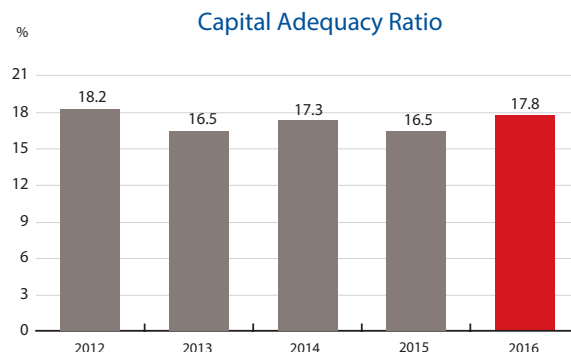
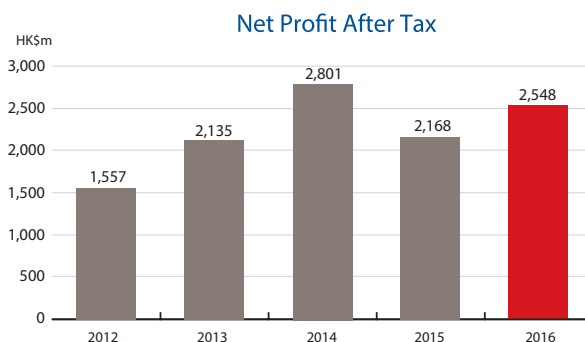


2016 Results Highlights

Financial Performance

- **Net profit after tax** was HK\$2.55 billion, up 17.5% year on year.
- **Operating profit after impairment** was HK\$3.04 billion, up 17.1%. The Group adopted a prudent loan provisioning policy with HK\$553 million of impairment made in 2016.
- **Operating income** increased by 10.0% to HK\$6.41 billion mainly due to a substantial 20.7% increase in **net interest income** to HK\$4.13 billion. Increase in net interest income was mainly due to strong **customer loan** growth of 8.2% to HK\$183.76 billion. Overall net interest margin increased to 1.48% from 1.38% in 2015 mainly due to decrease in customer deposits costs. **Total deposits** amounted to HK\$246.17 billion, up 6.5%.
- **Non-interest income** decreased by 5.3% to HK\$2.28 billion mainly due to reduced profit contribution from treasury-related activities.
- **Total assets** topped \$300 billion to reach HK\$306.42 billion, up 8.5%.
- **ROA** was up 4 basis points to 0.87%.
- **ROE** increased by 1 basis point to 10.25%.
- **Capital adequacy ratio** and **CET1 ratio** were above regulatory requirements at 17.75% and 10.81% respectively.



Core Businesses

- **Wholesale and cross-border banking business** achieved significant growth in the structured finance and syndication business in 2016. CNCB and CNCBI acted as global coordinators to complete a landmark financing facility in support of a Chinese enterprise to acquire an overseas company, which was the biggest ever overseas acquisition deal sealed by a mainland Chinese corporation and also the largest ever syndicated acquisition loan in Asia. Together with CNCB and CITIC Group, CNCBI introduced a new account aggregation service effected by host-to-host system connectivity to allow onshore companies to better manage the account activities of their subsidiaries in Hong Kong. Meanwhile, investments in overseas branches continued to increase. At end-2016, customer loans reached HK\$140.57 billion, up 9.1% from a year ago, while net interest income and non-interest income for 2016 grew by 12.7% and 19.8% year on year respectively to HK\$3.08 billion and HK\$892 million.
- **Retail banking business** achieved a 19.6% year-on-year increase in operating income, reaching a record high of HK\$2.38 billion for 2016. Customer deposits also reached a new high of HK\$113.91 billion at end-2016, up 11.0% versus end-2015. Private banking business experienced rapid growth due to close connection with branches of CNCB. Income from sale of insurance products continued to post excellent growth. Meanwhile, providing borderless banking services to clients remained a top priority. Strategic alliance with Tencent was further strengthened via the signing of a new agreement to benefit from WeChat marketing programmes. CNCBI was also the first bank in the market to offer WeChat peer-to-peer ("P2P") service via deposit account binding. The first business banking centre was opened in Central to provide a full range of banking services catering to the needs of business banking customers.
- **Treasury and markets group** achieved strong growth in investment income due to successful exploitation of interest-rate trends and trading opportunities. Bond investment-related income for 2016 increased significantly with interest income up by 29% while trading income surged by 3.6 times year on year. Global Markets team overcame the reliance on a single product by strengthening the sales of flow products and successfully launching effective solutions to cope with RMB depreciation. Debt capital markets business was launched in June 2016 and the team has already secured a good foundation despite fierce market competition by completing 13 deals in 2016.



CHINA CITIC BANK INTERNATIONAL LIMITED

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

ANNOUNCEMENT OF 2016 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 2016.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

(Expressed in Hong Kong dollars)

	2016 HK\$'000	2015 HK\$'000
Interest income	7,061,528	6,568,868
Interest expense	(2,932,702)	(3,148,559)
Net interest income	4,128,826	3,420,309
Fee and commission income	1,571,349	1,124,194
Fee and commission expense	(75,114)	(55,779)
Net fee and commission income	1,496,235	1,068,415
Net trading income	617,530	1,231,547
Net hedging gain	126	999
Net gain on disposal of available-for-sale securities	129,729	59,715
Other operating income	40,380	50,028
Operating income	6,412,826	5,831,013
Operating expenses	(2,816,189)	(2,564,206)
Operating profit before impairment	3,596,637	3,266,807
Impairment losses on loans and advances and other accounts	(552,959)	(667,677)
Operating profit	3,043,678	2,599,130
Net gain/(loss) on disposal of property and equipment	15	(730)
Revaluation gain on investment properties	9,546	3,046
Profit before taxation	3,053,239	2,601,446
Income tax	(504,998)	(433,239)
Profit for the year	2,548,241	2,168,207
Profit attributable to shareholders	2,548,241	2,168,207

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**For the year ended 31 December 2016***(Expressed in Hong Kong dollars)*

	2016 HK\$'000	2015 HK\$'000
Profit for the year	2,548,241	2,168,207
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	(93,590)	(98,176)
Cash flow hedges		
– effective portion of changes in fair value of hedging instruments recognised during the year	1,279	–
– transfer from deferred tax	(211)	–
	1,068	–
Available-for-sale securities		
– change in fair value	58,846	(58,804)
– transfer from income statement on disposal	(121,883)	(58,110)
– transfer to deferred tax	12,780	18,306
	(50,257)	(98,608)
Other comprehensive income for the year	(142,779)	(196,784)
Total comprehensive income for the year	2,405,462	1,971,423
Total comprehensive income attributable to shareholders	2,405,462	1,971,423

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**At 31 December 2016***(Expressed in Hong Kong dollars)*

