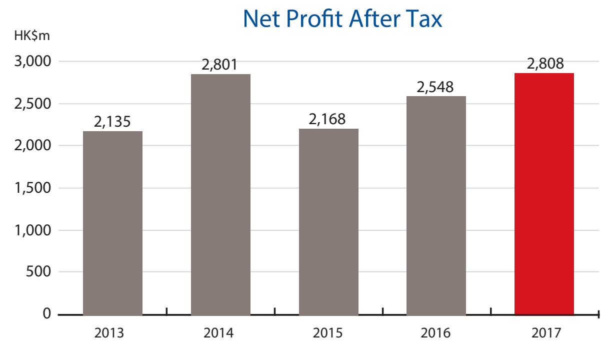
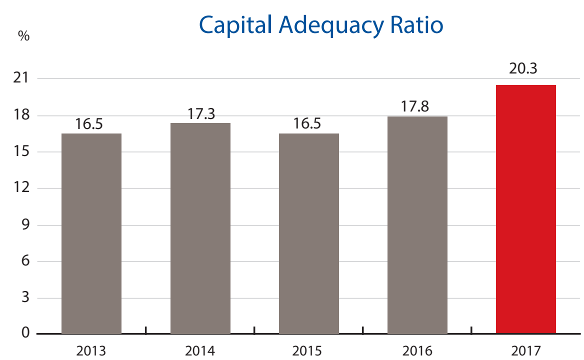
中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

2017 Results Highlights

Financial Performance

- **Net profit after tax** was HK$2.81 billion, up 10.2% year on year.
- **Operating profit after impairment** was up 7.7% to HK$3.28 billion, with HK$1.42 billion of impairment made as the Group adopted a prudent provisioning policy in light of a volatile credit environment.
- **Operating income** increased by 22.8% to HK$7.87 billion, with **net interest income** of HK$5.39 billion, up 30.7%. **Net interest margin** increased by 20 basis points to 1.68% due to higher asset yields.
- **Non-interest income** rose by 8.5% to HK$2.48 billion, owing to substantial growth in DCM fees and net trading income.
- **ROA** was down by 2 basis points to 0.85% while **ROE** was also down by 14 basis points to 10.11% given the impact of capital injection by five financial investors in December.
- **Total assets** grew by 12.4% from end-2016 to reach HK$344.3 billion. **Total deposits** increased by 11.7% to HK$274.9 billion, while **customer loans** were up 6.8% to HK$196.3 billion.
- **Capital adequacy ratio** and **CET1 ratio** were well above regulatory requirements at 20.3% and 14.5% respectively.





Core Businesses

- **Wholesale and Cross-border Banking Group (WBG)** achieved remarkable growth by adopting the "Active Marketing, Conservative Underwriting" strategy, with operating income at HK$4.67 billion, up 17.5% year on year. Notably, net interest income was up 23.1% even though customer loans as at end-2017 only increased by 6.2% from a year earlier, indicating that the loan business was more productive and profitable on a per dollar basis. WBG proactively managed its loan portfolio by replacing low yield and relatively higher risk loans with higher yield and more secured loans backed by direct mortgages and standby letters of credit (SBLCs). As a result, 41% of the total real estate finance (REF) portfolio were direct mortgages as at end-2017 (versus 26% as at end-2016). Collaboration with CNCB remained a key priority with a 22% increase in the number of client referrals from CNCB and a 56% increase in referral revenues. WBG also actively captured business opportunities in the privatization market and successfully completed a few major deals.
- **Personal and Business Banking Group (PBG)** achieved HK$2.37 billion of operating income in 2017, which was similar to the preceding year's record high, despite pressure on interest margin. As at end-Dec 2017, customer deposits reached a new high of HK$130.8 billion, representing an increase of 14.8% versus end-2016. PBG continued to focus on high net worth customers with the number of customers and customers' asset under management up 14.4% and 17.4% respectively year on year. Strengthening cross-border and cross-business collaboration with CNCB remained a key priority to ensure sustainable long-term growth. PBG is committed to delivering new technology solutions to enhance customer experience with the upgrading of its core banking system and securities trading system during the year and was the first in the market to roll out a mobile security soft token in Hong Kong. A second Business Banking Centre was opened in Kowloon in February 2018 to offer comprehensive financial and wealth management solutions to small and medium-sized enterprises.
- **Treasury and Markets Group (TMG)** recorded a quantum leap in total operating income from HK$41 million in 2016 to HK$529 million in 2017 mainly due to the strong growth of the Debt Capital Markets (DCM) business, excellent performance of the marketing teams and effective cross-team collaboration. A new Financial Institutions marketing team was established at the beginning of the year to expand the distribution channel for bonds and other treasury products. DCM business maintained strong momentum and 74 deals were completed in 2017 with a total issuance size of US$39.9 billion. According to Bloomberg Offshore China Bonds issuance volume, the Bank ranked sixth among all Chinese financial institutions. The performance of the Central Treasury Unit (CTU) also registered strong performance and the CTU team adopted a prudent approach to liquidity management to ensure a smooth migration to the Liquidity Coverage Ratio (LCR) environment.

中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

CHINA CITIC BANK INTERNATIONAL LIMITED

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

ANNOUNCEMENT OF 2017 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 2017.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	2017	2016
	HK$'000	*HK$'000*
Interest income	**8,838,949**	7,061,528
Interest expense	**(3,443,959)**	(2,932,702)
Net interest income	**5,394,990**	4,128,826
Fee and commission income	**1,685,994**	1,571,349
Fee and commission expense	**(73,248)**	(75,114)
Net fee and commission income	**1,612,746**	1,496,235
Net trading income	**695,361**	617,530
Net hedging gain	**976**	126
Net gain on disposal of available-for-sale securities	**126,794**	129,729
Other operating income	**42,077**	40,380
Operating income	**7,872,944**	6,412,826
Operating expenses	**(3,173,699)**	(2,816,189)
Operating profit before impairment	**4,699,245**	3,596,637
Impairment losses on loans and advances and other accounts	**(1,391,065)**	(552,959)
Impairment losses on available-for-sale securities	**(31,204)**	–
Impairment losses	**(1,422,269)**	(552,959)
Operating profit	**3,276,976**	3,043,678
Net (loss)/gain on disposal of property and equipment	**(4,055)**	15
Revaluation gain on investment properties	**14,290**	9,546
Profit before taxation	**3,287,211**	3,053,239
Income tax	**(478,774)**	(504,998)
Profit for the year	**2,808,437**	2,548,241
Profit attributable to shareholders	**2,808,437**	2,548,241

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	2017	2016
	HK$'000	*HK$'000*
Profit for the year	**2,808,437**	2,548,241
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	**119,152**	(93,590)
Cash flow hedges		
– effective portion of changes in fair value of hedging instruments recognised during the year	**–**	1,279
– transfer to income statement on disposal	**(1,279)**	–
– transfer to/(from) deferred tax	**211**	(211)
	(1,068)	1,068
Available-for-sale securities		
– change in fair value	**62,269**	58,846
– transfer to income statement on disposal	**(122,929)**	(121,883)
– transfer to income statement on impairment	**26,851**	–
– transfer to deferred tax	**7,648**	12,780
	(26,161)	(50,257)
Other comprehensive income for the year	**91,923**	(142,779)
Total comprehensive income for the year	**2,900,360**	2,405,462
Total comprehensive income attributable to shareholders	**2,900,360**	2,405,462

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017
(Expressed in Hong Kong dollars)

