sale securities	53,151,487	26,513,380
Property and equipment		
– Investment properties	185,944	182,898
– Other property and equipment	657,273	676,035
Tax recoverable	33,114	2,775
Deferred tax assets	36,312	32,115
Total Assets	282,534,968	249,140,871
Equity and Liabilities		
Deposits and balances of banks and other financial institutions	2,658,301	4,129,401
Deposits from customers	220,683,709	188,929,559
Trading liabilities	3,555,614	2,974,807
Certificates of deposit issued	10,388,272	14,156,976
Current taxation	61,910	162,951
Deferred tax liabilities	1,717	4,327
Other liabilities	12,365,023	7,777,093
Loan capital	8,766,217	8,754,408
Total Liabilities	258,480,763	226,889,522
Equity		
Share capital	7,566,271	7,566,271
Reserves	14,177,766	12,374,910
Total equity attributable to equity shareholders of the Bank	21,744,037	19,941,181
Additional equity instruments	2,310,168	2,310,168
Total Equity	24,054,205	22,251,349
Total Equity and Liabilities	282,534,968	249,140,871

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

(Expressed in Hong Kong dollars)

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Exchange differences reserve <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Regulatory general reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total reserves <i>HK\$'000</i>	Additional equity instruments <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2015	7,566,271	-	6,589	100,000	97,554	55	86,890	55,839	149,500	11,878,483	12,374,910	2,310,168	22,251,349
Changes in equity for 2015:													
Profit for the year	-	-	-	-	-	-	-	-	-	2,168,207	2,168,207	-	2,168,207
Other comprehensive income for the year	-	-	-	-	(98,176)	-	(98,608)	-	-	-	(196,784)	-	(196,784)
Total comprehensive income for the year	-	-	-	-	(98,176)	-	(98,608)	-	-	2,168,207	1,971,423	-	1,971,423
Distribution payment for AT1 Capital Securities	-	-	-	-	-	-	-	-	-	-	-	(168,567)	(168,567)
Transfer from retained profits	-	-	-	-	-	-	-	3,104	-	(171,671)	(168,567)	168,567	-
At 31 December 2015	<u>7,566,271</u>	<u>-</u>	<u>6,589</u>	<u>100,000</u>	<u>(622)</u>	<u>55</u>	<u>(11,718)</u>	<u>58,943</u>	<u>149,500</u>	<u>13,875,019</u>	<u>14,177,766</u>	<u>2,310,168</u>	<u>24,054,205</u>
At 1 January 2014	7,283,341	282,930	6,589	100,000	140,901	55	(4,846)	38,349	149,500	9,179,198	9,892,676	-	17,176,017
Changes in equity for 2014:													
Profit for the year	-	-	-	-	-	-	-	-	-	2,801,145	2,801,145	-	2,801,145
Other comprehensive income for the year	-	-	-	-	(43,347)	-	91,736	-	-	-	48,389	-	48,389
Total comprehensive income for the year	-	-	-	-	(43,347)	-	91,736	-	-	2,801,145	2,849,534	-	2,849,534
Issue of Additional Tier 1 Capital Securities ("AT1 Capital Securities")	-	-	-	-	-	-	-	-	-	-	-	2,310,168	2,310,168
Distribution payment for AT 1 Capital Securities	-	-	-	-	-	-	-	-	-	-	-	(84,370)	(84,370)
Transition to no-par value regime on 3 March 2014	282,930	(282,930)	-	-	-	-	-	-	-	-	(282,930)	-	-
Transfer from retained profits	-	-	-	-	-	-	-	17,490	-	(101,860)	(84,370)	84,370	-
At 31 December 2014	<u>7,566,271</u>	<u>-</u>	<u>6,589</u>	<u>100,000</u>	<u>97,554</u>	<u>55</u>	<u>86,890</u>	<u>55,839</u>	<u>149,500</u>	<u>11,878,483</u>	<u>12,374,910</u>	<u>2,310,168</u>	<u>22,251,349</u>

CONSOLIDATED CASH FLOW STATEMENT**For the year ended 31 December 2015***(Expressed in Hong Kong dollars)*

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Operating activities		
Profit before taxation	2,601,446	3,374,409
Adjustments for non-cash items:		
Impairment losses on loans and advances and other accounts	667,677	180,857
Net gain on disposal of available-for-sale securities	(59,715)	(14,879)
Net loss on disposal of property and equipment	730	334
Revaluation gain on investment properties	(3,046)	(2,842)
Amortisation of deferred expenses	121,632	104,578
Depreciation on property and equipment	135,135	132,628
Dividend income from equity securities	(6,294)	(5,699)
Interest expense on loan capital	503,309	503,308
Foreign exchange differences	(373,269)	(696,382)
Operating profit before changes in working capital	3,587,605	3,576,312
(Increase)/decrease in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	(42,678)	9,986,948
Treasury bills with original maturity beyond 3 months	(7,875,416)	(814,529)
Certificates of deposit held with original maturity beyond 3 months	(7,651,121)	2,036,451
Trading assets	(986,206)	(893,067)
Securities designated at fair value through profit or loss	–	63,204
Loans and advances to customers and other accounts	(20,483,681)	(21,660,229)
Available-for-sale securities	(8,111,502)	(2,867,026)
	(45,150,604)	(14,148,248)
Increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	(1,471,100)	(3,392,981)
Deposits from customers	31,742,004	34,270,593
Trading liabilities	580,807	1,406,168
Certificates of deposit issued	(3,509,246)	(1,401,281)
Debt securities issued	–	(1,136,032)
Other liabilities	4,597,056	(1,345,928)
	31,939,521	28,400,539
Cash (used in)/generated from operating activities	(9,623,478)	17,828,603
Income tax paid		
Hong Kong Profits Tax paid	(389,223)	(469,328)
Overseas tax paid	(52,565)	(79,153)
Net cash (used in)/generated from operating activities	(10,065,266)	17,280,122

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Net cash (used in)/generated from operating activities	(10,065,266)	17,280,122
Cash flow used in investing activities		
Dividends received from equity securities	6,294	5,699
Purchase of property and equipment	(118,486)	(90,400)
Proceeds from disposal of property and equipment	63	123
Net cash used in investing activities	(112,129)	(84,578)
Cash flow (used in)/from financing activities		
Proceeds from Additional Tier 1 Capital Securities issued	–	2,310,168
Distribution paid on Additional Tier 1 Capital Securities	(168,567)	(84,370)
Interest paid on loan capital	(496,115)	(496,376)
Net cash (used in)/from financing activities	(664,682)	1,729,422
Net (decrease)/increase in cash and cash equivalents	(10,842,077)	18,924,966
Cash and cash equivalents at 1 January	62,537,493	43,612,527
Cash and cash equivalents at 31 December	51,695,416	62,537,493
Analysis of the balances of cash and cash equivalents		
Cash and balances with banks, central banks and other financial institutions	19,497,229	20,676,200
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	22,453,326	35,173,698
Treasury bills and certificates of deposit held with original maturity within 3 months:		
– Available-for-sale securities	9,744,861	6,687,595
	51,695,416	62,537,493
Cash flows from operating activities include:		
Interest received	6,578,774	7,412,772
Interest paid	(2,847,156)	(2,566,296)

NOTES:

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The financial information relating to the financial year ended 31 December 2015 included in this annual results announcement does not constitute the Group's statutory financial statements for that financial year but is extracted from those financial statements. The Bank's auditor has reported on those financial statements of the Group. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Statutory financial statements for the year ended 31 December 2015 comply with the Banking (Disclosure) Rules and will be available from the Bank's website and registered office.