	2016 HK\$'000	2015 <i>HK\$'000</i>
ASSETS		
Cash and balances with banks, central banks and other financial institutions	27,540,433	20,322,734
Placements with and advances to banks, central banks and other financial institutions	22,889,713	30,390,640
Trading assets	5,581,720	4,277,539
Loans and advances to customers and other accounts	191,286,538	173,479,925
Available-for-sale securities	58,204,271	53,151,487
Property and equipment		
– Investment properties	138,490	185,944
– Other premises	369,479	326,300
– Equipments	387,907	330,973
Tax recoverable	187	33,114
Deferred tax assets	18,217	36,312
Total Assets	306,416,955	282,534,968
LIABILITIES AND EQUITY		
Liabilities		
Deposits and balances of banks and other financial institutions	5,256,660	2,658,301
Deposits from customers	235,574,700	220,683,709
Trading liabilities	3,996,444	3,555,614
Certificates of deposit issued	10,593,445	10,388,272
Current taxation	195,405	61,910
Deferred tax liabilities	1,520	1,717
Other liabilities	10,138,928	12,365,023
Loan capital	8,705,837	8,766,217
Total Liabilities	274,462,939	258,480,763
Equity		
Share capital	9,366,271	7,566,271
Reserves	16,414,493	14,177,766
Additional equity instruments	6,173,252	2,310,168
Total Equity	31,954,016	24,054,205
Total Equity and Liabilities	306,416,955	282,534,968

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(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>	Cash flow hedging 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 2016	7,566,271	6,589	100,000	(622)	55	-	(11,718)	58,943	149,500	13,875,019	14,177,766	2,310,168	24,054,205
Changes in equity for 2016:													
Profit for the year	-	-	-	-	-	-	-	-	-	2,548,241	2,548,241	-	2,548,241
Other comprehensive income for the year	-	-	-	(93,590)	-	1,068	(50,257)	-	-	-	(142,779)	-	(142,779)
Total comprehensive income for the year	-	-	-	(93,590)	-	1,068	(50,257)	-	-	2,548,241	2,405,462	-	2,405,462
Issue and allotment of shares	1,800,000	-	-	-	-	-	-	-	-	-	-	-	1,800,000
Issue of Additional Tier 1 Capital Securities ("AT 1 Capital Securities")	-	-	-	-	-	-	-	-	-	-	-	3,863,084	3,863,084
Distribution payment for AT 1 Capital Securities	-	-	-	-	-	-	-	-	-	-	-	(168,735)	(168,735)
Transfer from retained profits	-	-	-	-	-	-	-	(5,098)	-	(163,637)	(168,735)	168,735	-
At 31 December 2016	<u>9,366,271</u>	<u>6,589</u>	<u>100,000</u>	<u>(94,212)</u>	<u>55</u>	<u>1,068</u>	<u>(61,975)</u>	<u>53,845</u>	<u>149,500</u>	<u>16,259,623</u>	<u>16,414,493</u>	<u>6,173,252</u>	<u>31,954,016</u>
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 AT 1 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>6,589</u>	<u>100,000</u>	<u>(622)</u>	<u>55</u>	<u>-</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>

CONSOLIDATED CASH FLOW STATEMENT**For the year ended 31 December 2016***(Expressed in Hong Kong dollars)*

	2016 HK\$'000	2015 HK\$'000
Operating activities		
Profit before taxation	3,053,239	2,601,446
Adjustments for non-cash items:		
Impairment losses on loans and advances and other accounts	552,959	667,677
Net gain on disposal of available-for-sale securities	(129,729)	(59,715)
Net loss on disposal of property and equipment	(15)	730
Revaluation gain on investment properties	(9,546)	(3,046)
Amortisation of deferred expenses	36,571	121,632
Depreciation on property and equipment	150,220	135,135
Dividend income from equity securities	(6,098)	(6,294)
Interest expense on loan capital	504,064	503,309
Foreign exchange differences	(107,715)	(373,269)
Operating profit before changes in working capital	4,043,950	3,587,605
(Increase)/decrease in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	3,096,013	(42,678)
Treasury bills with original maturity beyond 3 months	5,851,710	(7,875,416)
Certificates of deposit held with original maturity beyond 3 months	(4,081,411)	(7,651,121)
Trading assets	(1,304,181)	(986,206)
Loans and advances to customers and other accounts	(18,412,937)	(20,483,681)
Available-for-sale securities	(6,746,042)	(8,111,502)
	(21,596,848)	(45,150,604)
Increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	2,598,359	(1,471,100)
Deposits from customers	14,883,011	31,742,004
Trading liabilities	440,830	580,807
Certificates of deposit issued	201,380	(3,509,246)
Other liabilities	(2,298,988)	4,597,056
	15,824,592	31,939,521
Cash used in operating activities	(1,728,306)	(9,623,478)
Income tax paid		
Hong Kong Profits Tax paid	(197,426)	(389,223)
Overseas tax paid	(62,553)	(52,565)
Net cash flow used in operating activities	(1,988,285)	(10,065,266)

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Net cash flow used in operating activities	(1,988,285)	(10,065,266)
Cash flow generated from/(used in) investing activities		
Dividends received from equity securities	6,098	6,294
Purchase of property and equipment	(193,912)	(118,486)
Proceeds from disposal of property and equipment	100	63
Net cash used in investing activities	(187,714)	(112,129)
Cash flow generated from/(used in) financing activities		
Proceeds from shares issued	1,800,000	–
Proceeds from Additional Tier 1 Capital Securities issued	3,863,084	–
Distribution paid on Additional Tier 1 Capital Securities	(168,735)	(168,567)
Interest paid on loan capital	(496,495)	(496,115)
Net cash generated from/(used in) financing activities	4,997,854	(664,682)
Net increase/(decrease) in cash and cash equivalents	2,821,855	(10,842,077)
Cash and cash equivalents at 1 January	51,695,416	62,537,493
Cash and cash equivalents at 31 December	54,517,271	51,695,416
Analysis of the balances of cash and cash equivalents		
Cash and balances with banks, central banks and other financial institutions	26,458,664	19,497,229
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	18,304,676	22,453,326
Treasury bills and certificates of deposit held with original maturity within 3 months:		
– Available-for-sale securities	9,753,931	9,744,861
	54,517,271	51,695,416
Cash flows from operating activities include:		
Interest received	6,891,019	6,578,774
Interest paid	(2,599,419)	(2,847,156)

NOTES:

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The financial information relating to the financial year ended 31 December 2016 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 2016 comply with the Banking (Disclosure) Rules and will be available from the Bank's website and registered office.

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

The HKICPA has issued several amendments to HKFRSs that are first effective for the financial year beginning on or after 1 January 2016:

- Accounting for acquisition of interests in joint operations – Amendments to HKFRS 11
- Clarification of acceptable methods of depreciation and amortisation – Amendments to HKAS 16 and HKAS 38
- Annual improvements to HKFRSs 2012-2014 cycle, and
- Disclosure initiative – amendments to HKAS 1.

Amendments to HKFRSs or HKASs as stated above effective for the current accounting period of the Group do not have a material impact on the Group.

