

**BPI INTERNATIONAL FINANCE LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31ST DECEMBER 2016**

## **BPI INTERNATIONAL FINANCE LIMITED**

### **REPORT OF THE DIRECTORS**

The directors submit their report together with the audited consolidated financial statements of BPI International Finance Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31st December 2016.

#### **Principal activities**

The Company is a deposit-taking company registered under the Hong Kong Banking Ordinance. The Company is licensed under the Hong Kong Securities and Futures Ordinance for dealing in securities, advising on securities and asset management activities. Its principal activities are the provision of financial services and dealing in securities on behalf of customers. The principal activities of its associate and subsidiaries are set out in Notes 15 and 16 to the consolidated financial statements respectively.

#### **Results and appropriations**

The results of the Group for the year ended 31st December 2016 are set out in the consolidated statement of comprehensive income on page 6.

The directors do not recommend the payment of a dividend (2015: Nil).

#### **Directors of the Company and its subsidiaries**

The directors of the Company and its subsidiaries during the year and up to the date of this report were:

Mario Antonio V. Paner	
Estelito C. Biacora	(Resigned on 15th October 2016)
Jose Esteban J. Salvan	(Resigned on 16th May 2016)
Joseph Albert L. Gotuaco	
Tomas S. Chuidian	
Edgardo O. Madrilejo	
Natividad N. Alejo	
Benjamin Elpidio N. Panganiban Jr.	
Roy Emil S. Yu	(Resigned on 31st December 2016)
Melinda V. Dulay	
Carlos B. Aquino	(Resigned on 2nd August 2016)
Brecilda G. Tan	
Lizbeth Joan P. Yulo	(Resigned on 28th November 2016)
Archie Lin	(Appointed on 28th November 2016)
Argelie O. King	(Appointed on 12th April 2016)

Mr. Estelito C. Biacora, Mr. Jose Esteban J. Salvan, Mr. Roy Emil S. Yu, Mr. Carlos B. Aquino and Ms. Lizbeth Joan P. Yulo resigned as director of the company during the year. They have confirmed that they have no disagreement with the Board and nothing relating to the affairs of the company needed to be brought to the attention of the shareholders of the company.

In accordance with Article 21 of the Company's Articles of Association, all directors retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

**BPI INTERNATIONAL FINANCE LIMITED**

**REPORT OF THE DIRECTORS (CONTINUED)**

**Directors' material interests in transactions, arrangements and contracts that are significant in relation to the company's business**

No transactions, arrangements and contracts of significance in relation to the Company's business to which the Company subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company, its subsidiaries, its fellow subsidiaries, its parent company or its other associated corporations a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its specified undertakings or other associated corporations.

**Management contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

**Compliance with the Banking (Disclosure) Rules**

The Company is required to comply with the Banking (Disclosure) Rules. The Banking (Disclosure) Rules set out the minimum standards for public disclosure which authorized institutions must make in respect of the statement of comprehensive income, its state of affairs and capital adequacy. The financial statements for the financial year ended 31st December 2016 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.


**Permitted indemnity provisions**

At no time during the financial year and up to the date of this Directors' report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company.

**Auditor**

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

  
Natividad N. Alejo, Chairman

Hong Kong      **21 APR 2017**

## ***Independent Auditor's Report***

To the Members of BPI International Finance Limited  
(incorporated in Hong Kong with limited liability)

### **Opinion**

#### *What we have audited*

The consolidated financial statements of BPI International Finance Limited (the "Company") and its subsidiaries (the "Group") set out on pages 6 to 50, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### *Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

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### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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## ***Independent Auditor's Report***

To the Members of BPI International Finance Limited  
(incorporated in Hong Kong with limited liability)

### **Other Information**

The directors of the Company are responsible for the other information. The other information comprises the information included in the directors' report and the unaudited supplementary information, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### **Responsibilities of Directors for the Consolidated Financial Statements**

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## *Independent Auditor's Report*

To the Members of BPI International Finance Limited  
(incorporated in Hong Kong with limited liability)

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with directors of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong      **21 APR 2017**

**BPI INTERNATIONAL FINANCE LIMITED**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31ST DECEMBER 2016**

	Note	2016 HK\$'000	2015 HK\$'000
Interest income	5	5,017	5,643
Interest expense		(1,851)	(2,027)
Net interest income		3,166	3,616
Other operating income	6	32,726	28,212
Operating income		35,892	31,828
Operating expenses	7	(32,283)	(24,667)
Profit before taxation		3,609	7,161
Income tax expense	9	(799)	(1,221)
Profit for the year		2,810	5,940
<b>Other comprehensive income:</b>			
<u>Items that may be reclassified subsequently to profit or loss:</u>			
Change in fair value of available-for-sale securities, net of tax	9	310	89
<b>Total comprehensive income for the year</b>		<b>3,120</b>	<b>6,029</b>

The notes on pages 10 to 50 are an integral part of these consolidated financial statements.