2 CHANGES IN ACCOUNTING POLICIES**(a) New and amended accounting standards adopted by the Group**

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

Amendment to HKAS 19 (2011), 'Employee benefits', on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits. The amendment has no material impact to the Group.

Amendments from annual improvements to HKFRSs 2010-2012 cycle, on HKFRS8, 'Operating segments', HKAS 16, 'Property, plant and equipment' and HKAS 38, 'Intangible assets' and HKAS 24, 'Related party transactions'. The amendments do not have material impact to the Group as they are consistent with the policies already adopted by the Group.

Amendments from annual improvements to HKFRSs 2011-2013 cycle, on HKFRS3, 'Business combinations', HKFRS 13, 'Fair value measurement' and HKAS 40, 'Investment property'. The amendments do not have material impact to the Group as they are consistent with the policies already adopted by the Group.

The Group has not applied any new standards or interpretations not yet effective for the current accounting period.

(b) New Hong Kong Companies Ordinance (Cap. 622)

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year. As a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

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

	2015 HK\$'000	2014 HK\$'000
Listed securities	209,114	46,904
Unlisted securities	481,089	451,857
Balances and placements with banks and other financial institutions	748,931	2,345,414
Advances and other accounts (<i>Note</i>)	5,129,734	4,570,551
Interest income on financial assets that are not at fair value through profit or loss	6,568,868	7,414,726

(b) Interest expense

	2015 HK\$'000	2014 HK\$'000
Deposits from customers, banks and other financial institutions and others	2,496,671	2,422,057
Certificates of deposit issued	148,579	299,459
Debt securities issued	–	33,234
Loan capital issued	503,309	503,308
Interest expense on financial liabilities that are not at fair value through profit or loss	3,148,559	3,258,058

Note:

Included in the above is interest income accrued on impaired financial assets of HK\$19,435,000 (2014: HK\$4,352,000), which includes interest income on the unwinding of the discount on loan impairment losses of HK\$12,575,000 (2014: HK\$3,978,000) for the year ended 31 December 2015.

4 NET FEE AND COMMISSION INCOME

	2015 HK\$'000	2014 HK\$'000
Fee and commission income:		
Bills commission	116,360	141,547
Card-related income	31,172	25,765
General banking services	118,286	108,613
Insurance	314,895	285,589
Investment and structured investment products	150,913	137,783
Loans, overdrafts and facilities fees	391,955	305,500
Others	613	714
	1,124,194	1,005,511
Fee and commission expense	(55,779)	(34,219)
	1,068,415	971,292
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	539,487	472,812
– Fee and commission expense	(16,898)	(13,373)
	522,589	459,439

5 NET TRADING INCOME

	2015 HK\$'000	2014 HK\$'000
Gains less losses from dealing in foreign currencies	1,106,972	733,166
Gains less losses from trading securities	6,868	658
Gains less losses from derivatives	(70,911)	(91,297)
Interest income on trading assets	188,618	127,277
	<u>1,231,547</u>	<u>769,804</u>

All foreign exchange related gains or losses are reclassified into "Gains less losses from dealing in foreign currencies" to indicate the result arising from foreign exchange dealing activities. Certain comparative information is reclassified to conform with the current year's presentation.

6 NET GAIN FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 HK\$'000	2014 HK\$'000
Net gain	–	732
Interest income	–	341
	<u>–</u>	<u>1,073</u>

7 NET HEDGING GAIN/(LOSS)

	2015 HK\$'000	2014 HK\$'000
Net gain/(loss) on fair value hedge	<u>999</u>	<u>(2,584)</u>

8 NET GAIN ON DISPOSAL OF AVAILABLE-FOR-SALE SECURITIES

	2015 HK\$'000	2014 HK\$'000
Net revaluation gain transferred from reserves	57,247	14,613
Net gain arising in current year	<u>2,468</u>	<u>266</u>
	<u>59,715</u>	<u>14,879</u>

9 OTHER OPERATING INCOME

	2015 HK\$'000	2014 HK\$'000
Dividend income from available-for-sale equity securities		
– Listed	394	199
– Unlisted	5,900	5,500
Rental income from investment properties		
less direct outgoings of HK\$281,000 (2014: HK\$289,000)	7,242	7,051
Others	<u>36,492</u>	<u>82,045</u>
	<u>50,028</u>	<u>94,795</u>

10 OPERATING EXPENSES

	2015 HK\$'000	2014 HK\$'000
(a) Staff costs		
Salaries and other staff costs	1,409,925	1,454,437
Retirement costs	82,115	76,137
	<u>1,492,040</u>	<u>1,530,574</u>
(b) Depreciation		
Depreciation of property and equipment		
– Assets held for use under operating leases	19,503	27,749
– Other assets	115,632	104,879
	<u>135,135</u>	<u>132,628</u>
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)		
– Rental of properties	262,451	246,507
– Others	212,601	159,923
Auditor's remuneration	8,927	8,634
Advertising	64,586	60,807
Communication, printing and stationery	87,522	84,641
Legal and professional fees	34,016	39,081
Others	266,928	190,374
	<u>937,031</u>	<u>789,967</u>
Total operating expenses	<u>2,564,206</u>	<u>2,453,169</u>

11 IMPAIRMENT LOSSES ON LOANS AND ADVANCES AND OTHER ACCOUNTS

	2015 HK\$'000	2014 HK\$'000
Impairment losses charged		
– Loans and advances	468,602	181,697
– Other accounts	199,075	(840)
	<u>667,677</u>	<u>180,857</u>
Impairment losses on loans and advances and other accounts		
– Individual assessment	617,744	105,266
– Collective assessment	49,933	75,591
	<u>667,677</u>	<u>180,857</u>
of which:		
– Additions	804,004	237,054
– Releases	(106,019)	(29,597)
– Recoveries	(30,308)	(26,600)
	<u>667,677</u>	<u>180,857</u>

12 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	2015 HK\$'000	2014 HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	344,233	495,234
Under-provision in respect of prior years	61	5,406
	<u>344,294</u>	<u>500,640</u>
Current tax – Overseas		
Provision for the year	71,109	82,450
Under-provision in respect of prior years	6,656	8,528
	<u>77,765</u>	<u>90,978</u>
Deferred tax		
Origination/(Reversal) of temporary differences	11,180	(18,354)
	<u>433,239</u>	<u>573,264</u>

The provision for Hong Kong Profits Tax for 2015 is calculated at 16.5% (2014: 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.