	2017 *HK$'000*	2016 *HK$'000*
ASSETS		
Cash and balances with banks, central banks and other financial institutions	**31,657,854**	27,540,433
Placements with and advances to banks, central banks and other financial institutions	**47,402,438**	22,889,713
Trading assets	**5,799,539**	5,581,720
Loans and advances to customers and other accounts	**198,986,939**	191,286,538
Available-for-sale securities	**59,346,677**	58,204,271
Property and equipment		
– Investment properties	**132,780**	138,490
– Other premises	**373,100**	369,479
– Equipments	**514,469**	387,907
Tax recoverable	**29,047**	187
Deferred tax assets	**65,841**	18,217
Total Assets	**344,308,684**	306,416,955
LIABILITIES AND EQUITY		
Liabilities		
Deposits and balances of banks and other financial institutions	**5,187,319**	5,256,660
Deposits from customers	**271,471,865**	235,574,700
Trading liabilities	**4,824,483**	3,996,444
Certificates of deposit issued	**3,421,769**	10,593,445
Debt securities issued	**3,584,064**	–
Current taxation	**497,575**	195,405
Deferred tax liabilities	**1,631**	1,520
Other liabilities	**5,422,626**	10,138,928
Loan capital	**6,340,192**	8,705,837
Total Liabilities	**300,751,524**	274,462,939
Equity		
Share capital	**18,404,013**	9,366,271
Reserves	**18,979,895**	16,414,493
Total shareholders' equity	**37,383,908**	25,780,764
Additional equity instruments	**6,173,252**	6,173,252
Total Equity	**43,557,160**	31,954,016
Total Equity and Liabilities	**344,308,684**	306,416,955

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Share capital	Capital reserve	General reserve	Exchange differences reserve	Property revaluation reserve	Cash flow hedging reserve	Investment revaluation reserve	Statutory reserve	Regulatory general reserve	Retained profits	Total reserves	Additional equity instruments	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	**9,366,271**	**6,589**	**100,000**	**(94,212)**	**55**	**1,068**	**(61,975)**	**53,845**	**149,500**	**16,259,623**	**16,414,493**	**6,173,252**	**31,954,016**
Changes in equity for 2017:													
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,808,437**	**2,808,437**	**–**	**2,808,437**
Other comprehensive income for the year	**–**	**–**	**–**	**119,152**	**–**	**(1,068)**	**(26,161)**	**–**	**–**	**–**	**91,923**	**–**	**91,923**
Total comprehensive income for the year	**–**	**–**	**–**	**119,152**	**–**	**(1,068)**	**(26,161)**	**–**	**–**	**2,808,437**	**2,900,360**	**–**	**2,900,360**
Issue and allotment of shares, net of transaction costs	**9,037,742**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,037,742**
Transfer from retained profits	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,228**	**–**	**(339,186)**	**(334,958)**	**334,958**	**–**
Distribution payment for Additional Tier 1 Capital Securities ("AT1 Capital Securities")	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(334,958)**	**(334,958)**
At 31 December 2017	**18,404,013**	**6,589**	**100,000**	**24,940**	**55**	**–**	**(88,136)**	**58,073**	**149,500**	**18,728,874**	**18,979,895**	**6,173,252**	**43,557,160**
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 AT1 Capital Securities	–	–	–	–	–	–	–	–	–	–	–	3,863,084	3,863,084
Transfer from retained profits	–	–	–	–	–	–	–	(5,098)	–	(163,637)	(168,735)	168,735	–
Distribution payment for AT1 Capital Securities	–	–	–	–	–	–	–	–	–	–	–	(168,735)	(168,735)
At 31 December 2016	9,366,271	6,589	100,000	(94,212)	55	1,068	(61,975)	53,845	149,500	16,259,623	16,414,493	6,173,252	31,954,016

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	2017	2016
	HK$'000	*HK$'000*
Operating activities		
Profit before taxation	**3,287,211**	3,053,239
Adjustments for:		
Impairment losses on loans and advances and other accounts	**1,391,065**	552,959
Impairment losses on available-for-sale securities	**31,204**	–
Net gain on disposal of available-for-sale securities	**(126,794)**	(129,729)
Net loss/(gain) on disposal of property and equipment	**4,055**	(15)
Revaluation gain on investment properties	**(14,290)**	(9,546)
Amortisation of deferred expenses	**29,010**	36,571
Depreciation on property and equipment	**200,666**	150,220
Dividend income from equity securities	**(6,390)**	(6,098)
Interest expense on loan capital	**483,425**	504,064
Foreign exchange differences	**464,957**	(107,715)
Operating profit before changes in working capital	**5,744,119**	4,043,950
(Increase)/decrease in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	**3,907,003**	3,096,013
Treasury bills with original maturity beyond 3 months	**3,440,148**	5,851,710
Certificates of deposit held with original maturity beyond 3 months	**5,620,195**	(4,081,411)
Trading assets	**(217,819)**	(1,304,181)
Loans and advances to customers and other accounts	**(9,121,405)**	(18,412,937)
Available-for-sale securities	**(7,811,555)**	(6,746,042)
	(4,183,433)	(21,596,848)
Increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	**(69,341)**	2,598,359
Deposits from customers	**35,896,468**	14,883,011
Trading liabilities	**828,039**	440,830
Certificates of deposit issued	**(7,260,490)**	201,380
Other liabilities	**(4,797,264)**	(2,298,988)
	24,597,412	15,824,592
Cash generated from/(used in) operating activities	**26,158,098**	(1,728,306)
Income tax paid		
Hong Kong Profits Tax paid	**(101,049)**	(197,426)
Overseas tax paid	**(139,966)**	(62,553)
Net cash flow generated from/(used in) operating activities	**25,917,083**	(1,988,285)

	2017	2016
	HK$'000	*HK$'000*
Net cash flow generated from/(used in) operating activities	**25,917,083**	(1,988,285)
Cash flow generated from/(used in) investing activities		
Dividends received from equity securities	**6,390**	6,098
Purchase of property and equipment	**(314,150)**	(193,912)
Proceeds from disposal of property and equipment	**52**	100
Net cash used in investing activities	**(307,708)**	(187,714)
Cash flow generated from/(used in) financing activities		
Proceeds from debt securities issued	**3,397,843**	–
Proceeds from shares issued	**9,037,742**	1,800,000
Proceeds from Additional Tier 1 Capital Securities issued	**–**	3,863,084
Distribution paid on Additional Tier 1 Capital Securities	**(334,958)**	(168,735)
Proceeds from redemption of loan capital	**(2,342,981)**	–
Interest paid on loan capital	**(499,180)**	(496,495)
Net cash generated from financing activities	**9,258,466**	4,997,854
Net increase in cash and cash equivalents	**34,867,841**	2,821,855
Cash and cash equivalents at 1 January	**54,517,271**	51,695,416
Cash and cash equivalents at 31 December	**89,385,112**	54,517,271
Analysis of the balances of cash and cash equivalents		
Cash and balances with banks, central banks and other financial institutions	**30,700,892**	26,458,664
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	**46,599,596**	18,304,676
Treasury bills and certificates of deposit held with original maturity within 3 months:		
– Available-for-sale securities	**12,084,624**	9,753,931
	89,385,112	54,517,271
Cash flows from operating activities include:		
Interest received	**8,670,430**	6,891,019
Interest paid	**(2,916,111)**	(2,599,419)

NOTES:
(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The financial information relating to the financial year ended 31 December 2017 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 2017 comply with the Banking (Disclosure) Rules and will be available from the Bank's corporate website at www.cncbinternational.com and registered office.

2 CHANGES IN ACCOUNTING POLICIES

(a) New and amended 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 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to HKAS 12
- Disclosure Initiative – Amendments to HKAS 7

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.