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

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

	2016 HK\$'000	2015 HK\$'000
Listed securities	327,449	209,114
Unlisted securities	613,429	481,089
Balances and placements with banks and other financial institutions	385,991	748,931
Advances and other accounts (<i>Note</i>)	5,734,659	5,129,734
Interest income on financial assets that are not at fair value through profit or loss	7,061,528	6,568,868

(b) Interest expense

	2016 HK\$'000	2015 HK\$'000
Deposits from customers, banks and other financial institutions and others	2,252,360	2,496,671
Certificates of deposit issued	176,278	148,579
Loan capital issued	504,064	503,309
Interest expense on financial liabilities that are not at fair value through profit or loss	2,932,702	3,148,559

Note:

Included in the above is interest income on impaired financial assets of HK\$42,133,000 (2015: HK\$19,435,000), which includes interest income on the unwinding of the discount on loan impairment losses of HK\$28,404,000 (2015: HK\$12,575,000) for the year ended 31 December 2016.

4 NET FEE AND COMMISSION INCOME

	2016 HK\$'000	2015 HK\$'000
Fee and commission income:		
Bills commission	117,530	116,360
Card-related income	28,807	31,172
General banking services	126,747	118,286
Insurance	542,598	314,895
Investment and structured investment products	94,600	150,913
Loans, overdrafts and facilities fees	660,355	391,955
Others	712	613
	<u>1,571,349</u>	<u>1,124,194</u>
Fee and commission expense	<u>(75,114)</u>	<u>(55,779)</u>
	<u>1,496,235</u>	<u>1,068,415</u>
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	806,692	539,487
– Fee and commission expense	<u>(21,584)</u>	<u>(16,898)</u>
	<u>785,108</u>	<u>522,589</u>

5 NET TRADING INCOME

	2016 HK\$'000	2015 HK\$'000
Gains less losses from dealing in foreign currencies	441,529	1,106,972
Gains less losses from trading securities	11,748	6,868
Gains less losses from derivatives	(17,493)	(70,911)
Interest income on trading assets	181,746	188,618
	<u>617,530</u>	<u>1,231,547</u>

6 NET HEDGING GAIN

	2016 HK\$'000	2015 HK\$'000
Net hedging (loss)/gain on fair value hedges		
– net gain on hedged items attributable to the hedged risk	40,836	27,141
– net loss on hedging instruments	<u>(40,872)</u>	<u>(26,142)</u>
	(36)	999
Net hedging gain on cash flow hedges	<u>162</u>	<u>–</u>
	<u>126</u>	<u>999</u>

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

	2016 HK\$'000	2015 HK\$'000
Net revaluation gain transferred from reserves	121,883	57,247
Net gain arising in current year	7,846	2,468
	<u>129,729</u>	<u>59,715</u>

8 OTHER OPERATING INCOME

	2016 HK\$'000	2015 HK\$'000
Dividend income from available-for-sale equity securities		
– Listed	198	394
– Unlisted	5,900	5,900
	<u>6,098</u>	<u>6,294</u>
Rental income from investment properties		
less direct outgoings of HK\$301,000 (2015: HK\$281,000)	6,842	7,242
Others	27,440	36,492
	<u>40,380</u>	<u>50,028</u>

9 OPERATING EXPENSES

	2016 HK\$'000	2015 HK\$'000
(a) Staff costs		
Salaries and other staff costs	1,663,335	1,409,925
Retirement costs	91,652	82,115
	<u>1,754,987</u>	<u>1,492,040</u>
(b) Depreciation		
Depreciation of property and equipment		
– Assets held for use under operating leases	19,423	19,503
– Other assets	130,797	115,632
	<u>150,220</u>	<u>135,135</u>
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)		
– Rental of properties	271,407	262,451
– Others	230,444	212,601
Auditor's remuneration	6,791	8,927
Advertising	56,596	64,586
Communication, printing and stationery	98,167	87,522
Legal and professional fees	49,186	34,016
Others	198,391	266,928
	<u>910,982</u>	<u>937,031</u>
Total operating expenses	<u>2,816,189</u>	<u>2,564,206</u>

10 IMPAIRMENT LOSSES ON LOANS AND ADVANCES AND OTHER ACCOUNTS

	2016 HK\$'000	2015 HK\$'000
Impairment losses charged		
– Loans and advances	354,489	468,602
– Other accounts	198,470	199,075
	<u>552,959</u>	<u>667,677</u>
Impairment losses on loans and advances and other accounts		
– Individual assessment	603,169	617,744
– Collective assessment	(50,210)	49,933
	<u>552,959</u>	<u>667,677</u>
of which:		
– Additions	735,692	804,004
– Releases	(139,875)	(106,019)
– Recoveries	(42,858)	(30,308)
	<u>552,959</u>	<u>667,677</u>

11 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	2016 HK\$'000	2015 HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	437,512	344,233
(Over)/under-provision in respect of prior years	(2,407)	61
	<u>435,105</u>	<u>344,294</u>
Current tax – Overseas		
Provision for the year	37,422	71,109
Under-provision in respect of prior years	1,925	6,656
	<u>39,347</u>	<u>77,765</u>
Deferred tax		
Origination of temporary differences	30,546	11,180
	<u>504,998</u>	<u>433,239</u>

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 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.

12 TRADING ASSETS

	2016 HK\$'000	2015 HK\$'000
Debt securities	1,321,751	212,827
Investment funds	1,078	1,489
Trading securities	1,322,829	214,316
Positive fair values of derivatives	4,258,891	4,063,223
	<u>5,581,720</u>	<u>4,277,539</u>
Issued by:		
Sovereigns	500	46,669
Banks and other financial institutions	1,153,365	84,969
Corporate entities	168,964	82,678
	<u>1,322,829</u>	<u>214,316</u>
Analysed by place of listing:		
Listed in Hong Kong	693,889	57,788
Listed outside Hong Kong	74,656	32,896
Unlisted	554,284	123,632
	<u>1,322,829</u>	<u>214,316</u>

13 LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

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

	2016 HK\$'000	2015 HK\$'000
Gross loans and advances to customers	183,764,241	169,869,738
Impairment allowances		
– Individually assessed	(627,498)	(296,732)
– Collectively assessed	(322,864)	(399,376)
	<u>182,813,879</u>	<u>169,173,630</u>
Accrued interest and other accounts	8,620,610	4,506,138
Impairment allowances		
– Individually assessed (<i>Note</i>)	(147,951)	(199,843)
	<u>8,472,659</u>	<u>4,306,295</u>
	<u>191,286,538</u>	<u>173,479,925</u>
Included in loans and advances to customers are:		
Trade bills	2,191,085	5,205,237
Impairment allowances		
– Individually assessed	–	(139)
– Collectively assessed	(1,762)	(690)
	<u>2,189,323</u>	<u>5,204,408</u>

Note:

In 2016, an impairment provision of HK\$147,182,000 (2015: HK\$199,075,000) was 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”).