13 TRADING ASSETS

	2015 HK\$'000	2014 HK\$'000
Debt securities	212,827	8,348
Investment funds	1,489	2,204
	<u>214,316</u>	<u>10,552</u>
Trading securities	4,063,223	3,280,780
Positive fair values of derivatives	4,277,539	3,291,332
	<u>4,277,539</u>	<u>3,291,332</u>
Issued by:		
Banks and other financial institutions	131,638	8,348
Corporate entities	82,678	2,204
	<u>214,316</u>	<u>10,552</u>
Analysed by place of listing:		
Listed in Hong Kong	57,788	–
Listed outside Hong Kong	32,896	8,348
Unlisted	123,632	2,204
	<u>214,316</u>	<u>10,552</u>

14 LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

(a) Loans and advances to customers and other accounts less impairment allowances

	2015 HK\$'000	2014 HK\$'000
Gross loans and advances to customers	169,869,738	150,720,146
Impairment allowances		
– Individually assessed	(296,732)	(163,880)
– Collectively assessed	(399,376)	(373,664)
	<u>169,173,630</u>	<u>150,182,602</u>
Accrued interest and other accounts	4,506,138	3,690,462
Impairment allowances		
– Individually assessed (<i>Note</i>)	(199,843)	(768)
	<u>4,306,295</u>	<u>3,689,694</u>
	<u>173,479,925</u>	<u>153,872,296</u>
Included in loans and advances to customers are:		
Trade bills	5,205,237	9,287,362
Impairment allowances		
– Individually assessed	(139)	–
– Collectively assessed	(690)	(2,181)
	<u>5,204,408</u>	<u>9,285,181</u>

Note:

In 2015, an impairment provision of HK\$199,075,000 (2014: Nil) was being included in the individual impairment provisions of the other accounts, this was provided for the failure in settlement of expired or unwinding transactions of certain derivative products.

(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”).

	2015		2014	
	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	13,160,361	–	5,594,282	–
– Property investment	19,535,863	30,297	17,016,206	11,601
– Financial concerns	6,742,829	–	8,429,777	–
– Stockbrokers	3,511,763	–	771,179	–
– Wholesale and retail trade	17,915,876	162,104	16,727,330	3,048
– Manufacturing	7,493,445	10,472	7,167,172	118,503
– Transport and transport equipment	3,492,239	2,325	2,163,895	196
– Recreational activities	954,102	–	273,556	–
– Information technology	14,755	–	15,202	–
– Others	7,987,067	249,305	4,663,393	2,191
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	8,760	–	10,756	–
– Loans for the purchase of other residential properties	12,404,811	4,788	11,296,562	4,796
– Credit card advances	426,795	439	357,418	297
– Others	7,850,685	16,204	6,830,531	7,638
Gross loans and advances for use in Hong Kong	101,499,351	475,934	81,317,259	148,270
Trade finance	11,061,512	605,279	15,691,063	150,865
Gross loans and advances for use outside Hong Kong	57,308,875	425,472	53,711,824	412,503
Gross loans and advances to customers	<u>169,869,738</u>	<u>1,506,685</u>	<u>150,720,146</u>	<u>711,638</u>

(c) Impaired loans and advances to customers

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Gross impaired loans and advances to customers	1,506,685	711,638
Impairment allowances – Individually assessed	(296,732)	(163,880)
	<u>1,209,953</u>	<u>547,758</u>
Gross impaired loans and advances as a % of total loans and advances to customers	<u>0.89%</u>	<u>0.47%</u>

Impaired loans and advances are individually assessed loans which exhibit objective evidence of impairment on an individual basis.

Individually assessed impairment allowances were made after taking into account the realisable value of collateral in respect of such loans and advances of HK\$433,215,000 (2014: HK\$472,737,000) of the Group. This collateral mainly comprised mortgage interest over residential or commercial properties and cash with the Group.

15 AVAILABLE-FOR-SALE SECURITIES

	2015 HK\$'000	2014 HK\$'000
Certificates of deposit held	12,375,180	4,104,439
Debt securities	22,261,330	14,217,767
Treasury bills (including Exchange Fund Bills)	18,420,015	8,106,952
Equity securities	94,962	84,222
	53,151,487	26,513,380
Issued by:		
Sovereigns	19,381,998	8,239,847
Banks and other financial institutions	26,391,962	9,615,782
Corporate entities	7,377,527	8,595,459
Public entities	–	62,292
	53,151,487	26,513,380
Analysed by place of listing:		
Listed in Hong Kong	5,209,473	2,385,545
Listed outside Hong Kong	5,215,093	1,214,469
Unlisted	42,726,921	22,913,366
	53,151,487	26,513,380
Fair value of individually impaired debt securities	91,364	96,761

16 CAPITAL AND RESERVES

(a) Share capital

(i) Ordinary shares, issued and fully paid:

	At 31 December 2015		At 31 December 2014	
	Number of shares	Share capital HK\$'000	Number of shares	Share capital HK\$'000
At 1 January	7,283,341,176	7,566,271	7,283,341,176	7,283,341
Transition to no-par value regime on 3 March 2014 (<i>Note a(ii)</i>)	–	–	–	282,930
At 31 December	7,283,341,176	7,566,271	7,283,341,176	7,566,271

(ii) In accordance with the transitional provisions set out in section 37 of Schedule 11 to Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount standing to the credit of the share premium account has become part of the Bank's share capital.

(iii) Shares issued during the period

There was no share issuance during the year ended 31 December 2015.

(b) Reserves

	2015 HK\$'000	2014 HK\$'000
Capital reserve	6,589	6,589
General reserve	100,000	100,000
Exchange differences reserve	(622)	97,554
Property revaluation reserve	55	55
Investment revaluation reserve	(11,718)	86,890
Statutory reserve	58,943	55,839
Regulatory general reserve	149,500	149,500
Retained profits*	13,875,019	11,878,483
Total	14,177,766	12,374,910

* 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 2015, HK\$2,571,972,000 (2014: HK\$2,172,126,000) was included in the retained profits in this respect, which was distributable to equity holders of the Bank subject to consultation with the HKMA.

17 CONTINGENT LIABILITIES AND COMMITMENTS TO EXTEND CREDIT

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

	2015 HK\$'000	2014 HK\$'000
Direct credit substitutes	2,711,185	4,583,293
Transaction-related contingencies	606,593	681,837
Trade-related contingencies	1,770,553	2,046,934
Forward forward deposits placed	387,507	—
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	91,804,970	84,205,202
– with an original maturity of not more than 1 year	1,317,952	1,395,605
– with an original maturity of more than 1 year	2,217,391	1,476,055
	100,816,151	94,388,926
Credit risk-weighted amounts	2,889,596	3,466,453

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2014: 0% to 150%).

18 CURRENCY RISK

The Group's foreign exchange risk stems from taking foreign exchange positions from commercial dealings, investments in foreign currency securities, and operations of the Group and its overseas branches and subsidiaries. The Group's foreign exchange positions are subject to exposure limits approved by the Market Risk Committee. 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 2015, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK\$1,499,000 (2014: HK\$596,000) with a standard deviation of HK\$4,731,000 (2014: HK\$3,654,000).