(b) Future accounting development but not effective for the year ended 31 December 2017

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in the consolidated financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
– HKFRS 9 "Financial instruments"	1 January 2018
– HKFRS 15 "Revenue from contracts with customers"	1 January 2018
– HKFRS 16 "Leases"	1 January 2019

HKFRS 9 "Financial instruments"

In September 2014, the HKICPA issued the HKFRS 9 "Financial Instruments", which is the comprehensive standard to replace HKAS 39 Financial Instruments: Recognition and Measurement, addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group will apply HKFRS 9 initially on 1 January 2018. Based on assessments undertaken to date, the adoption of HKFRS 9 is expected to reduce the Group's net assets at 1 January 2018 by HK$1,127 million, representing: (i) a reduction of HK$1,352 million related to impairment requirements; and (ii) an increase of HK$225 million related to deferred tax assets. Corresponding impact on the Group's capital ratios is immaterial.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from adoption of HKFRS 9 on 1 January 2018:

(i) *Classification – Financial assets*

HKFRS 9 specifies new classification and measurement approach for all financial assets (except for equity instruments and derivatives) that reflects the business model in which assets are managed and their contractual cash flow characteristics. These factors determine the classification and measurement of the financial assets under three principal categories: amortised costs ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVPL"). The Group has reviewed its financial assets and considers that there will be no significant impact to the measurement of its assets.

(ii) *Classification – Financial liabilities*

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

(iii) *Hedge accounting*

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. HKFRS 9 provides a choice of accounting policy to be remained with HKAS 39 hedge accounting.

(iv) *Impairment – Financial assets, loan commitments and financial guarantee contracts*

The new impairment model requires the recognition of impairment allowances based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, certain loan commitments and financial guarantee contracts. At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

The assessment of credit risk and the estimation of ECL are required to be probability-weighted and should incorporate all available information which is relevant to the assessment. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under HKAS 39.

(v) *Disclosures*

HKFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

(vi) *Transition*

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules from 1 January 2018, with the practical expedients permitted under the standard and comparatives for 2017 will not be restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

HKFRS 15 "Revenue from contracts with customers"

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Group has assessed the impact of HKFRS 15 and expects that the standard will not have significant impact, when applied, on the consolidated financial statements of the Group.

HKFRS 16 "Leases"

HKFRS 16 will result in almost all lease being recognised on the balance sheet, as the distinction between operating and finance lease is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exemptions are short-term leases and leases of low-value assets. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

The new standard is mandatory for financial year commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 INTEREST INCOME AND INTEREST EXPENSE

(a) Interest income

	2017	2016
	HK$'000	*HK$'000*
Listed securities *(Note)*	**707,649**	595,311
Unlisted securities *(Note)*	**391,798**	345,567
Balances and placements with banks and other financial institutions	**737,085**	385,991
Advances and other accounts	**7,002,417**	5,734,659
Interest income on financial assets that are not at fair value through profit or loss	**8,838,949**	7,061,528

Note:

The Group has revisited the classification of listing status of debt securities during the year and certain comparative figures have been reclassified to conform with the current year's presentation.

(b) Interest expense

	2017	2016
	HK$'000	*HK$'000*
Deposits from customers, banks and other financial institutions and others	**2,706,510**	2,252,360
Certificates of deposit issued	**157,358**	176,278
Debt securities issued	**96,666**	–
Loan capital issued	**483,425**	504,064
Interest expense on financial liabilities that are not at fair value through profit or loss	**3,443,959**	2,932,702

4 NET FEE AND COMMISSION INCOME

	2017	2016
	HK$'000	*HK$'000*
Fee and commission income:		
Bills commission	**113,555**	117,530
Card-related income	**33,597**	28,807
General banking services	**158,475**	126,747
Insurance	**361,689**	542,598
Investment and structured investment products	**427,375**	94,600
Loans, overdrafts and facilities fees	**590,713**	660,355
Others	**590**	712
	1,685,994	1,571,349
Fee and commission expense	**(73,248)**	(75,114)
	1,612,746	1,496,235
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	**737,865**	806,692
– Fee and commission expense	**(20,905)**	(21,584)
	716,960	785,108

5 NET TRADING INCOME

	2017	2016
	HK$'000	*HK$'000*
Gains less losses from dealing in foreign currencies	**482,673**	441,529
Gains less losses from trading securities	**(4,579)**	11,748
Gains less losses from derivatives	**112,362**	(17,493)
Interest income on trading assets		
– Listed *(Note)*	**26,778**	20,608
– Unlisted *(Note)*	**78,127**	161,138
	695,361	617,530

Note:

The Group has revisited the classification of listing status of debt securities during the year and certain comparative figures have been reclassified to conform with the current year's presentation.

6 NET HEDGING GAIN

	2017	2016
	HK$'000	*HK$'000*
Net hedging gain/(loss) on fair value hedges		
– net gain on hedged items attributable to the hedged risk	**73,167**	40,836
– net loss on hedging instruments	**(72,037)**	(40,872)
	1,130	(36)
Net hedging (loss)/gain on cash flow hedges	**(154)**	162
	976	126

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

	2017	2016
	HK$'000	*HK$'000*
Net revaluation gain transferred from reserves upon disposal	**122,929**	121,883
Net gain arising in current year	**3,865**	7,846
	126,794	129,729

8 OTHER OPERATING INCOME

	2017	2016
	HK$'000	*HK$'000*
Dividend income from available-for-sale equity securities		
– Listed	**430**	198
– Unlisted	**5,960**	5,900
	6,390	6,098
Rental income from investment properties less direct outgoings of HK$302,000 (2016: HK$301,000)	**5,293**	6,842
Others	**30,394**	27,440
	42,077	40,380

9 OPERATING EXPENSES

	2017	2016
	HK$'000	*HK$'000*
(a) Staff costs		
Salaries and other staff costs	**1,892,625**	1,663,335
Retirement costs	**101,689**	91,652
	1,994,314	1,754,987
(b) Depreciation		
Depreciation of property and equipment		
– Assets held for use under operating leases	**19,737**	19,423
– Other assets	**180,929**	130,797
	200,666	150,220
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)		
– Rental of properties	**277,326**	271,407
– Others	**260,057**	230,444
Auditor's remuneration	**7,062**	6,791
Advertising	**44,854**	56,596
Communication, printing and stationery	**105,262**	98,167
Legal and professional fees	**81,242**	49,186
Others	**202,916**	198,391
	978,719	910,982
Total operating expenses	**3,173,699**	2,816,189

10 IMPAIRMENT LOSSES ON LOANS AND ADVANCES AND OTHER ACCOUNTS

	2017	2016
	HK$'000	*HK$'000*
Impairment losses charged		
– Loans and advances	**1,361,872**	354,489
– Other accounts	**29,193**	198,470
	1,391,065	552,959
Impairment losses on loans and advances and other accounts		
– Individual assessment	**1,302,847**	603,169
– Collective assessment	**88,218**	(50,210)
	1,391,065	552,959
of which:		
– Additions	**1,593,856**	735,692
– Releases	**(178,400)**	(139,875)
– Recoveries	**(24,391)**	(42,858)
	1,391,065	552,959

11 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	2017	2016
	HK$'000	HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**408,864**	437,512
Over-provision in respect of prior years	**(14,081)**	(2,407)
	394,783	435,105
Current tax – Overseas		
Provision for the year	**109,494**	37,422
Under-provision in respect of prior years	**14,133**	1,925
	123,627	39,347
Deferred tax		
(Reversal)/Origination of temporary differences	**(39,636)**	30,546
	478,774	504,998

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 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

	2017	2016
	HK$'000	*HK$'000*
Certificate of deposits	**213,103**	–
Debt securities	**815,137**	1,321,751
Investment funds	**804**	1,078
Trading securities	**1,029,044**	1,322,829
Positive fair values of derivatives	**4,770,495**	4,258,891
	5,799,539	5,581,720
Issued by:		
Sovereigns	**572**	500
Banks and other financial institutions	**829,164**	1,153,365
Corporate entities	**199,308**	168,964
	1,029,044	1,322,829
Analysed by place of listing:		
Listed *(Note)*	**1,020,468**	1,156,255
Unlisted *(Note)*	**8,576**	166,574
	1,029,044	1,322,829

Note:

The Group has revisited the classification of listing status of debt securities during the year and certain comparative figures have been reclassified to conform with the current year's presentation.