	2016		2015	
	Gross loans and advances to customers HK\$'000	Impaired loans and advances to customers HK\$'000	Gross loans and advances to customers HK\$'000	Impaired loans and advances to customers HK\$'000
Industrial, commercial and financial				
– Property development	13,578,793	–	13,160,361	–
– Property investment	25,060,936	26,095	19,535,863	30,297
– Financial concerns	9,171,320	–	6,742,829	–
– Stockbrokers	3,131,047	–	3,511,763	–
– Wholesale and retail trade	17,002,524	110,678	17,915,876	162,104
– Manufacturing	10,063,497	3,769	7,493,445	10,472
– Transport and transport equipment	2,946,243	–	3,492,239	2,325
– Recreational activities	1,205,638	–	954,102	–
– Information technology	3,451,364	–	14,755	–
– Others	9,831,651	249,577	7,987,067	249,305
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	11,464	–	8,760	–
– Loans for the purchase of other residential properties	13,407,510	23,517	12,404,811	4,788
– Credit card advances	445,821	550	426,795	439
– Others	8,304,307	21,245	7,850,685	16,204
Gross loans and advances for use in Hong Kong	117,612,115	435,431	101,499,351	475,934
Trade finance	10,644,560	683,469	11,061,512	605,279
Gross loans and advances for use outside Hong Kong	55,507,566	647,766	57,308,875	425,472
Gross loans and advances to customers	<u>183,764,241</u>	<u>1,766,666</u>	<u>169,869,738</u>	<u>1,506,685</u>

(c) Impaired loans and advances to customers

	2016 HK\$'000	2015 HK\$'000
Gross impaired loans and advances to customers	1,766,666	1,506,685
Impairment allowances – Individually assessed	(627,498)	(296,732)
	<u>1,139,168</u>	<u>1,209,953</u>
Gross impaired loans and advances as a % of total loans and advances to customers	<u>0.96%</u>	<u>0.89%</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\$578,847,000 (2015: HK\$433,215,000) of the Group. This collateral mainly comprised mortgage interest over residential or commercial properties and cash with the Group.

14 AVAILABLE-FOR-SALE SECURITIES

	2016 HK\$'000	2015 HK\$'000
Certificates of deposit held	15,922,277	12,375,180
Debt securities	29,074,574	22,261,330
Treasury bills (including Exchange Fund Bills)	13,111,688	18,420,015
Equity securities	95,732	94,962
	58,204,271	53,151,487
Issued by:		
Sovereigns	14,664,781	19,381,998
Banks and other financial institutions	33,673,029	26,391,962
Corporate entities	7,812,716	7,377,527
Public entities	2,053,745	–
	58,204,271	53,151,487
Analysed by place of listing:		
Listed in Hong Kong	7,174,894	5,209,473
Listed outside Hong Kong	7,190,902	5,215,093
Unlisted	43,838,475	42,726,921
	58,204,271	53,151,487
Fair value of individually impaired debt securities	27,631	91,364

15 CAPITAL AND RESERVES

(a) Share capital

(i) Ordinary shares, issued and fully paid:

	2016		2015	
	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	7,566,271
Shares issued during the year (<i>Note a (ii)</i>)	1,800,000,000	1,800,000	–	–
At 31 December	9,083,341,176	9,366,271	7,283,341,176	7,566,271

(ii) Shares issued during the year

The Bank issued a total of 1,800,000,000 ordinary shares at HK\$1.00 each to its holding company, CITIC International Financial Holdings Limited on 26 January 2016 (2015: Nil).

(b) Reserves

	2016 HK\$'000	2015 HK\$'000
Capital reserve	6,589	6,589
General reserve	100,000	100,000
Exchange differences reserve	(94,212)	(622)
Property revaluation reserve	55	55
Cash flow hedging reserve	1,068	–
Investment revaluation reserve	(61,975)	(11,718)
Statutory reserve	53,845	58,943
Regulatory general reserve	149,500	149,500
Retained profits*	16,259,623	13,875,019
Total	16,414,493	14,177,766

* 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 2016, HK\$2,805,429,000 (2015: HK\$2,571,972,000) was included in the retained profits in this respect, which was distributable to equity holders of the Bank subject to consultation with the HKMA.

16 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:

	2016 HK\$'000	2015 HK\$'000
Direct credit substitutes	4,368,584	2,711,185
Transaction-related contingencies	535,590	606,593
Trade-related contingencies	2,767,669	1,770,553
Forward forward deposits placed	–	387,507
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	105,242,666	91,804,970
– with an original maturity of not more than 1 year	5,232,137	1,317,952
– with an original maturity of more than 1 year	3,761,125	2,217,391
	121,907,771	100,816,151
Credit risk-weighted amounts	5,205,562	2,889,596

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2015: 0% to 150%).

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 2016, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK\$429,000 (2015: profit of HK\$1,499,000) with a standard deviation of HK\$4,218,000 (2015: HK\$4,731,000).

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

Equivalent in HK\$'000	2016			
	USD	RMB	Others	Total
Spot assets	114,088,679	22,567,587	21,109,286	157,765,552
Spot liabilities	(100,045,764)	(23,601,752)	(18,447,495)	(142,095,011)
Forward purchases	136,317,842	82,003,097	22,741,690	241,062,629
Forward sales	(147,252,316)	(81,995,171)	(25,026,979)	(254,274,466)
Net options position	(1,864,206)	2,126,441	(281,536)	(19,301)
Net long position	1,244,235	1,100,202	94,966	2,439,403
Net structural position	–	668,583	48,530	717,113
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

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

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 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

	2016				
	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/(expenses)	3,080,961	1,592,121	(612,425)	68,169	4,128,826
Other operating income/(expense)	872,446	789,951	543,317	(51,443)	2,154,271
Net gain on disposal of available-for-sale securities	19,155	–	110,574	–	129,729
Operating income	3,972,562	2,382,072	41,466	16,726	6,412,826
Operating expenses	(519,982)	(705,162)	(91,794)	(1,499,251)	(2,816,189)
Inter-segment (expenses)/income	(434,956)	(678,908)	(138,239)	1,252,103	–
Operating profit/(loss) before impairment	3,017,624	998,002	(188,567)	(230,422)	3,596,637
Impairment losses (charged)/written back on loans and advances and other accounts	(321,918)	(33,395)	(198,470)	824	(552,959)
Operating profit/(loss)	2,695,706	964,607	(387,037)	(229,598)	3,043,678
Net (loss)/gain on disposal of property and equipment	(22)	(62)	–	99	15
Revaluation gain on investment properties	–	–	–	9,546	9,546
Profit/(loss) before taxation	2,695,684	964,545	(387,037)	(219,953)	3,053,239
Income tax	–	–	–	(504,998)	(504,998)
Profit/(loss) for the year	2,695,684	964,545	(387,037)	(724,951)	2,548,241
Other segment items:					
Depreciation	11,263	18,732	495	119,730	150,220
Segment assets	157,373,422	43,454,369	126,017,263	(20,428,099)	306,416,955
Segment liabilities	151,281,845	120,341,297	24,246,000	(21,406,203)	274,462,939
Capital expenditure incurred during the year	9,276	17,669	3,650	163,317	193,912

	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	<u>2,209,818</u>	<u>771,064</u>	<u>(140,979)</u>	<u>(671,696)</u>	<u>2,168,207</u>
Other segment items:					
Depreciation	<u>16,283</u>	<u>21,449</u>	<u>323</u>	<u>97,080</u>	<u>135,135</u>
Segment assets	<u>142,886,647</u>	<u>41,393,989</u>	<u>114,204,905</u>	<u>(15,950,573)</u>	<u>282,534,968</u>
Segment liabilities	<u>144,383,771</u>	<u>108,699,516</u>	<u>22,794,559</u>	<u>(17,397,083)</u>	<u>258,480,763</u>
Capital expenditure incurred during the year	<u>6,884</u>	<u>28,637</u>	<u>1,304</u>	<u>81,661</u>	<u>118,486</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.