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

Equivalent in HK\$'000	2015			
	USD	RMB	Others	Total
Spot assets	111,198,523	38,183,176	21,605,506	170,987,205
Spot liabilities	(76,375,425)	(48,600,920)	(14,800,852)	(139,777,197)
Forward purchases	194,529,305	149,392,813	18,648,643	362,570,761
Forward sales	(230,469,964)	(138,031,495)	(25,149,766)	(393,651,225)
Net options position	4,153,786	(3,702,140)	(470,109)	(18,463)
Net long/(short) position	3,036,225	(2,758,566)	(166,578)	111,081
Net structural position	–	708,052	48,526	756,578

Equivalent in HK\$'000	2014			
	USD	RMB	Others	Total
Spot assets	92,263,766	61,239,085	7,190,989	160,693,840
Spot liabilities	(66,363,801)	(46,790,020)	(15,063,212)	(128,217,033)
Forward purchases	162,866,061	126,678,463	25,266,889	314,811,413
Forward sales	(193,736,878)	(137,239,255)	(15,105,431)	(346,081,564)
Net options position	6,632,868	(4,035,342)	(2,482,148)	115,378
Net long/(short) position	1,662,016	(147,069)	(192,913)	1,322,034
Net structural position	–	748,417	48,522	796,939

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

19 SEGMENT REPORTING

Segment information is presented consistently with reportable segments which are regularly reviewed or evaluated internally by the chief operating decision-maker to allocate resources to the segments and to assess their performance. The Group has identified the following four main reportable segments:

Wholesale and cross-border banking business includes wholesale banking business in Hong Kong and overseas branches, and China banking. Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing and cash management. Overseas branches include the management office unit in Hong Kong and the branches operated overseas. China banking mainly includes a subsidiary bank in China and the China banking management office in Hong Kong.

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

Treasury and markets covers the provision of foreign exchange services, money market activities, the management of investment securities and central cash management.

Others mainly comprises unallocated revenue and expenses, head office, and corporate expenses.

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.

(a) Reportable segments

	2015				
	Wholesale and cross-border banking HK\$'000	Personal and business banking HK\$'000	Treasury and markets HK\$'000	Others HK\$'000	Consolidated HK\$'000
Net interest income/(expense)	2,733,891	1,333,658	(688,288)	41,048	3,420,309
Other operating income	714,954	658,904	903,096	74,035	2,350,989
Net gain on disposal of available-for-sale securities	29,121	–	30,594	–	59,715
Operating income	3,477,966	1,992,562	245,402	115,083	5,831,013
Operating expenses	(483,698)	(674,460)	(73,257)	(1,332,791)	(2,564,206)
Inter-segment (expenses)/income	(343,018)	(509,169)	(114,049)	966,236	–
Operating profit/(loss) before impairment	2,651,250	808,933	58,096	(251,472)	3,266,807
Impairment losses (charged)/written back on loans and advances and other accounts	(441,416)	(37,423)	(199,075)	10,237	(667,677)
Operating profit/(loss)	2,209,834	771,510	(140,979)	(241,235)	2,599,130
Net loss on disposal of property and equipment	(16)	(446)	–	(268)	(730)
Revaluation gain on investment properties	–	–	–	3,046	3,046
Profit/(loss) before taxation	2,209,818	771,064	(140,979)	(238,457)	2,601,446
Income tax	–	–	–	(433,239)	(433,239)
Profit/(loss) for the year	2,209,818	771,064	(140,979)	(671,696)	2,168,207
Other segment items:					
Depreciation	16,283	21,449	323	97,080	135,135
Segment assets	142,886,647	41,393,989	114,204,905	(15,950,573)	282,534,968
Segment liabilities	144,383,771	108,699,516	22,794,559	(17,397,083)	258,480,763
Capital expenditure incurred during the year	6,884	28,637	1,304	81,661	118,486

	2014				
	Wholesale and cross-border banking HK\$'000	Personal and business banking HK\$'000	Treasury and markets HK\$'000	Others HK\$'000	Consolidated HK\$'000
Net interest income	2,564,238	1,157,214	395,821	39,395	4,156,668
Other operating income	539,083	669,139	614,896	11,262	1,834,380
Net gain on disposal of available-for-sale securities	1,751	–	13,128	–	14,879
Operating income	3,105,072	1,826,353	1,023,845	50,657	6,005,927
Operating expenses	(486,353)	(596,083)	(50,580)	(1,320,153)	(2,453,169)
Inter-segment (expenses)/income	(355,112)	(482,271)	(128,685)	966,068	–
Operating profit/(loss) before impairment	2,263,607	747,999	844,580	(303,428)	3,552,758
Impairment losses (charged)/written back on loans and advances and other accounts	(144,852)	(37,873)	–	1,868	(180,857)
Operating profit/(loss)	2,118,755	710,126	844,580	(301,560)	3,371,901
Net gain/(loss) on disposal of property and equipment	(1)	(440)	–	107	(334)
Revaluation gain on investment properties	–	–	–	2,842	2,842
Profit/(loss) before taxation	2,118,754	709,686	844,580	(298,611)	3,374,409
Income tax	–	–	–	(573,264)	(573,264)
Profit/(loss) for the year	<u>2,118,754</u>	<u>709,686</u>	<u>844,580</u>	<u>(871,875)</u>	<u>2,801,145</u>
Other segment items:					
Depreciation	<u>20,228</u>	<u>22,796</u>	<u>1,028</u>	<u>88,576</u>	<u>132,628</u>
Segment assets	<u>130,351,057</u>	<u>39,694,486</u>	<u>99,685,253</u>	<u>(20,589,925)</u>	<u>249,140,871</u>
Segment liabilities	<u>126,065,104</u>	<u>94,067,374</u>	<u>27,986,539</u>	<u>(21,229,495)</u>	<u>226,889,522</u>
Capital expenditure incurred during the year	<u>10,446</u>	<u>29,622</u>	<u>755</u>	<u>49,577</u>	<u>90,400</u>

(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.

	2015				
	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>	Contingent liabilities and commitments <i>HK\$'000</i>
Hong Kong	2,080,855	253,413,493	230,208,316	4,927,034	71,903,142
Mainland China	99,502	12,502,237	10,705,457	299,632	2,297,992
United States	122,093	5,877,070	5,774,995	147,153	1,360,777
Singapore	254,147	23,224,884	22,948,195	396,017	22,944,961
Others	44,845	1,939,101	1,895,252	61,687	2,309,279
Inter-segment items	4	(14,421,817)	(13,051,452)	(510)	–
	<u>2,601,446</u>	<u>282,534,968</u>	<u>258,480,763</u>	<u>5,831,013</u>	<u>100,816,151</u>
2014					
	Profit before taxation <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Operating income <i>HK\$'000</i>	Contingent liabilities and commitments <i>HK\$'000</i>
Hong Kong	3,016,222	227,842,192	206,440,191	5,165,917	70,727,803
Mainland China	105,014	16,034,172	14,172,138	382,721	4,026,303
United States	944	5,161,545	5,109,847	114,818	730,180
Singapore	211,225	17,643,601	17,415,840	302,955	16,673,743
Others	39,646	1,745,167	1,723,713	38,455	2,230,897
Inter-segment items	1,358	(19,285,806)	(17,972,207)	1,061	–
	<u>3,374,409</u>	<u>249,140,871</u>	<u>226,889,522</u>	<u>6,005,927</u>	<u>94,388,926</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

(A) CAPITAL INFORMATION AVAILABLE ON THE BANK'S WEBSITE

For the purposes of compliance with Banking (Disclosure) Rules, information relating to the Group's regulatory capital and other disclosures 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.