13 LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

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

	2017	2016
	HK$'000	*HK$'000*
Gross loans and advances to customers	**196,286,922**	183,764,241
Impairment allowances		
– Individually assessed	**(1,127,014)**	(627,498)
– Collectively assessed	**(395,843)**	(322,864)
	194,764,065	182,813,879
Accrued interest and other accounts	**4,325,352**	8,620,610
Impairment allowances		
– Individually assessed *(Note)*	**(102,478)**	(147,951)
	4,222,874	8,472,659
	198,986,939	191,286,538
Included in loans and advances to customers are:		
Trade bills	**927,527**	2,191,085
Impairment allowances		
– Collectively assessed	**(469)**	(1,762)
	927,058	2,189,323

Note:

In 2017, an impairment provision of HK$101,710,000 (2016: HK$147,182,000) 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").

	2017		2016	
	Gross loans and advances to customers	**Impaired loans and advances to customers**	Gross loans and advances to customers	Impaired loans and advances to customers
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Industrial, commercial and financial				
– Property development	**17,177,318**	**–**	13,578,793	–
– Property investment	**26,312,638**	**23,111**	25,060,936	26,095
– Financial concerns	**16,250,264**	**–**	9,171,320	–
– Stockbrokers	**6,564,251**	**–**	3,131,047	–
– Wholesale and retail trade	**14,236,238**	**59,677**	17,002,524	110,678
– Manufacturing	**17,020,091**	**771,306**	10,063,497	3,769
– Transport and transport equipment	**2,356,396**	**–**	2,946,243	–
– Recreational activities	**813,764**	**–**	1,205,638	–
– Information technology	**221,297**	**–**	3,451,364	–
– Others	**10,155,897**	**3,317**	9,831,651	249,577
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**24,255**	**–**	11,464	–
– Loans for the purchase of other residential properties	**14,439,796**	**20,950**	13,407,510	23,517
– Credit card advances	**503,789**	**812**	445,821	550
– Others	**8,950,693**	**7,623**	8,304,307	21,245
Gross loans and advances for use in Hong Kong	**135,026,687**	**886,796**	117,612,115	435,431
Trade finance	**6,564,657**	**222,000**	10,644,560	683,469
Gross loans and advances for use outside Hong Kong	**54,695,578**	**1,355,216**	55,507,566	647,766
Gross loans and advances to customers	**196,286,922**	**2,464,012**	183,764,241	1,766,666

(c) Impaired loans and advances to customers

	2017	2016
	HK$'000	*HK$'000*
Gross impaired loans and advances to customers	**2,464,012**	1,766,666
Impairment allowances – Individually assessed	**(1,127,014)**	(627,498)
	1,336,998	1,139,168
Gross impaired loans and advances as a % of total loans and advances to customers	**1.26%**	0.96%

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$812,652,000 (2016: HK$578,847,000) of the Group.

14 AVAILABLE-FOR-SALE SECURITIES

	2017	2016
	HK$'000	*HK$'000*
Certificates of deposit held	**10,622,679**	15,922,277
Debt securities	**36,950,662**	29,074,574
Treasury bills (including Exchange Fund Bills)	**11,681,635**	13,111,688
Equity securities	**91,701**	95,732
	59,346,677	58,204,271
Issued by:		
Sovereigns	**12,796,288**	14,664,781
Banks and other financial institutions	**36,553,639**	33,673,029
Corporate entities	**8,614,579**	7,812,716
Public entities	**1,382,171**	2,053,745
	59,346,677	58,204,271
Analysed by place of listing:		
Listed *(Note)*	**32,193,830**	24,069,686
Unlisted *(Note)*	**27,152,847**	34,134,585
	59,346,677	58,204,271
Fair value of individually impaired debt securities	**125,042**	27,631

Note:

The Group has revisited the classification of listing status of debt securities during the year and certain comparative figures have been reclassified to conform with the current year's presentation.

15 CAPITAL AND RESERVES

(a) Share capital

(i) Ordinary shares, issued and fully paid:

	2017		2016	
	Number of shares	**Share capital**	Number of shares	Share capital
		HK$'000		*HK$'000*
At 1 January	**9,083,341,176**	**9,366,271**	7,283,341,176	7,566,271
Shares issued during the year *(Note a (ii))*	**3,027,780,392**	**9,053,063**	1,800,000,000	1,800,000
	12,111,121,568	**18,419,334**	9,083,341,176	9,366,271
Less: Transaction costs arising on shares issued	**–**	**(15,321)**	–	–
At 31 December	**12,111,121,568**	**18,404,013**	9,083,341,176	9,366,271

(ii) Shares issued during the year

In 2017, the Bank issued a total of 3,027,780,392 ordinary shares at HK$2.99 each to five new shareholders on 15 December 2017. In 2016, 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.

(b) Dividend

The Directors recommend the payment of a final dividend of HK$2,808,437,143.79 for the year ended 31 December 2017 to CITIC International Financial Holdings Limited (2016: Nil).

(c) Reserves

	2017	2016
	HK$'000	*HK$'000*
Capital reserve	**6,589**	6,589
General reserve	**100,000**	100,000
Exchange differences reserve	**24,940**	(94,212)
Property revaluation reserve	**55**	55
Cash flow hedging reserve	**–**	1,068
Investment revaluation reserve	**(88,136)**	(61,975)
Statutory reserve	**58,073**	53,845
Regulatory general reserve	**149,500**	149,500
Retained profits*	**18,728,874**	16,259,623
Total	**18,979,895**	16,414,493

* 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 2017, HK$2,814,520,000 (2016: HK$2,805,429,000) 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:

	2017	2016
	HK$'000	*HK$'000*
Direct credit substitutes	**3,869,439**	4,368,584
Transaction-related contingencies	**365,203**	535,590
Trade-related contingencies	**1,987,228**	2,767,669
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**92,291,172**	105,242,666
– with an original maturity of not more than 1 year	**3,021,463**	5,232,137
– with an original maturity of more than 1 year	**3,986,946**	3,761,125
	105,521,451	121,907,771
Credit risk-weighted amounts	**5,445,027**	5,205,562

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2016: 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 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 2017, the Group's average daily trading profit and loss from foreign exchange positions was a loss of HK$170,000 (2016: profit of HK$429,000) with a standard deviation of HK$3,319,000 (2016: HK$4,218,000).

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

		2017		
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**
Spot assets	**141,268,736**	**37,959,720**	**15,988,499**	**195,216,955**
Spot liabilities	**(109,407,468)**	**(31,800,014)**	**(15,182,196)**	**(156,389,678)**
Forward purchases	**242,910,664**	**118,395,468**	**26,779,741**	**388,085,873**
Forward sales	**(275,877,590)**	**(123,928,048)**	**(25,342,446)**	**(425,148,084)**
Net options position	**1,835,468**	**685,596**	**(2,379,021)**	**142,043**
Net long/(short) position	**729,810**	**1,312,722**	**(135,423)**	**1,907,109**
Net structural position	**–**	**718,963**	**48,676**	**767,639**

		2016		
Equivalent in HK$'000	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

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 deposit account services 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.