	2016				
	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Operating income/ (expenses) HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	2,766,150	286,012,805	254,868,685	5,728,199	85,365,815
Mainland China	(66,184)	12,704,912	11,103,444	212,615	2,106,058
United States	219,745	9,862,043	9,641,057	257,558	1,701,100
Singapore	86,651	17,215,939	17,114,713	141,716	29,873,335
Others	46,873	2,662,933	2,612,354	73,096	2,861,463
Inter-segment items	4	(22,041,677)	(20,877,314)	(358)	–
	3,053,239	306,416,955	274,462,939	6,412,826	121,907,771

	2015				
	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Operating income/ (expenses) HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	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)	–
	2,601,446	282,534,968	258,480,763	5,831,013	100,816,151

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 with 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.

	2016 HK\$'000	2015 HK\$'000
Common Equity Tier 1 ("CET1") capital instruments and reserves		
Directly issued qualifying CET1 capital instruments		
plus any related share premium	9,366,271	7,566,271
Retained earnings	16,259,623	13,878,124
Disclosed reserves	154,870	299,644
CET1 capital before regulatory deductions	25,780,764	21,744,039
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	18,217	36,312
Cash flow hedging reserve	1,068	–
Gains and losses due to changes in own credit risk on fair valued liabilities	–	(264,986)
Cumulative fair value gains arising from the revaluation of land and buildings (own use and investment properties)	87,873	111,327
Regulatory reserve for general banking risks	2,805,429	2,571,972
Valuation adjustments	7,013	–
Debt valuation adjustments in respect of derivative contracts	1,878	3,127
Total regulatory deductions to CET1 capital	2,921,478	2,457,752
CET1 capital	22,859,286	19,286,287
Additional Tier 1 ("AT1") capital		
Total AT1 capital	6,177,015	2,313,467
Tier 1 capital	29,036,301	21,599,754
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	6,044,744	6,657,912
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	39,543	50,097
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	2,431,093	2,110,287
Tier 2 capital base before deductions	8,515,380	8,818,296
Tier 2 capital: regulatory deductions		
Total regulatory deductions to Tier 2 capital	–	–
Tier 2 capital	8,515,380	8,818,296
Total capital	37,551,681	30,418,050

(ii) **Risk-weighted assets**

	2016 HK\$'000	2015 HK\$'000
– Credit risk	195,100,156	169,230,743
– Market risk	5,050,513	4,659,900
– Operational risk	11,405,438	10,364,613
	<u>211,556,107</u>	<u>184,255,256</u>

(iii) **Capital adequacy ratios**

	2016	2015
– CET1 capital ratio	10.8%	10.5%
– Tier 1 capital ratio	13.7%	11.7%
– Total capital ratio	17.8%	16.5%

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

With effect from 1 January 2016, the capital buffer ratios applicable to the Group on a consolidated basis are as follows:

	2016
Capital conservation buffer ratio	0.625%
Countercyclical capital buffer (“CCyB”) ratio	0.334%
	<u>0.959%</u>

The detail relevant disclosure of the CCyB ratio for each jurisdiction and the geographical breakdown of risk-weighted assets in relation to private sector credit exposures using the standard templates as specified by the HKMA can be viewed in the Regulatory Disclosure section of our Bank’s website.

For 2015, there was no information disclosed relating to the CCyB ratio for this period because 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 jurisdictions outside Hong Kong 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.

	2016 HK\$'000	2015 HK\$'000
CET 1 capital instruments issued by the Bank		
Ordinary shares:		
9,083,341,176 issued and fully paid ordinary shares	<u>9,366,271</u>	<u>7,566,271</u>
	2016 HK\$'000	2015 HK\$'000
Additional Tier 1 Capital Securities		
Undated non-cumulative subordinated capital securities with US\$300 million	2,310,168	2,310,168
Undated non-cumulative subordinated capital securities with US\$500 million	3,863,084	–
	<u>6,173,252</u>	<u>2,310,168</u>

	2016 HK\$'000	2015 HK\$'000
Tier 2 capital instruments		
Issued by the Bank		
– Subordinated note due 2020 (nominal value: US\$500 million)	4,063,457	4,132,209
– Subordinated note due 2022 (nominal value: US\$300 million)	2,318,117	2,306,392
– Subordinated note due 2024 (nominal value: US\$300 million)	2,324,263	2,327,616
	<u>8,705,837</u>	<u>8,766,217</u>

(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.

	2016	2015
Leverage ratio	<u>9.1%</u>	<u>7.3%</u>

The detail relevant disclosure of the Group's 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

	2016	2015
Average liquidity maintenance ratio for the year ended 31 December*	<u>60.8%</u>	<u>61.8%</u>

* The average value of liquidity maintenance ratio ("LMR") is being calculated based on the arithmetic mean of the average value of 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 HKMA.

(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.

	2016		2015	
	Gross loans and advances to customers	% of gross loans and advances to customers covered by collateral	Gross loans and advances to customers	% of gross loans and advances to customers covered by collateral
	HK\$'000		HK\$'000	
Industrial, commercial and financial				
– Property development	13,578,793	54	13,160,361	66
– Property investment	25,060,936	67	19,535,863	69
– Financial concerns	9,171,320	24	6,742,829	40
– Stockbrokers	3,131,047	49	3,511,763	45
– Wholesale and retail trade	17,002,524	70	17,915,876	79
– Manufacturing	10,063,497	29	7,493,445	35
– Transport and transport equipment	2,946,243	28	3,492,239	22
– Recreational activities	1,205,638	72	954,102	95
– Information technology	3,451,364	91	14,755	100
– Others	9,831,651	51	7,987,067	50
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	11,464	100	8,760	100
– Loans for the purchase of other residential properties	13,407,510	100	12,404,811	100
– Credit card advances	445,821	–	426,795	–
– Others	8,304,307	87	7,850,685	85
Gross loans and advances for use in Hong Kong	117,612,115	62	101,499,351	67
Trade finance	10,644,560	28	11,061,512	24
Gross loans and advances for use outside Hong Kong	55,507,566	32	57,308,875	43
Gross loans and advances to customers	183,764,241	51	169,869,738	56