(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.

	2015 HK\$'000	2014 HK\$'000
Common Equity Tier 1 ("CET1") capital instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	7,566,271	7,566,271
Retained earnings	13,878,124	11,895,973
Disclosed reserves	299,644	478,938
CET1 capital before regulatory deductions	21,744,039	19,941,182
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	36,312	27,788
Gains and losses due to changes in own credit risk on fair valued liabilities	(264,986)	(255,928)
Cumulative fair value gains arising from the revaluation of land and buildings	111,327	108,282
Regulatory reserve for general banking risks	2,571,972	2,172,126
Debt valuation adjustments in respect of derivative contracts	3,127	5,536
Total regulatory deductions to CET1 capital	2,457,752	2,057,804
CET1 capital	19,286,287	17,883,378
Additional Tier 1 ("AT1") capital		
Total AT1 capital	2,313,467	2,313,467
Tier 1 capital	21,599,754	20,196,845
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	6,657,912	7,277,935
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	50,097	48,727
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	2,110,287	1,942,736
Tier 2 capital base before deductions	8,818,296	9,269,398
Tier 2 capital: regulatory deductions		
Total regulatory deductions to Tier 2 capital	—	—
Tier 2 capital	8,818,296	9,269,398
Total capital	30,418,050	29,466,243

(ii) **Risk-weighted assets**

	2015 HK\$'000	2014 HK\$'000
– Credit risk	169,230,743	156,635,831
– Market risk	4,659,900	4,913,000
– Operational risk	10,364,613	9,042,513
	184,255,256	170,591,344

(iii) **Capital adequacy ratios**

	2015	2014
– CET1 capital ratio	10.5%	10.5%
– Tier 1 capital ratio	11.7%	11.8%
– Total capital ratio	16.5%	17.3%

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

In accordance with the Banking (Capital) Rules, the capital conservation buffer ratio is 0% for 2015. Moreover, the countercyclical capital buffer (“CCyB”) ratio and the applicable JCCyB ratios (meaning the capital buffer levels as announced by regulatory authorities of relevant jurisdictions for the purpose of implementing the CCyB under Basel III) for Hong Kong and non-Hong Kong jurisdictions respectively are 0% before 1 January 2016.

(v) **Capital instruments**

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

	2015 HK\$'000	2014 HK\$'000
CET 1 capital instruments issued by the Bank		
Ordinary shares:		
7,283,341,176 issued and fully paid ordinary shares	7,566,271	7,566,271
	2015 HK\$'000	2014 HK\$'000
Additional Tier 1 Capital Securities		
Undated non-cumulative subordinated capital securities with US\$300 million	2,310,168	2,310,168
	2015 HK\$'000	2014 HK\$'000
Tier 2 capital instruments		
Issued by the Bank		
– Subordinated note due 2020 (nominal value: US\$500 million)	4,132,209	4,150,696
– Subordinated note due 2022 (nominal value: US\$300 million)	2,306,392	2,291,268
– Subordinated note due 2024 (nominal value: US\$300 million)	2,327,616	2,312,444
	8,766,217	8,754,408

(vi) Leverage ratio

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

	2015	2014
Leverage ratio	7.3%	7.6%

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

(C) AVERAGE LIQUIDITY MAINTENANCE RATIO

	2015	2014
Average liquidity maintenance ratio for the year ended 31 December*	61.8%	N/A
Average liquidity ratio for the year ended 31 December*	N/A	64.9%

- * The Bank is required to disclose the average value of liquidity maintenance ratio ("LMR") for the reporting period concerned only in respect of those months that fall on or after 1 January 2015. The LMR is being calculated based on the arithmetic mean of the average value of its LMR for each month during the reporting period, which is also computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the Hong Kong Monetary Authority ("HKMA"). The LMR under Banking (Liquidity) Rules for the year ended 31 December 2015 is not directly comparable with the disclosure of average liquidity ratios for previous reporting period concerned that precede 1 January 2015. Comparative figure has not been provided where the current year is the first year of disclosure.

(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.

	2015		2014	
	% of gross loans and advances to customers covered by collateral		% of gross loans and advances to customers covered by collateral	
	Gross loans and advances to customers HK\$'000		Gross loans and advances to customers HK\$'000	
Industrial, commercial and financial				
– Property development	13,160,361	66	5,594,282	40
– Property investment	19,535,863	69	17,016,206	82
– Financial concerns	6,742,829	40	8,429,777	46
– Stockbrokers	3,511,763	45	771,179	51
– Wholesale and retail trade	17,915,876	79	16,727,330	85
– Manufacturing	7,493,445	35	7,167,172	46
– Transport and transport equipment	3,492,239	22	2,163,895	40
– Recreational activities	954,102	95	273,556	81
– Information technology	14,755	100	15,202	100
– Others	7,987,067	50	4,663,393	80
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	8,760	100	10,756	100
– Loans for the purchase of other residential properties	12,404,811	100	11,296,562	100
– Credit card advances	426,795	–	357,418	–
– Others	7,850,685	85	6,830,531	85
Gross loans and advances for use in Hong Kong	101,499,351	67	81,317,259	74
Trade finance	11,061,512	24	15,691,063	18
Gross loans and advances for use outside Hong Kong	57,308,875	43	53,711,824	38
Gross loans and advances to customers	169,869,738	56	150,720,146	55

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:

	2015				Impairment charged on income statement during the year HK\$'000
	Overdue loans and advances to customers HK\$'000	Impaired loans and advances to customers HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000	
Property investment	33,267	30,297	–	2,755	805
Wholesale and retail trade	183,784	162,104	47,931	89,632	147,575
Gross loans and advances for use outside Hong Kong	471,315	425,472	65,451	162,470	42,676
	<u>688,366</u>	<u>617,873</u>	<u>113,382</u>	<u>254,857</u>	<u>191,056</u>
2014					
	Overdue loans and advances to customers HK\$'000	Impaired loans and advances to customers HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000	Impairment charged to/ (written back) on income statement during the year HK\$'000
Property investment	8,278	11,601	–	1,128	780
Wholesale and retail trade	3,048	3,048	743	56,097	15,377
Trade finance	128,344	150,865	61,715	35,270	(2,401)
Gross loans and advances for use outside Hong Kong	579,992	412,503	92,561	169,997	98,721
	<u>719,662</u>	<u>578,017</u>	<u>155,019</u>	<u>262,492</u>	<u>112,477</u>