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**

	2017				
	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)	**3,790,970**	**1,652,016**	**(174,871)**	**126,875**	**5,394,990**
Other operating income	**875,205**	**718,256**	**672,541**	**85,158**	**2,351,160**
Net gain on disposal of available-for-sale securities	**1,211**	**–**	**31,612**	**93,971**	**126,794**
Operating income	**4,667,386**	**2,370,272**	**529,282**	**306,004**	**7,872,944**
Operating expenses	**(554,674)**	**(703,878)**	**(112,989)**	**(1,802,158)**	**(3,173,699)**
Inter-segment (expenses)/income	**(466,661)**	**(703,078)**	**(195,291)**	**1,365,030**	**–**
Operating profit/(loss) before impairment	**3,646,051**	**963,316**	**221,002**	**(131,124)**	**4,699,245**
Impairment losses (charged)/written back on loans and advances and other accounts	**(1,351,735)**	**(10,962)**	**(29,095)**	**727**	**(1,391,065)**
Impairment losses on available-for-sale securities	**–**	**–**	**(31,204)**	**–**	**(31,204)**
Operating profit/(loss)	**2,294,316**	**952,354**	**160,703**	**(130,397)**	**3,276,976**
Net loss on disposal of property and equipment	**(22)**	**(798)**	**–**	**(3,235)**	**(4,055)**
Revaluation gain on investment properties	**–**	**–**	**–**	**14,290**	**14,290**
Profit/(loss) before taxation	**2,294,294**	**951,556**	**160,703**	**(119,342)**	**3,287,211**
Income tax	**–**	**–**	**–**	**(478,774)**	**(478,774)**
Profit/(loss) for the year	**2,294,294**	**951,556**	**160,703**	**(598,116)**	**2,808,437**
Other segment items:					
Depreciation	**12,825**	**17,116**	**1,012**	**169,713**	**200,666**
Segment assets	**169,309,209**	**46,734,253**	**154,693,458**	**(26,428,236)**	**344,308,684**
Segment liabilities	**169,622,631**	**136,958,804**	**22,065,874**	**(27,895,785)**	**300,751,524**
Capital expenditure incurred during the year	**38,265**	**10,698**	**9,050**	**256,137**	**314,150**

	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/(expense)	3,080,961	1,592,121	(612,425)	68,169	4,128,826
Other operating income/(expenses)	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

(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.

	2017				
	Profit/(Loss) 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	**2,928,158**	**323,505,089**	**280,773,786**	**7,099,804**	**74,249,031**
Mainland China	**(22,897)**	**17,592,204**	**15,909,898**	**219,926**	**2,934,196**
United States	**150,985**	**11,781,864**	**11,593,690**	**236,070**	**1,888,554**
Singapore	**190,098**	**14,074,332**	**13,840,590**	**273,261**	**24,802,931**
Others	**40,721**	**2,863,100**	**2,824,018**	**44,252**	**1,646,739**
Inter-segment items	**146**	**(25,507,905)**	**(24,190,458)**	**(369)**	**–**
	3,287,211	**344,308,684**	**300,751,524**	**7,872,944**	**105,521,451**

	2016				
	Profit/(Loss) 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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION
(Expressed in Hong Kong dollars unless otherwise indicated)

(A) CAPITAL INFORMATION AVAILABLE ON THE BANK'S CORPORATE 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 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.

	2017	2016
	HK$'000	*HK$'000*
Common Equity Tier 1 ("CET1") capital instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	**18,404,013**	9,366,271
Retained earnings	**18,728,874**	16,259,623
Disclosed reserves	**251,021**	154,870
CET1 capital before regulatory deductions	**37,383,908**	25,780,764
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	**65,841**	18,217
Cash flow hedging reserve	**–**	1,068
Cumulative fair value gains arising from the revaluation of land and buildings (own use and investment properties)	**84,333**	87,873
Regulatory reserve for general banking risks	**2,814,520**	2,805,429
Valuation adjustments	**7,138**	7,013
Debt valuation adjustments in respect of derivative contracts	**1,285**	1,878
Total regulatory deductions to CET1 capital	**2,973,117**	2,921,478
CET1 capital	**34,410,791**	22,859,286
Additional Tier 1 ("AT1") capital		
AT1 capital	**6,177,015**	6,177,015
Tier 1 capital	**40,587,806**	29,036,301
Tier 2 capital instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	**4,687,678**	6,044,744
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	**37,950**	39,543
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**2,732,777**	2,431,093
Tier 2 capital base before deductions	**7,458,405**	8,515,380
Tier 2 capital: regulatory deductions		
Regulatory deductions to Tier 2 capital	**–**	–
Tier 2 capital	**7,458,405**	8,515,380
Total capital	**48,046,211**	37,551,681

(ii) Risk-weighted assets

	2017	2016
	HK$'000	*HK$'000*
– Credit risk	**219,918,986**	195,100,156
– Market risk	**4,425,300**	5,050,513
– Operational risk	**12,572,238**	11,405,438
	236,916,524	211,556,107

(iii) Capital adequacy ratios

	2017	2016
– CET1 capital ratio	**14.5%**	10.8%
– Tier 1 capital ratio	**17.1%**	13.7%
– Total capital ratio	**20.3%**	17.8%

(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:

	2017	2016
Capital conservation buffer ratio	**1.250%**	0.625%
Countercyclical capital buffer ("CCyB") ratio	**0.707%**	0.334%
	1.957%	0.959%

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.

(v) Capital instruments

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

	2017	2016
	HK$'000	*HK$'000*
CET 1 capital instruments issued by the Bank		
Ordinary shares:		
9,083,341,176 issued and fully paid ordinary shares	**18,404,013**	9,366,271

	2017	2016
	HK$'000	*HK$'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**	3,863,084
	6,173,252	6,173,252

	2017	2016
	HK$'000	*HK$'000*
Tier 2 capital instruments		
Issued by the Bank		
– Subordinated note due 2020 (nominal value: US$500 million)	**4,009,985**	4,063,457
– Subordinated note due 2022 (nominal value: US$300 million)	**–**	2,318,117
– Subordinated note due 2024 (nominal value: US$300 million)	**2,330,207**	2,324,263
	6,340,192	8,705,837

(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.

	2017	2016
Leverage ratio	**11.3%**	9.1%

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 COVERAGE RATIO

	2017	2016
Average LMR for the period ended 30 September 2017/year ended 31 December 2016*	**59.6%**	60.8%
Average LCR for the quarter ended 31 December 2017**	**177.6%**	N/A

* 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 the Hong Kong Monetary Authority ("HKMA").

** The Group was designated by the HKMA as Category 1 institution with effect from 1 October 2017. As a result, under the Banking (Liquidity) Rules, the Group being a Category 1 institution is required to maintain a Liquidity Coverage Ratio ("LCR") above the statutory minimum requirement, which superseded the regulatory requirements on the Liquidity Maintenance Ratio ("LMR").

For the purposes of compliance with Banking (Disclosure) Rules, information relating to the Group's liquidity are published by using standard disclosure templates as specified by the HKMA and they can be viewed in the Regulatory Disclosures section of our Bank's website.

(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.