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:

	2016				Impairment loss (written back)/charged to 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	64,725	26,095	304	1,858	(728)
Gross loans and advances for use outside Hong Kong	661,137	647,766	152,342	112,808	74,176
	<u>725,862</u>	<u>673,861</u>	<u>152,646</u>	<u>114,666</u>	<u>73,448</u>
2015					
	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 loss charged to income statement during the year 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>

By geographical areas

	Loans and advances to customers HK\$'000	Overdue loans and advances to customers HK\$'000	2016 Impaired loans and advances to customers HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000
Hong Kong	93,832,960	755,026	1,185,045	482,324	159,342
Mainland China	66,771,703	493,342	479,970	103,513	111,132
United States	5,807,229	–	–	–	6,526
Singapore	5,504,082	–	–	–	13,386
Others	11,848,267	101,651	101,651	41,661	32,478
	183,764,241	1,350,019	1,766,666	627,498	322,864

	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

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**

	2016	% of total loans and advances to customers	2015	% 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	190,035	0.10	300,763	0.18
– 1 year or less but over 6 months	275,830	0.15	155,289	0.09
– over 1 year	884,154	0.48	323,368	0.19
	<u>1,350,019</u>	<u>0.73</u>	<u>779,420</u>	<u>0.46</u>
Secured overdue loans and advances	683,672		503,026	
Unsecured overdue loans and advances	666,347		276,394	
	<u>1,350,019</u>		<u>779,420</u>	
Market value of collateral held against the secured overdue loans and advances	<u>1,331,375</u>		<u>895,993</u>	
Individual impairment allowances made	<u>369,998</u>		<u>120,281</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:

- (a) The market value of the asset is readily determinable or can be reasonably established and verified.
- (b) The asset is marketable and there exists a readily available secondary market for disposal of the asset.
- (c) The Bank's right to repossess the asset is legally enforceable and without impediment.
- (d) 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 2016 and 2015.

(F) RESCHEDULED LOANS

	2016	% of total loans and advances to customers	2015	% of total loans and advances to customers
	HK\$'000		HK\$'000	
Rescheduled loans	<u>3,218</u>	<u>0.002</u>	<u>12,390</u>	<u>0.01</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 2016 and 2015.

(G) REPOSSESSED ASSETS

	2016 HK\$'000	2015 HK\$'000
Included in loans and advances to customers and other accounts	175,768	136,267

The amount represents the estimated market value of the repossessed assets at 31 December 2016.

(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.

	2016				
	Non-bank private sector				
	Banks	Official Sector	Non-bank	Non-financial	Total
	HK\$'000	HK\$'000	institutions	private sector	
			HK\$'000	HK\$'000	HK\$'000
Offshore centres	2,896,204	833	6,615,856	39,691,963	49,204,856
of which Hong Kong	2,478,854	5	5,808,429	26,081,589	34,368,877
Developing Asia-Pacific	50,674,888	208,914	4,236,338	51,715,487	106,835,627
of which mainland China	47,455,788	60,345	4,236,338	49,388,847	101,141,318
	2015				
	Non-bank private sector				
	Banks	Official Sector	Non-bank	Non-financial	Total
	HK\$'000	HK\$'000	institutions	private sector	
			HK\$'000	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.

	On-statement of financial position exposure HK\$'000	2016 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")	20,700,996	2,155,791	22,856,787
(2) Local governments, local government-owned entities and their subsidiaries and JVs	14,706,685	517,541	15,224,226
(3) PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	58,513,060	11,931,580	70,444,640
(4) Other entities of central government not reported in item 1 above	4,153,460	325,487	4,478,947
(5) Other entities of local governments not reported in item 2 above	250,903	17,920	268,823
(6) PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	11,699,470	3,280,734	14,980,204
(7) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	23,411,016	3,348,508	26,759,524
Total	133,435,590	21,577,561	155,013,151
Total assets after provision	306,416,955		
On-balance sheet exposures as percentage of total assets	43.6%		
	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 nationals 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 nationals 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%		

REPORT OF THE CHIEF EXECUTIVE OFFICER

Against a fast-changing and challenging operating environment, **China CITIC Bank International Limited** (“CNCBI”) **and its subsidiaries** (together “the Group”) responded rapidly, returning to the path of healthy profit growth in 2016 after a temporary setback in the preceding year. In 2016, CNCBI took full advantage of having China CITIC Bank Corporation Limited (“CNCB”) as parent bank to spur the collaboration with it on all fronts, expanding both the customer base and scope for development, which produced impressive results. 2016 was also a year when the Group enhanced its technology infrastructure, with an upgrade of the core banking system and installation of an advanced treasury system, commencement of cross-border host-to-host business system connectivity with parent bank, as well as the introduction of several mobile banking applications, which have set the stage for the Group’s sustainable growth in the years ahead.

Operating Environment

During the year under review, global financial markets were repeatedly shaken by political events, most notably Britain’s vote to leave the European Union and the American presidential election, with wide fluctuations in securities prices and currency values. The underlying economic growth trends, however, were hardly affected. The US economy remained firmly on a recovery path with continuous improvement in employment data and accelerating inflation, prompting the Federal Reserve Board to raise its benchmark interest rate by 25 basis points in December 2016, the second hike since the financial tsunami. The expansion of the Eurozone at 1.7% for 2016 was weaker than a year ago, while the progress of reflation remained lacklustre in Japan, and still sluggish global trade and investment flows hindered the growth of emerging and developing countries.

For China, following a 6.9% rise in real GDP in 2015, a steady growth of 6.7% was achieved last year primarily on the back of solid domestic consumption and public-sector fixed asset investment. Nevertheless, amid mounting concerns about an overheated housing market, aggressive credit growth and more rapid liquidity outflow triggered by a weakening Renminbi (“RMB”), the government had to introduce various measures to arrest these developments. In the absence of strong external and domestic demand, the expansion of the Hong Kong economy also decelerated to 1.9% in real terms for 2016, against 2.7% and 2.4% for 2014 and 2015 respectively. It was not until the fourth quarter of the year that exports of goods and services, as well as private consumption expenditure, seemed to display some signs of stability.

As regards the domestic banking sector in Hong Kong, although interest rates hovered around historical lows, loan demand stayed soft, with total loans and advances of HK\$8,023 billion at end-2016 being 6.5% ahead of the amount at end-2015. The growth in total Mainland-related lending (including trade finance) for the same period was 7.0%. However, the RMB customer deposit base in Hong Kong shrank by 35.8% from end-2015 to RMB546.71 billion at the close of 2016. According to the HKMA, the aggregate pre-tax operating profit of retail banks’ Hong Kong offices recorded a growth of 8.7% in 2016 compared with a year ago.

Financial Performance

For the year 2016, the Group’s performance was ahead of the industry as a whole. Operating income increased by 10.0% year on year to HK\$6.41 billion. Profit after impairment was up by 17.1% to HK\$3.04 billion, while profit attributable to shareholders grew by 17.5% to HK\$2.55 billion. Return on average assets at 0.87% was four basis points higher than the previous year, while return on average shareholders’ equity was 10.25%, edging up one basis point year on year.