By geographical areas

	Loans and advances to customers HK\$'000	Overdue loans and advances to customers HK\$'000	2015 Impaired loans and advances to customers HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000
Hong Kong	86,650,263	237,088	1,068,869	214,739	169,661
Mainland China	54,285,267	445,244	229,450	55,424	132,566
United States	2,506,895	67,850	68,722	24,011	2,123
Singapore	12,325,345	–	–	–	69,809
Others	14,101,968	29,238	139,644	2,558	25,217
	169,869,738	779,420	1,506,685	296,732	399,376
	Loans and advances to customers HK\$'000	Overdue loans and advances to customers HK\$'000	2014 Impaired loans and advances to customers HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000
Hong Kong	78,018,916	298,667	402,842	67,166	153,841
Mainland China	50,439,354	538,048	301,405	93,692	147,056
United States	1,485,746	–	–	–	5,075
Singapore	10,826,984	–	–	–	40,176
Others	9,949,146	7,406	7,391	3,022	27,516
	150,720,146	844,121	711,638	163,880	373,664

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.

(E) OVERDUE ASSETS**Overdue loans and advances to customers**

	2015	% of total loans and advances to customers	2014	% of total loans and advances to customers
	HK\$'000		HK\$'000	
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	300,763	0.18	357,292	0.24
– 1 year or less but over 6 months	155,289	0.09	276,202	0.18
– over 1 year	323,368	0.19	210,627	0.14
	<u>779,420</u>	<u>0.46</u>	<u>844,121</u>	<u>0.56</u>
Secured overdue loans and advances	503,026		618,750	
Unsecured overdue loans and advances	276,394		225,371	
	<u>779,420</u>		<u>844,121</u>	
Market value of collateral held against the secured overdue loans and advances	895,993		722,497	
Individual impairment allowances made	<u>120,281</u>		<u>152,749</u>	

Loans and advances with specific repayment dates are classified as overdue when the principal or interest is overdue and remains unpaid at the year end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Eligible collateral, which is held in respect of the overdue loans and advances, is 'Eligible Physical Collateral' which mainly comprises real estate properties. The eligible collateral should generally satisfy the following:

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

There were no advances to banks and other financial institutions which were overdue for over three months at 31 December 2015 and 2014.

(F) RESCHEDULED LOANS

	2015	% of total loans and advances to customers	2014	% of total loans and advances to customers
	HK\$'000		HK\$'000	
Rescheduled loans	<u>12,390</u>	<u>0.01</u>	<u>659,530</u>	<u>0.44</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 2015 and 2014.

(G) REPOSSESSED ASSETS

	2015 HK\$'000	2014 HK\$'000
Included in loans and advances to customers and other accounts	136,267	27,667

The amount represents the estimated market value of the repossessed assets at 31 December 2015.

(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.

International claims as required by the HKMA in 2015 mainly involved changes of reporting basis and the categorisation on the types of counterparties, and accordingly the disclosures reported for the year of 2014 were not directly comparable.

	2015				
	Non-bank private sector				
	Banks	Official Sector	Non-bank	Non-financial	Total
	HK\$'000	HK\$'000	financial	private sector	HK\$'000
			institutions		
			HK\$'000	HK\$'000	
Developed countries	9,182,883	7,470,058	481,653	3,171,510	20,306,104
Offshore centres	9,036,668	723	5,669,452	50,694,275	65,401,118
of which Hong Kong	6,603,086	156	5,189,936	26,955,846	38,749,024
Developing Asia-Pacific	54,758,834	243,011	7,810,185	30,989,466	93,801,496
of which mainland China	49,280,348	90,394	7,810,185	29,342,270	86,523,197

(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. Comparative figures for the year ended 31 December 2014 have been restated to align with current year's disclosure and the HKMA's requirements.

	On-statement of financial position exposure HK\$'000	2015 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)	14,129,810	316,538	14,446,348
(2) Local governments, local government-owned entities and their subsidiaries and JVs	12,481,333	448,074	12,929,407
(3) PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	52,634,229	6,568,815	59,203,044
(4) Other entities of central government not reported in item 1 above	2,429,786	191,868	2,621,654
(5) Other entities of local governments not reported in item 2 above	444,713	–	444,713
(6) PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	13,213,268	2,343,688	15,556,956
(7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	26,567,839	2,165,634	28,733,473
Total	121,900,978	12,034,617	133,935,595
Total assets after provision	282,534,968		
On-balance sheet exposures as percentage of total assets	43.1%		

	On-statement of financial position exposure HK\$'000	2014 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)	9,940,072	652,725	10,592,797
(2) Local governments, local government-owned entities and their subsidiaries and JVs	10,327,287	218,071	10,545,358
(3) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	43,787,342	7,909,177	51,696,519
(4) Other entities of central government not reported in item 1 above	1,264,173	50,000	1,314,173
(5) Other entities of local governments not reported in item 2 above	347,946	–	347,946
(6) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	12,267,824	2,151,472	14,419,296
(7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	15,975,333	1,624,931	17,600,264
Total	93,909,977	12,606,376	106,516,353
Total assets after provision	249,140,871		
On-balance sheet exposures as percentage of total assets	37.7%		

REPORT OF THE CHIEF EXECUTIVE OFFICER

2015 was a year fraught with challenges. The market risks emerging around late 2014 continued to escalate, making it challenging for **China CITIC Bank International Limited ("CNCBI") and its subsidiaries** (together "the Group") to sustain growth record. Compared with the strong performance of 2014, last year's results were weaker but remained satisfactory. The Group's operating income at HK\$5.83 billion for the twelve months ended 31 December 2015 was down 2.9% against the corresponding period a year ago. Although profit attributable to shareholders declined by 22.6% year-on-year to HK\$2.17 billion, it was still the second highest recorded in the Group's history.

The Group had experienced rapid growth for two consecutive years in 2013 and 2014. However, lingering weakness in the macroeconomic environment adversely affected loan demand, compressed net interest margin and increased credit risk, resulting in lower profitability for 2015. Nonetheless, on the positive side, the Group continued to achieve healthy growth in the balance sheet and sustained upgrade in the IT infrastructure. A challenging environment was also positive in that it encouraged us to proactively reflect on our existing business model and develop new thinking that can be applied to our future operations. A closer link with China CITIC Bank (CNCB), coupled with opportunities brought about by China's economic and financial reforms, is expected to propel the Group into a new stage of development.

Operating Environment

Global economic growth was losing momentum last year, while market sentiment was rather gloomy. Based on World Bank's estimates, world GDP growth slowed from 2.6% in 2014 to 2.4% in 2015. Although the US economy remained one of the few consistently bright spots, a modest recovery in other major developed countries was offset by a further slowdown in key emerging and developing countries, resulting in weaknesses in commodity prices, global trade and capital flows.