	2017		2016	
	Gross loans and advances to customers *HK$'000*	**% of gross loans and advances to customers covered by collateral**	Gross loans and advances to customers *HK$'000*	% of gross loans and advances to customers covered by collateral
Industrial, commercial and financial				
– Property development	**17,177,318**	**19**	13,578,793	54
– Property investment	**26,312,638**	**65**	25,060,936	67
– Financial concerns	**16,250,264**	**26**	9,171,320	24
– Stockbrokers	**6,564,251**	**20**	3,131,047	49
– Wholesale and retail trade	**14,236,238**	**80**	17,002,524	70
– Manufacturing	**17,020,091**	**24**	10,063,497	29
– Transport and transport equipment	**2,356,396**	**23**	2,946,243	28
– Recreational activities	**813,764**	**61**	1,205,638	72
– Information technology	**221,297**	**100**	3,451,364	91
– Others	**10,155,897**	**75**	9,831,651	51
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**24,255**	**100**	11,464	100
– Loans for the purchase of other residential properties	**14,439,796**	**100**	13,407,510	100
– Credit card advances	**503,789**	**–**	445,821	–
– Others	**8,950,693**	**88**	8,304,307	87
Gross loans and advances for use in Hong Kong	**135,026,687**	**54**	117,612,115	62
Trade finance	**6,564,657**	**32**	10,644,560	28
Gross loans and advances for use outside Hong Kong	**54,695,578**	**31**	55,507,566	32
Gross loans and advances to customers	**196,286,922**	**47**	183,764,241	51

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:

	2017				
	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/ (written back) on income statement during the year** *HK$'000*
Property investment	**18,841**	**23,111**	**9**	**720**	**(1,569)**
Gross loans and advances for use outside Hong Kong	**821,042**	**1,355,216**	**729,479**	**106,013**	**792,521**
	839,883	**1,378,327**	**729,488**	**106,733**	**790,952**

	2016				
	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/ (written back) on income statement during the year *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
	725,862	673,861	152,646	114,666	73,448

By geographical areas

	2017				
	Loans and advances to customers *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*
Hong Kong	**107,422,724**	**874,934**	**1,230,989**	**611,854**	**189,954**
Mainland China	**71,077,957**	**931,923**	**965,597**	**404,880**	**143,775**
United States	**6,672,615**	**6,995**	**6,996**	**–**	**14,889**
Singapore	**3,705,562**	**–**	**–**	**–**	**2,201**
Others	**7,408,064**	**93,597**	**260,430**	**110,280**	**45,024**
	196,286,922	**1,907,449**	**2,464,012**	**1,127,014**	**395,843**

	2016				
	Loans and advances to customers *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*
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

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

	2017		2016	
	HK$'000	**% of total loans and advances to customers**	*HK$'000*	% of total loans and advances to customers
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	**822,734**	**0.42**	190,035	0.10
– 1 year or less but over 6 months	**471,579**	**0.24**	275,830	0.15
– over 1 year	**613,136**	**0.31**	884,154	0.48
	1,907,449	**0.97**	1,350,019	0.73
Secured overdue loans and advances	**293,785**		683,672	
Unsecured overdue loans and advances	**1,613,664**		666,347	
	1,907,449		1,350,019	
Market value of collateral held against the secured overdue loans and advances	**375,391**		1,331,375	
Individual impairment allowances made	**1,068,504**		369,998	

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 2017 and 2016.

(F) RESCHEDULED LOANS

	2017		2016	
	HK$'000	**% of total loans and advances to customers**	*HK$'000*	% of total loans and advances to customers
Rescheduled loans	**537,979**	**0.274**	3,218	0.002

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 2017 and 2016.

(G) REPOSSESSED ASSETS

	2017	2016
	HK$'000	*HK$'000*
Included in loans and advances to customers and other accounts	**184,411**	175,768

The amount represents the estimated market value of the repossessed assets at 31 December 2017.

(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.

			2017		
			Non-bank private sector		
	Banks	**Official Sector**	**Non-bank financial institutions**	**Non-financial private sector**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Offshore centres	**7,120,802**	**869**	**13,827,960**	**37,914,745**	**58,864,376**
of which Hong Kong	**6,489,207**	**282**	**13,081,673**	**29,814,181**	**49,385,343**
Developing Asia-Pacific	**66,646,716**	**83,611**	**5,916,565**	**60,216,815**	**132,863,707**
of which mainland China	**66,309,598**	**83,040**	**5,916,565**	**58,878,966**	**131,188,169**

			2016		
			Non-bank private sector		
	Banks	Official Sector	Non-bank financial institutions	Non-financial private sector	Total
	HK$'000	*HK$'000*	*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

(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.

		2017		
		On-statement of financial position exposure *HK$'000*	**Off-statement of financial position exposure** *HK$'000*	**Total** *HK$'000*
(1)	Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	**28,973,542**	**986,287**	**29,959,829**
(2)	Local governments, local government-owned entities and their subsidiaries and JVs	**15,138,695**	**745,750**	**15,884,445**
(3)	PRC national residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**62,576,230**	**4,079,754**	**66,655,984**
(4)	Other entities of central government not reported in item 1 above	**6,796,166**	**297,253**	**7,093,419**
(5)	Other entities of local governments not reported in item 2 above	**188,578**	**206,342**	**394,920**
(6)	PRC national residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**9,682,747**	**3,309,615**	**12,992,362**
(7)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**26,655,744**	**786,898**	**27,442,642**
Total		**150,011,702**	**10,411,899**	**160,423,601**
Total assets after provision		**344,308,684**		
On-balance sheet exposures as percentage of total assets		**43.6%**		

		2016		
		On-statement of financial position exposure *HK$'000*	Off-statement of financial position exposure *HK$'000*	Total *HK$'000*
(1)	Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	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%		

REPORT OF THE CHIEF EXECUTIVE OFFICER

China CITIC Bank International Limited ("CNCBI" or "the Bank") **and its subsidiaries** (together "the Group") set a fresh record in profitability in 2017 and attained pleasing achievements on multiple fronts. While operating income increased significantly due to closer collaboration with parent bank, the Group's foray into debt capital markets ("DCM") business proved a resounding success. Moreover, the development of the Group's information technology infrastructure has been progressing smoothly. On capital management, the introduction of five new investors has helped boost the capital strength of the Group, with its capital ratios exceeding the average levels of its peers. Furthermore, the liquidity coverage ratio ("LCR") has been successfully adopted while the preparation work for the implementation of a new accounting standard, HKFRS 9, on 1 January 2018 has been fully completed. In sum, a strong foundation has been laid for the Group to achieve healthy and steady growth in the years ahead.

Operating Environment

Operating conditions for the domestic banking industry in 2017 were by and large stable but continued to abound with uncertainties.

The performance of the global economy surpassed cautious expectations at the beginning of the year, as growth was generally faster and more broad-based while inflation pressure remained subdued. The US economy's expansion continued to accelerate despite the Federal Reserve ("Fed")'s tightening measures, which included three interest rate hikes of 25 basis points each and the incipient reduction of the size of its balance sheet. The Eurozone and Japan also exhibited stronger recovery momentum, with policymakers feeling comfortable with keeping their stimulus measures largely intact. As a result of a pickup in industrial activity and investment in advanced economies, and therefore a rebound in trade flows and commodity prices, emerging market and developing economies also fared better. However, investment sentiment was constantly swung by policy uncertainties, political jitters and geopolitical tensions.

China's GDP growth of 6.9% for 2017, slightly ahead of a 6.7% rise in 2016, was the first uptick in momentum since 2010 and also a pleasing performance. More importantly, concerns about the risks of capital flight and a substantial depreciation of the Renminbi ("RMB") eased through the year. Confounding pessimistic forecasts at the start of 2017, the value of the yuan against the US dollar ("USD") was actually 6.8% higher at the close of the year. Nevertheless, the Chinese government's determination to deleverage the economy restricted the corporate sector's access to credit and pushed up borrowing costs, posing challenges to some enterprises that had been relying inordinately on debt financing for their viability.