The resumption of profit growth in 2016 was principally driven by a 20.7% rise in net interest income to HK\$4.13 billion. With closer collaboration with parent bank, the Group continued to expand its cross-border financing business, gaining ground in the structured finance and syndication market. Net interest margin improved by 10 basis points year on year to 1.48% given lower interest costs of customer deposits.

Non-interest income for the year amounted to HK\$2.28 billion, which was 5.3% lower than a year ago. The drop was mainly due to reduced profit contribution from Treasury and Markets (“TMG”) activities. Apart from this, loan fees and income from selling insurance products continued to post excellent growth, while TMG’s Debt Capital Markets (“DCM”) operations got off to a good start and have developed well.

As the Group continued to make substantial investments in technology, total operating expenses rose by 9.8% year on year, which was slightly below income growth. Cost to income ratio at 43.9% was at a level similar to that of the previous year.

Financial Position

At end-2016, the Group's total assets stood at HK\$306.42 billion, representing an 8.5% increase from a year ago. Total deposits amounted to HK\$246.17 billion, while customer loans including trade bills totalled HK\$183.76 billion, up 6.5% and 8.2% respectively from end-2015. Loans to deposits ratio therefore increased to 74.7% from 73.5%. The Group continued to adopt a prudent loan classification policy. At end-2016, impaired loan ratio was 0.96%, seven basis points higher than a year earlier.

In January 2016, HK\$1.8 billion of capital was injected into CNCBI by its immediate parent company, which is a wholly-owned subsidiary of CNCB. In addition, in September 2016, CNCBI successfully issued US\$500 million of undated non-cumulative subordinated additional tier 1 capital securities, which helped to expand its capital base further. At end-2016, the Group's total capital adequacy ratio increased by 124 basis points year on year to 17.75%. Its tier 1 capital ratio was 13.73% whereas its common equity tier 1 capital ratio stood at 10.81%. These levels remained comfortably above regulatory requirements. Meanwhile, average liquidity maintenance ratio was 60.8%, remaining at a very healthy level.

Business Review

Wholesale and Cross-border Banking Group

Wholesale and Cross-Border Banking ("WBG") showed a substantial increase in its capability in structured finance and syndication business last year. Together with CNCB, CNCBI acted as the joint global coordinator to lead a landmark cross-border financing facility in support of a Chinese enterprise to acquire an overseas company. This transaction was the biggest ever overseas acquisition deal sealed by a mainland Chinese corporation and also the largest ever syndicated acquisition loan in Asia. In keeping with the Chinese government's development strategies of developing "One Belt, One Road" and encouraging Chinese enterprises to "Go Global", WBG has proactively supported CNCB's strategic customers to expand and invest overseas. In June 2016, a strategic clients unit was established to be solely responsible for dealing with the strategic and key customers of CNCB. Meanwhile, investments in strengthening the capability of overseas branches continued to increase in order to satisfy the growing demand of the Bank's corporate clients for cross-border financial services. At end-2016, WBG customer loans reached HK\$140.57 billion, up 9.1% from a year ago, while net interest income and non-interest income for 2016 grew by 12.7% and 19.8% year on year respectively to HK\$3.08 billion and HK\$892 million.

Personal and Business Banking Group

Despite intense competition and challenging operating conditions, Personal and Business Banking ("PBG") was able to take advantage of many opportunities available in the market and sustain its growth momentum, attaining historic highs in operating income as well as deposits and loans. For 2016, operating income was HK\$2.38 billion, up 19.6% year on year. At end-2016, PBG customer deposits reached HK\$113.91 billion while customer loans amounted to HK\$42.71 billion, representing increases of 11.0% and 4.8% respectively from a year ago, and the growth in interest-earning assets was achieved without compromising on asset quality. On collaboration with parent bank, remote account opening services were fully implemented during the year, and the business generated would be accounted for by both CNCBI and CNCB. This contributed to a marked increase in the income from intermediary services. With a 6-fold expansion in assets under management for cross-border customers, the revenue of private banking also surged by over 3 times. In addition, retail banking has been committed to pursuing a mobile banking strategy. Last year, CNCBI launched Hong Kong's first deposit account binding to the WeChat Pay Hong Kong Wallet, affording customers the convenience of free WeChat Pay mobile payment services.

Treasury and Markets Group

In light of highly volatile offshore RMB interest rates and exchange rates in 2016, the revenue of Central Treasury Unit ("CTU") eased slightly year on year. Yet on a half-on-half basis, its performance in the second half of the year was much stronger, with an increase of HK\$174 million in revenue when compared with the first six months. Benefitting from the general trend of US interest rates and trading opportunities at various stages, the income derived from bond investment enjoyed noticeable growth year on year, with a 29% rise in interest income and a 3.6 times jump in trading gains. TMG has successfully reduced its reliance on a single product. In addition to boosting the sales of basic products, it crafted and marketed risk management solutions for clients against the backdrop of a depreciating RMB, and worked hard to promote its DCM business. As such, TMG's marketing revenues in 2016 recorded a moderate year-on-year increase. Notably, commencing operations in June 2016, the DCM unit, despite intense market competition, managed to build a strong business foundation and earn good reputation, completing

13 issuances in the year. To increase the capability of product innovation and risk management, a new generation trading and risk management system, MUREX, has been brought into operation, which should help better fulfil the trading needs of clients and further expand the client base.

Risk Management and Internal Control

The Credit and Risk Management Committee and Audit Committee of the Board are responsible for overseeing the risk management and internal control of the Group. These committees are led by experienced and independent directors. The Group strives to reinforce the risk management system, practices and culture. The Risk Appetite Statement and risk indicators continue to be strengthened in line with the Group's strategic direction. Furthermore, comprehensive bank-wide stress testing, capital management and liquidity management continue to be enhanced with regard to the evolving market environment.

Given the uncertainties of a turbulent global economy, the Group focuses 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. In addition, the Group continues to optimize the customer mix by targeting quality strategic key customers, including cross-border collaboration customers, strategic customers referred by parent bank and the CITIC Group, state-owned enterprises and central government-owned enterprises.

In terms of credit risk management, the Group is committed to upholding stringent credit policies, as well as conducting in-depth credit assessments of customers' cash flow positions, loan purposes and industry prospects. Moreover, the Group performs proactive monitoring of concentration risks, customers, portfolios and industries that could be adversely impacted by potential economic slowdown. The Group adopts a prudent provisioning policy with HK\$553 million of impairment made in 2016.

Foreign exchange and interest rate risks associated with cross-border business have 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.

With respect to operational risk management, the Group continuously strives to identify and minimize operational risks as much as practicable. The Group's operational risk appetite is driven by its continuous pursuit of delivering excellent customer experience through operational excellence. To align with this, we are executing various programs to enhance operational risk management effectiveness and introducing new internal control measures to address emerging risks in response to a changing operational environment.