China's GDP growth also continued to decelerate to 6.9% in 2015 from 7.7% and 7.3% in 2013 and 2014 respectively. Owing to the problem of excess capacity, the trade and manufacturing sectors slowed down significantly. As far as the banking sector was concerned, this not only affected loan demand but also increased credit risk. With a potential rise in non-performing loans, banks would have to be vigilant, undertaking timely evaluation of asset quality and regular reviews of borrowers' creditworthiness.

In response to economic sluggishness, the Chinese government adopted a series of stimulus measures including, inter alia, reductions in the reserve requirement ratio and interest rates. Since November 2014, the People's Bank of China ("PBoC") has cut rates six times, resulting in a cumulative 165 basis point reduction in the benchmark lending rate to 4.35% and a cumulative 150 basis point reduction in the benchmark deposit rate to 1.50%. Together with persistently higher offshore RMB deposit cost, this led to a decrease and even a reversal in the onshore-offshore interest spread, putting pressure on both the demand for RMB financing and loan yields.

Moreover, while a multi-year appreciation of the RMB exchange rate had already started to give way to two-way fluctuations, the PBoC's decision to change its daily rate fixing mechanism last August triggered a noticeable downward adjustment to the value of the yuan against the US dollar, increased pressure on the RMB exchange rate and fuelled expectations of further devaluation ahead. Consequently, many companies opted to retire their foreign currency debts earlier, hurting banks' net interest income. In addition, treasury income earned from products that were anchored in expectations of a sustained rise in the value of the yuan was also seriously affected.

Financial Performance

The Group's operating income in 2015 decreased slightly by 2.9% to HK\$5.83 billion. While profit after impairment was down 22.9% to HK\$2.60 billion, profit attributable to shareholders declined by 22.6% to HK\$2.17 billion. Return on average assets was 0.83%, 36 basis points lower than the 1.19% of the previous year. Return on average shareholders' equity was 10.24%, compared with 14.86% in 2014.

It is noteworthy that the Group's overseas branches managed to achieve significant growth despite a difficult operating environment last year. Their aggregate profit after impairment soared by 118% year-on-year, accounting for 17% of the Group's total, compared with 6% in 2014.

The drop in operating income last year resulted from a substantial reduction in net interest income, which was down by HK\$740 million or 17.7% from a year earlier to HK\$3.42 billion. Although customer loans continued to grow with stable yields, there was a marked contraction in RMB interbank loans while yields were also sharply lower. As a result, overall net interest margin narrowed to 1.38% in 2015 from 1.84% a year ago.

On the other hand, non-interest income was an impressive redeeming feature, as it increased by HK\$560 million or 30.4% year-on-year to HK\$2.41 billion, partly offsetting the setback in net interest income. The growth was primarily attributed to a surge in loan fees and income derived from the sale of insurance and investment products.

Meanwhile, the Group invested heavily in technology and successfully reduced staff costs by 3%. Total operating expenses increased by only 4.5% year-on-year in 2015, while the cost-to-income ratio for the year was 44.0%.

Financial Position

As at the end of December 2015, total deposits amounted to HK\$231.07 billion, up 13.8% year-on-year. While deposit cost remained stable, the deposit structure improved on the back of sustained growth in retail deposits, which exceeded HK\$100 billion for the first time. Despite expectations of a weaker yuan, the Group's RMB deposit base continued to expand.

Meanwhile, total loans and total assets were up steadily. Customer loans remained stable throughout the first three quarters with a marked increase in Q4. As at end-2015, there was a healthy 12.7% year-on-year growth in customer loans to HK\$169.87 billion, with the loan-to-deposit ratio standing at 73.5%, whereas total assets also grew by 13.4% to HK\$282.53 billion.

Given potential deterioration in the credit environment, the Group adopted a more stringent loan classification policy. As a result, impaired loan ratio increased by 41 basis points from end-2014 to 0.89%.

The Group remained well capitalized, with its capital ratios staying above regulatory requirements. As at end-2015, total capital adequacy ratio stood at 16.50%, down 77 basis points from a year ago, and common equity tier 1 capital ratio was 10.50%, slightly up 2 basis points. Moreover, the average consolidated liquidity maintenance ratio at 61.8% was sufficiently high as a buffer against any unexpected changes in the funding environment.

Business Review

Wholesale and cross-border banking business continued to explore new business models in light of deteriorating economic conditions and increasing difficulties facing the banking industry. A significant breakthrough in cross-border business was achieved with closer collaboration with CNCB and CITIC Group to take advantage of the Chinese government's key strategic policy initiatives, such as developing "One Belt, One Road", encouraging Chinese enterprises to "Go Global" and establishing four major free-trade zones. Strong emphasis was laid on dealing with major corporations, key industries and large-scale projects as we attempted to grow assets without compromising on asset quality. Besides, the potential and capability of the overseas branches in Singapore, the US and Macau were fully leveraged, with good performances in loan growth, deposit growth, product innovation and operating income. Moreover, the Bank was quick to seize the business opportunities arising from market changes. The Bank responded to clients' increasing demand for financial products to cope with volatility in interest rates and exchange rates by offering solutions to hedge against market risks. As at end-2015, WBG's cross-border loan amounted to HK\$128.86 billion, up 15.6% from a year ago, while audited income in 2015 grew 12.0% year-on-year to HK\$3.48 billion.

Retail banking business continued to grow well, with breakthrough achieved in customer deposits, cross-border business and e-banking business. Last October was a historic moment when customer deposits surpassed HK\$100 billion. Meanwhile, "Diamond Wealth Management" was launched in late March last year to satisfy the demand of high-end customers for cross-border wealth management services, signifying a milestone for collaboration with CNCB in servicing these customers. In addition, CNCBI was the first bank in Hong Kong to cooperate with Tencent to implement the account-binding function on WeChat and to settle payment for travel insurance via WeChat Pay. It was also the first bank in Hong Kong to provide customers with access to their account information by fingerprint authentication on mobile phones, which has expedited the log-in process. These two innovations have greatly enhanced customer experience and the leading position of CNCBI in mobile e-banking business. As at end-2015, personal and business banking customer deposits amounted to HK\$102.60 billion, up 16.5% from a year ago, while audited income for the year rose by 9.1% to HK\$1.99 billion.

Risk Management and Internal Control

The Audit Committee and the Credit and Risk Management Committee delegated by the Board oversee risk management and internal control of the Group. The Board delegated committees are led by experienced and independent directors. The Group strives to reinforce the risk management infrastructure, tools and practices. The Risk Appetite Framework was further enhanced and recalibrated to fine-tune the risk level scale, risk weights and risk indicator composition. Furthermore, comprehensive Bank-wide stress testing, capital management strategy and liquidity management initiatives continue to be enhanced.