Against the backdrop of a relatively more benign external environment, the Hong Kong economy, following a 2.1% expansion in 2016, achieved a 4.0% year-on-year growth in GDP for the first three quarters last year, which was propelled by vibrant export trade as well as solid growth in domestic demand underpinned by improving local consumer sentiment, a strong labour market and positive wealth effects brought about by higher asset prices. The cyclical upturn, however, belied a lack of new impetus for the economy's long-term sustainable growth.

The performance of the domestic banking sector was boosted by more favourable operating conditions. Statistics of the Hong Kong Monetary Authority ("HKMA") suggest that for the first nine months of 2017, retail banks' Hong Kong offices achieved year-on-year increases of 18.2% in net interest income and 9.8% in fee and commission income, while net interest margin widened to 1.43% during the period from 1.32% in the same period of 2016. Having said that, total loans of the banking sector expanded at a slower pace of 2.3% in the third quarter of 2017, compared with 5.4% in the second quarter and 4.6% in the first quarter. Total deposits growth also decelerated to 1.0% from 2.4% and 3.0% in the first and second quarters respectively.

Financial Performance

For the twelve months ended 31 December 2017, operating income of the Group recorded a year-on-year increase of 22.8% to HK$7.87 billion. Profit after impairment rose by 7.7% to HK$3.28 billion while profit attributable to shareholders was up 10.2 % to set a new record of HK$2.81 billion. Given the impact of capital injection by five financial investors in December, return on average assets at 0.85% was two basis points lower than the previous year, whereas return on average shareholders' equity was also down 14 basis points to 10.11%.

Net interest income for the year amounted to HK$5.39 billion, representing an impressive growth of 30.7% year on year, which was attributed to closer collaboration with parent bank and a sustained expansion of structured finance business underwritten to a large extent by cross-border mergers and acquisitions activities. In the meantime, net interest margin improved markedly by 20 basis points to 1.68% due to higher assets yields.

Non-interest income posted a healthy 8.5% year-on-year increase to HK$2.48 billion. The growth was principally spurred by a surge in fee and commission income derived from DCM business, as well as higher net trading income, reflecting buoyancy in financial markets last year due to still ample liquidity.

On the cost side, total operating expenses were up 12.7% from the same period in 2016, which was mostly a result of continued investments in human resources and technology to cope with the Group's growing scale and new businesses. Yet thanks to much stronger income growth, cost to income ratio fell by 3.6 percentage points to 40.3%.

For the year under review, impairment losses increased to HK$1.42 billion. Last year, the reduction of financial leverage, as well as supply-side reforms, was given precedence in China's economic restructuring programme, posing a serious challenge to the corporate finance environment that was more noticeable than before. In view of such a challenge, and given a substantial improvement in operating income, the Group adopted a more prudent provisioning policy, paving the way for its healthy development in the future.

Financial Position

As at 31 December 2017, the Group's total assets stood at HK$344.31 billion, 12.4% higher than a year ago. Total deposits reached HK$274.89 billion, while customer loans including trade bills totalled HK$196.29 billion, representing increases of 11.7% and 6.8% respectively from end-2016. During the year under review, the Group proactively managed the growth of its loan portfolio while increasing asset turnover. Loans to deposits ratio at the year-end was 71.4%, compared with 74.7% a year earlier.

Meanwhile, the Group adopted a more stringent loan classification policy. As at end-2017, impaired loan ratio was 1.26%, 30 basis points higher than at end-2016 but down from the peak of 1.39% in mid-2017. Moreover, non-performing loan coverage ratio was 61.8% as at 31 December 2017, higher than the 57.9% and 53.8% six and twelve months ago respectively, reflecting the Group's increasing capability to guard against credit risk.

Capitalization of the Group was significantly enhanced by the injection of HK$9.05 billion by five financial investors in December 2017. As at the end of the year, total capital adequacy ratio stood at 20.3%, up 2.5 percentage points from end-2016. Tier 1 capital ratio and common equity tier 1 capital ratio increased by 3.4 and 3.7 percentage points to 17.1% and 14.5% respectively. These levels were well above regulatory requirements and exceeded the average levels of the Group's peers.

Since October 2017, the Group has implemented the LCR as required by the HKMA. As of 30 September 2017, the Group's average Liquidity Maintenance Ratio was 59.6% and as of 31 December 2017, the Group's average LCR was 177.6%. The Group has strived to maintain a sufficient pool of high quality liquid assets and manage the deployment of its funds well to ensure a consistently healthy and stable liquidity position.

Business Review

Wholesale and Cross-border Banking Group

Wholesale and Cross-border Banking Group ("WBG") delivered remarkable growth in 2017 despite a rapidly changing and competitive market environment. Maintaining our "Active Marketing, Conservative Underwriting" strategy, WBG actively captured business opportunities in the privatization and mergers and acquisitions markets to successfully complete several structured finance transactions, which was a new revenue engine for WBG. In addition, WBG managed its loan portfolio by replacing low yield and relatively higher risk loans with higher yield and more secured loans backed by direct mortgages. Meanwhile, leveraging our parent bank's capability, WBG managed to discover more potential business opportunities and conducted major financing transactions with valued CNCB strategic customers. Last but not least, contribution from overseas branches on fee income continued to increase as each branch has transformed its business focus based on geographical advantages. For 2017, WBG's total operating income grew by 17.5% year on year to HK$4.67 billion. In particular, net interest income was up by 23.1% while customer loans recorded a mild growth of 6.2% from end-2016, demonstrating WBG's increasing pricing power in negotiating loans and its improving profitability.

Personal and Business Banking Group

Despite pressure on interest margin and fierce competition, Personal and Business Banking Group ("PBG") continued to record satisfactory results in 2017. As at end-2017, both customer deposits and loans reached new highs at HK$130.77 billion and HK$45.89 billion, representing year-on-year increases of 14.8% and 7.4% respectively. Operating income was HK$2.37 billion, similar to last year. PBG continued to improve cost efficiency to make room for investing in technologies for future growth. As a result, total operating expenses only increased year on year by 1.7% to HK$1.41 billion. Also, PBG was able to maintain good asset quality due to prudent credit risk management and continued improvement in collection management, which gave rise to a further reduction of net impairment loss from HK$33 million in 2016 to HK$11 million in 2017. Hence, profit before taxation reached HK$952 million. During the year, PBG's customer base grew healthily, especially both cross-border and local high net worth customers. We also made good progress in digital transformation such as launching the first mobile security soft token in Hong Kong.

Treasury and Markets Group

The year 2017 marked a sharp surge in the total operating income of Treasury and Markets Group ("TMG") from HK$41 million in 2016 to HK$529 million. Global Markets' operating income increased by 26.2% year on year. The outstanding achievement was mainly attributable to the excellent performances of the DCM and the marketing teams. The strategic set-up of the Financial Institutions ("FI") marketing team at the beginning of 2017 has contributed to a new channel for bonds and treasury products distribution to an expanding portfolio of FI clients. The DCM business achieved very impressive results in 2017 in terms of number of deals and fee income. It completed 74 deals for 44 Chinese issuers, with an aggregate issuance size of USD39.9 billion and total fee income of HK$268 million recognized in the period. As at the end of the year, according to Bloomberg Offshore China Bonds issuance volume, CNCBI ranked 18th among all managers and sixth among all Chinese financial institutions. The performance of Central Treasury Unit ("CTU") also registered a significant improvement year on year. The team prudently managed the balance sheet and successfully seized market opportunities to deploy RMB surplus at desirable prices, resulting in significant earnings in 2017. In May 2017, CNCBI successfully issued its first ever CNY 3 billion three-year panda bond in the China interbank bond market. CNCBI was also the first Hong Kong bank to issue panda bonds last year.