Human Resources Development

Recruiting, training and retaining qualified personnel with sufficient experience and knowledge is essential to the transformation and growth of the Group's business. Human Resources Group always has to perform a balancing act between sustaining a pool of critical talents and containing staff cost, which is a significant component of the overheads.

We are pleased that for 2016, the Group managed to deliver impressive financial results with only a 5% increase in permanent headcount, while overall staff cost was kept within budget. Moreover, the voluntary turnover rate fell by more than 20% compared with 2015. The Group has continued to offer a range of financial and non-financial incentives to attract, retain and motivate talents. Various staff retention and engagement initiatives, spanning from awarding performance bonus to offering welfare, recreation, leisure and team-building activities, were deployed. The Group has also attempted to boost a sense of belonging through cooperation in non-work areas. For instance, the "TeamPower Olympics" was a bank-wide staff engagement initiative which mixed sports competition and fun games, helping to build strong teamwork and nourish a can-do attitude among the staff.

The Group also stresses continuous employee development. We have been providing various workshops to enhance the overall competence and professional standards of the staff. During the year under review, the "Effective People Manager Program" was offered to strengthen the people management skills of our managers, while the "Leadership Development Framework" was developed to lay the foundation for grooming future leaders of the Group. An average of five training days per staff member was maintained.

Outlook

While the world economy has to a large extent remained on an upward trajectory with stronger growth momentum projected for 2017, policy uncertainty is likely to be the principal overhang. Among advanced economies, the US should stay in the lead in terms of GDP growth, especially if the new administration implements substantial expansionary fiscal policies as expected. However, this may exacerbate inflation pressure and precipitate sharper monetary tightening by the Federal Reserve Board. Moreover, a tide of protectionist sentiments is palpable among developed nations and can escalate with more political changes in the Eurozone. If such leanings are translated into dramatic policy shifts, they may not only imperil the global trade sector profoundly and disrupt international fund flows but also heighten geopolitical tensions, potentially derailing the fragile global recovery in recent years and intensifying the volatility in financial markets.

In the face of unsettled external conditions, China has prioritized “growth with stability” as its primary policy goal for the year ahead. Such stability is expected to be anchored in continuous supply-side structural reforms, supportive fiscal stimulus and a prudent monetary policy. A gradual slowdown in headline GDP growth will be acceptable as long as the initial success in eliminating excess industrial capacity can continue, and there is sustained progress in rebalancing the economy from being heavily reliant on investment to being more driven by consumer spending, and from clinging to low value-added industrial activities to developing high-tech and advanced manufacturing together with the service sector. In the meantime, the Chinese government is expected to manage credit growth to preclude asset bubbles and stem a disorderly depreciation of the RMB that may aggravate capital outflows.

Given increasing complexities and vagaries of the external economic environment, the banks in Hong Kong will have to contend with another challenging year in 2017. Yet with challenges come opportunities, in our view. History shows that a steeper yield curve usually bodes well for banks’ profitability. Moreover, to battle against emergent protectionism, China is set to step up efforts to implement various key strategic policy initiatives (namely “One Belt, One Road”, “Go Global” and free-trade zones) that can help cement its relations with regional and international trading partners. While the Chinese government is wary of the pace of domestic credit expansion, it appears to be more relaxed about mainland enterprises seeking cross-border financing abroad, which should render Hong Kong a prime beneficiary given the city’s status as the leading offshore RMB centre. Further out, US President Donald Trump has recently ordered to review the 2010 Dodd-Frank act, which may result in relaxation of some restrictive financial regulations and have important implications for regulatory regimes elsewhere.

Such market dynamics can arguably work in the Group’s favour as it continues to expand its cross-border business on various fronts to fulfill its role as parent bank’s sole offshore international platform, and to strive to become “the best overseas integrated financial services provider”. For 2017, a three-pronged strategy will be adopted, i.e. continued business transformation, continued investment in technology and continued enhancement of risk management.

Capitalizing on close collaboration with CNCB and connection with the CITIC Group remains the bedrock of the Group’s endeavour to diversify away from conventional banking operations to promote capital-light and asset-light growth. With cross-border host-to-host connectivity successfully established between CNCB and CNCBI last year, the onshore customers of CNCB, including the CITIC Group, can conduct account enquiries and internal transfers with their subsidiaries and associated companies in Hong Kong, representing a crucial step in strengthening the ties among the three entities. Meanwhile, CNCB and CNCBI acted as joint global coordinators last year to help finance a mainland enterprise in the biggest ever overseas acquisition in Chinese economic history, marking an important milestone in their collaborative effort.

Going forward, arranging credit facilities for mergers and acquisitions, coupled with structured finance relating to capital market activities and funding mainland corporations’ overseas businesses and investments, will remain the main focus of the Group’s credit business development. The Group will also leverage its newly launched DCM operations to enrich the range of treasury products available to both corporate and retail clients. With ample room for developing a wider array of innovative products to help clients manage their risks and hedge against interest-rate and forex movements, the treasury business of the Group is poised to enjoy promising prospects. Moreover, the Group will explore the possibility of establishing new businesses, including financial advisory, custodian and asset management services, with a view to providing clients with customized and comprehensive financial solutions.

To facilitate the evolving new business model, continued investment in bolstering the technology backbone is essential. The current treasury system adopted by the Group is a professional set-up used by investment banks and global financial institutions, and the second stage of the upgrade is scheduled for completion this year. Meanwhile, the existing equity trading and wealth management systems will be replaced. In terms of service delivery, electronic channels will be further developed, with more mobile banking applications in the offing, which can enhance customer experience and satisfaction, appeal to the digital generation of consumers and reduce the costs of operating physical channels. The Group is also planning to allocate more resources to boost its in-house IT capability, aiming to reduce service outsourcing and develop proprietary cutting-edge financial technology applications.

In addition to the support of technology, sound risk management is vital to generating healthy growth. With more interest rate hikes anticipated for the US ahead, the interest-rate differentials between the US dollar ("USD") and the Hong Kong dollar ("HKD") may widen, sparking off a capital outflow from Hong Kong. As such, the Group must give top priority to liquidity risk management, closely monitoring the overall liquidity position and in particular funding in USD and RMB. Meanwhile, as the Group continues to promote digital banking, it will devote considerable effort to fortifying cyber security. Moreover, given ongoing business transformation with an emphasis on cross-border financing and the development of new products and services, the Group will continue to enhance credit risk management, and to uphold a robust risk culture with clearly defined values, ethics and behaviours, ensuring that front-line staff remain both customer-oriented and constantly mindful of anti-money laundering ("AML") controls and compliance risks.

Compared with the past two years, the operating conditions in 2017 are just as challenging, if not more. Nonetheless, empowered by a supportive parent bank, the Group will soldier on in the face of overwhelming odds, revamping its business model and reinforcing its core competitiveness to achieve better results and deliver sustainable growth ahead.

Zhang Xiaowei

President & Chief Executive Officer

Hong Kong, 21 March 2017