For credit risk management, the Group continued to adopt the best risk management practices by focusing on conducting rigorous risk assessments and credit approval, proactively managing and reviewing the loan portfolios, formulating prudent investment strategies and strengthening capital and liquidity management as befits the Group's risk appetite. Furthermore, the Group has endeavored to optimize the customer mix. The business will be focused on targeting low-risk and strategic key customers, including cross-border collaboration customers, strategic customers referred by the parent bank and CITIC Group, state-owned enterprises and central government-owned enterprises. Meanwhile, in addition to the existing credit assessment framework, the Group is committed to reinforcing and strengthening the current risk assessment to intensify in-depth evaluation and assessment of cash flow position, loan purpose and industry prospects of the borrowers. The Group adopts a prudent provisioning policy and so the year-end impairment was increased by HK\$0.49 billion in 2015. On the basis of the existing customer credit assessment, the Group will give serious consideration to potential risk outlook in order to strengthen the resilience to prepare against uncertainty and volatility in the future.

The external environment becomes increasingly complex and volatile. Foreign exchange and interest rate risks associated with the cross-border business have been significantly increased. Market risk management continues to play an important role. Clear risk limits have been set within a robust management framework, whereby these limits are monitored daily, stress tests are conducted periodically and close tracking is performed whenever unusual events occur in the market. Further investigation will be conducted in a timely manner, with appropriate measures to be implemented.

As a compliance culture is the cornerstone for a bank to grow its profits and expand its business, the Group promotes one that is customer-centric, which creates value for customers and fosters win-win relationships between customers and the Bank, and instills such culture in the minds and body of staff.

Moreover, the Group attaches great importance to operational risk management, as it fully understands that the prevention of operational incidents is crucial to clients' own interests and CNCBI's reputation. Although the number of incidents has remained at a low level during the year, the Group will continue to boost its operational risk culture and strengthen internal control practices.

Human Resources Development

Total headcount increased from 1,836 in 2014 to 1,920 in 2015 in order to strengthen internal control functions and support the roll-out of "Rose Garden" projects, which are bankwide IT infrastructure transformation initiatives. Due to RMB depreciation and the dampened global economic outlook, the Group experienced a challenging year in meeting financial targets. Many front-line and support staff walked an extra mile to bring in the results. Furthermore, the regulatory environment continued to tighten and place huge demand on management and staff alike. Amidst external challenges, the drive to upgrade the IT infrastructure and core systems of CNCBI put much pressure on IT and user employees. It was a time when staff stability, strong teamwork, and personal dedication became crucial to the successful delivery of results.

Various staff retention and engagement initiatives, spanning from awarding generous bonus to offering welfare and recreation programmes were deployed to retain and motivate staff. The Group engaged Towers Watson to conduct a comprehensive review of the Total Remuneration System, resulting in several enhancement recommendations which subsequently were approved by the Remuneration Committee. Related recommendations would be implemented in 2016.

On people development, the Group continued to provide targeted and structured workshops to enhance the overall competence and professional standards of staff. During the year, the Effective People Manager Programme was further enriched and leadership development workshops were conducted. An average of 5 training days per staff was maintained.

Armed with a solid pool of capable and willing staff, the Group will be able to weather the challenges in 2016.

Outlook

Looking ahead, the external environment in 2016 is expected to remain challenging and the multiple headwinds prevailing last year are unlikely to subside. The growth momentum of the global economy is expected to pick up only modestly, with the US looking more robust in comparison to the Eurozone and Japan amongst developed countries. However, the downside risks to global growth should not be overlooked, given that a collapse in oil prices and the turbulence in financial markets at the beginning of the year have caused more uncertainties. Near-term global economic prospects also hinge on how the monetary policy in the US will evolve following its first interest-rate hike in December last year after a prolonged period of quantitative easing.

Meanwhile, China's economy is expected to slow down further this year and remain under pressure. Against this backdrop, the Chinese government has to continue to perform delicate balancing acts between stabilizing economic growth and implementing structural reforms, and between providing monetary stimulus and precluding undue pressure on the RMB exchange rate. While interest-rate and currency movements in the foreseeable future may not be favourable for banking operations, the Chinese government is managing a transition in the economy from being heavily investment-led to being more driven by domestic consumption of goods and services. This can create new business opportunities for the financial sector ahead. We therefore remain cautiously optimistic about the sector's prospects.

Admittedly the banking industry itself is undergoing major changes. Volatility in the macroeconomic environment renders conventional banking operations less profitable and calls for a more dynamic business model which can accommodate the changing financial needs of corporations and individuals alike. It is encouraging that the Group is committed to building up new core competitive advantages, namely collaboration with CNCB in cross-border businesses, innovation in products and services, enhancement of risk management and embrace of modern information technology. These core competitive advantages can form a firm foundation for the Group to achieve a successful transformation and breakthrough in its business in the face of a different operating environment.

First, as CNCB has assumed full ownership of the Group, more comprehensive collaboration is in store. In addition to making customer and business referrals, the Group and parent bank will join hands in other areas, such as strengthening complementary client servicing, developing cross-border products and services, strengthening risk management and effecting compatibility of IT systems, with a view to achieving a win-win for both sides. In tune with CNCB's strategic intent to become "the world's best integrated financial services provider", the Group, by coordinating the development of its overseas branch network, will amply fulfil its role as parent bank's offshore platform, striving to become "the best overseas integrated financial services provider" and contribute to CNCB's global expansion.

Second, the Group has been promoting product innovation to cope with changing circumstances. We aim to reduce reliance on traditional commercial loans which demand aggressive build-up of assets and heavy capital requirement. Instead, more focus will be given to the development of structured financing products related to capital market activities. As the Chinese government's "Go Global" and "One Belt, One Road" initiatives have encouraged Chinese corporations to expand abroad, the Group will take advantage of this trend by offering effective financial solutions to facilitate mainland companies' increasing involvement in mergers and acquisitions. Meanwhile, we will continue to develop new treasury products that can help both corporate and retail clients to manage and hedge against interest-rate and currency fluctuations, and wealth management products that can help clients to make progress in global asset allocation and enjoy improved investment returns.

Enhancing risk management, together with fostering a compliance culture, is yet another important aspect in bolstering the Group's core competitiveness. In view of an increasingly hostile risk environment, we have implemented more proactive risk management measures, putting more effort into measuring, monitoring and assessing risks. With respect to internal control, we emphasize a customer-centric approach to ensure high-quality customer services, effective deployment of resources, strict compliance in operations and strong business continuity.

Furthermore, the Group will continue to invest in new technology. While significant progress has been made in upgrading the IT infrastructure and core banking system, more specialized systems and improvement works are scheduled to come on stream this year. More importantly, we continue to spearhead the development of mobile banking and e-channels in a bid to boost customer experience and satisfaction, as well as enhancing service quality and efficiency. We firmly believe that sustained research and pursuit of new technology will become a decisive factor in the Group's survival and development against intense competition. It is also the only way to gain a unique competitive edge in cross-border financing business.

In conclusion, there are still more opportunities than challenges despite an economic downturn. 2016 will undoubtedly be a year for the Group to adjust its business model, revise its way of thinking on operations and strengthen its core competitiveness. It is our strong belief that a solid customer base of parent bank and a firm business foundation built over the past several years can help the Group brave the future, forge ahead and scale new heights.

Zhang Xiaowei

President & Chief Executive Officer

Hong Kong, 21 March 2016