Risk Management and Internal Control

During the year under review, although the macroeconomic environment showed some signs of recovery, the Group continued to focus on further fortifying its credit risk management practices through tightened portfolio reviews, conducting forward-looking assessments, and proactive withdrawal from undesirable industries and customers that did not align with CNCBI's development strategy and risk appetite. Early risk alert reviews were conducted in greater depth, while more stringent loan classification was adopted and collateral assessments, provisions for non-performing loans as well as the effort in recovering non-performing loans were raised.

In addition, to proactively combat an ever-increasing and complex regulatory environment, the Group has implemented a number of risk management initiatives and projects as follows:

- ***HKFRS 9:*** Starting from 1 January 2018, the Group has adopted an automated solution for computing the Expected Credit Losses ("ECL") in compliance with HKFRS 9. This project has involved the enhancement and development of several credit rating models, enhancement of credit rating framework, multiple system integration and data cleansing. Moreover, the Group has on its own initiative engaged independent parties to conduct model validations as well as proactive assurance on the governance, model framework, and ECL computation process. Although the Group expects to maintain higher provision coverage, the impact on capital is expected to be minimal.

- ***Risk MIS and Infrastructure Enhancements:*** The Group has undertaken further enhancement of the risk database, data governance, system and infrastructure to enable more granular risk analytics and automation.

- ***Stress Testing:*** The Group has adopted enhanced stress testing measurement methodologies and framework which enables it to have better risk and capital management and thus it may take early mitigation actions.

Furthermore, in December 2017, a Fraud Risk Management team was established to further enhance the Group's fraud risk management policy and framework.

Human Resources Development

The Group enjoyed gains in human resources key performance indicators such as per-capita income and profits while achieving a record-high net profit after taxation in 2017. The total permanent headcount was increased by less than 2% to 2,051. Meanwhile, given continued improvement efforts in controls and process management, staff engagement level has been strengthening, resulting in a downtrend in voluntary attrition and sustained staff stability.

Banking is a business built on trust. Instilling the right behaviours, and driving and encouraging actions that are aligned to the Group's core values and expectations, are essential for our pursuit of sustainable growth. During the year, we launched several organization development initiatives. These included appointing senior management staff members as conduct risk champions to ensure management accountability; revamping the code of conduct to provide a user-friendly tool for employees' learning and reference; and embedding core values in performance management to assess adherence to core values as well as in remuneration framework to reward and encourage proper behaviours. In 2018 and beyond, we will continue to roll out various culture initiatives to uphold our commitment to promoting a sound corporate culture.

Management has always given priority to leadership and people development. The Group continued to invest in staff competency enhancement, resulting in a high bank-wide average training days per staff member at 5.26. Succession at the senior level was orderly and opportunely managed for three top positions; other senior positions were also filled with quality people from both internal and external sources.

The Group is committed to building on the strengths of people to achieve even better results in 2018.

Outlook

It is very likely that the improvement in the fundamentals of the macro environment will continue in 2018, with the World Bank projecting global economic growth to edge up to 3.1% from an estimated 3.0% in 2017. Currently the pace of monetary policy normalization is expected to remain gradual, as it is believed that the Fed will continue to unwind its quantitative easing programme, while the European Central Bank's massive bond-buying effort is going to taper. Such a scenario looks set to underpin a recovery in loan demand and an improvement in net interest margins, which bode well for commercial banks' financial results.

However, we should keep a wary eye on certain risks to the prevailing sanguine outlook. The year 2018 will probably mark a turning point in the ultra-loose monetary stance adopted by central banks since the onset of the global financial crisis about a decade ago, which has been the prime engine for the ongoing cyclical recovery. The legislation recently passed to introduce sweeping tax reforms in the US while it is approaching full employment may cause the economy to overheat. Coupled with a continued climb in commodity prices, this fiscal stimulus may fuel inflation and result in faster-than-expected Fed tightening, sparking synchronous actions from other central banks. This can increase volatility in interest rates, currency values, capital flows and asset prices, creating unforeseen uncertainties.

Medium-term global growth prospects are also clouded by growing protectionist rhetoric in the US that have begun to translate into punitive actions against the country's trading partners, which may take their tolls on trade and cross-border investment flows. Financial markets have thus far displayed intriguing volatility. Any policy shifts that are perceived as unfavourable, combined with an unexpected escalation in geopolitical tensions, can trigger a sudden sharp rise in risk aversion and undermine consumer and business confidence.

In China, the government has pledged to press ahead with high-quality development marked by stability and sustainability rather than high-speed headline economic growth, which is generally expected to slow moderately in 2018. While fiscal support is poised to stay intact to ensure continued progress in supply-side structural reforms and the rebalancing of growth drivers from investment to consumption and services, monetary policy should remain prudent and neutral. The Chinese government has also reiterated its focus on curbing credit expansion and containing financial risks this year. It remains to be seen whether related measures will pose liquidity risks ahead.

Although foreign exchange reserves have resumed growth and the RMB may experience only two-way fluctuations instead of depreciation this year even if the Fed raises interest rates, China is not expected to lift its controls on capital outflows for both corporates and individuals. Looking on the bright side, the government's restrictions on outbound investments may create more opportunities for cross-border banking business in the foreseeable future, as mainland enterprises planning overseas acquisitions will have to continue to use Hong Kong as a major offshore market to satisfy their funding needs.

Going forward, our top priority continues to be deepening the collaboration with CNCB and forging closer synergistic relations with the CITIC Group to strengthen CNCBI's leading market position in cross-border businesses. To further expand the Bank's structured finance business, we will continue to capture the opportunities arising from overseas mergers and acquisitions made by mainland enterprises in projects related to the "Belt and Road" initiative that are endorsed by the government. Meanwhile, we envisage ample growth potential for the Group's private banking business as more high net worth individuals in the mainland are interested in diversifying their assets on a global basis and require customized wealth management services.

Building on the success of the DCM arm, we have also planned to develop other new businesses including asset management and financial advisory services. This represents sustained progress in the Group's transformation into a one-stop provider of financial solutions catering to the needs of clients with a comprehensive range of tailor-made products and services. It also fits well with our "capital light, asset light" strategy to use the Group's capital efficiently and expand its non-interest income stream, in light of increasingly tight capital requirements imposed by regulatory authorities.

To enhance the Group's core competitiveness, we are committed to further investing in the applications of financial technology to cope with intensifying competition from both existing players in the financial industry and financial hi-tech companies. The upgrade of the Group's IT infrastructure has made much headway and is beginning to yield encouraging results. On this basis, we will develop innovative products and services with a considerable element of technology and strengthen the Group's electronic service channels, enhancing customer experience and satisfaction on the one hand, and improving the cost structure and operational efficiency on the other.

What is equally if not more important is our focus on upholding high standards of corporate governance and risk management, a vital factor for the Group's sustainable growth. We are implementing culture reforms, placing a heavy emphasis on compliance risk and operational risk, especially the management of cyber security and safeguard against conduct risk. We have also stepped up efforts to manage and recover non-performing loans, and continue to implement effective post-lending management of loans already granted, with a view to strengthening the Group's capability to mitigate credit risk. Furthermore, as widening interest-rate differential between the US dollar and Hong Kong dollar may cause volatility in capital flows, due regard will be paid to liquidity risk management, especially the stability of the deposit base and the sufficiency of funding.

In conclusion, we must strive to bring about healthy growth, striking a favourable balance between risk and return. We have to consistently put clients first and drive our development by focusing on value creation for our clients. Adhering to the customer service principle of "Breathe Integrity, Act with Honesty", we must work closely together as a team to ensure that the interests of our clients, shareholders, employees and other stakeholders are well taken care of. We are confident about the future and believe the Group will rise to all challenges and keep going from strength to strength in the coming years.

Zhang Xiaowei
President & Chief Executive Officer

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