**BPI INTERNATIONAL FINANCE LIMITED**

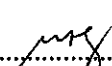
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31ST DECEMBER 2016**

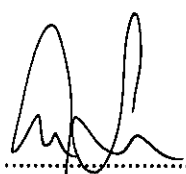
	Note	2016 HK\$'000	2015 HK\$'000
<b>Assets</b>			
Cash and short-term funds	10	152,542	119,494
Placements with banks and other financial institutions maturing between one and twelve months	11	124,057	125,942
Held-to-maturity securities	12	29,662	39,424
Advances and other accounts	13	24,606	47,052
Current tax assets		828	242
Available-for-sale securities	14	93,734	104,206
Investment in associate	15	-	-
Fixed assets	17	810	2,022
Deferred tax assets	18	202	115
Total assets		<u>426,441</u>	<u>438,497</u>
<b>Liabilities</b>			
Time deposits from customers		236,612	250,946
Other payables		5,796	6,865
Tax payable		585	358
Total liabilities		<u>242,993</u>	<u>258,169</u>
<b>Equity</b>			
Share capital	19	75,000	75,000
Retained earnings	20	108,337	105,527
Investment revaluation reserve	20	111	(199)
		<u>183,448</u>	<u>180,328</u>
Total equity and liabilities		<u>426,441</u>	<u>438,497</u>

The consolidated financial statements on pages 6 to 50 were approved by the Board of Directors on

**21 APR 2017**

and were signed on its behalf.

  
.....  
Natividad N. Alejo

  
.....  
Archie Lin

The notes on pages 10 to 50 are an integral part of these consolidated financial statements.



**BPI INTERNATIONAL FINANCE LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31ST DECEMBER 2016**

	Share capital HK\$'000	Investment revaluation reserve HK\$'000	Retained earnings <sup>1</sup> HK\$'000	Total HK\$'000
At 1st January 2015	75,000	(288)	99,587	174,299
Comprehensive income				
Profit for the year	-	-	5,940	5,940
Other comprehensive income				
Change in fair value of available-for-sale securities, net of tax	-	89	-	89
Total comprehensive income for the year	-	89	5,940	6,029
At 31st December 2015 and 1 January 2016	75,000	(199)	105,527	180,328
Comprehensive income				
Profit for the year	-	-	2,810	2,810
Other comprehensive income				
Change in fair value of available-for-sale securities, net of tax	-	310	-	310
Total comprehensive income for the year	-	310	2,810	3,120
At 31st December 2016	75,000	111	108,337	183,448

<sup>1</sup> As at 31st December 2016, an amount of HK\$1,691,649 (2015: HK\$1,691,649) was earmarked from retained earnings as a regulatory reserve. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve, if any, are made directly through retained earnings following consultation with the Hong Kong Monetary Authority.

The notes on pages 10 to 50 are an integral part of these consolidated financial statements.

**BPI INTERNATIONAL FINANCE LIMITED  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31ST DECEMBER 2016**

	Note	2016 HK\$'000	2015 HK\$'000
Net cash inflow from operating activities before taxation	26	9,458	29,732
Net Hong Kong profits tax paid		(1,305)	(805)
Net cash inflow from operating activities after taxation		8,153	28,927
Investing activities			
Purchase of fixed assets		(119)	(938)
Proceeds from disposal of fixed assets		-	2,750
Purchase of held-to-maturity securities		(16,009)	(20,664)
Purchase of available-for-sale securities		(34,955)	(33,604)
Proceeds from redemption/disposal of available-for-sale securities		44,324	50,549
Proceeds from redemption of held-to-maturity securities		25,500	41,790
Net cash inflow from investing activities		18,741	39,883
Increase in cash and cash equivalents		26,894	68,810
Cash and cash equivalents at 1st January		222,056	153,246
Cash and cash equivalents at 31st December		248,950	222,056
Analysis of cash and cash equivalents			
Cash in hand	10	335	158
Balances with banks and other financial institutions	10	66,334	51,318
Placement with banks and other financial institutions with original maturity within three months		182,281	170,580
		248,950	222,056

The notes on pages 10 to 50 are an integral part of these consolidated financial statements.

## **BPI INTERNATIONAL FINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **1 General information**

The principal activities of BPI International Finance Limited (the “Company”) and its subsidiaries (together the “Group”) are the provision of financial services and dealing in securities on behalf of customers. The Company is a deposit-taking company registered under the Hong Kong Banking Ordinance and licensed under the Hong Kong Securities and Futures Ordinance for dealing in securities, advising on securities and asset management activities.

The Company is incorporated in Hong Kong and its registered office is 23/F Entertainment Building, 30 Queen’s Road Central, Hong Kong.

#### **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated

##### **(a) Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

##### *(i) New and amended standards adopted by the Group*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Clarification of acceptable methods of depreciation and amortization – Amendments to HKAS 16 and HKAS 38
- Annual improvements to HKFRSs 2012-2014 Cycle, and
- Disclosure initiative – amendments to HKAS 1.

The adoption of these amendments did not have any impact on the current period or any prior and is not likely to affect future periods.

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**2 Summary of significant accounting policies (Continued)**

**(a) Basis of preparation (Continued)**

*(ii) New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

**HKFRS 9, “Financial instruments”**

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group’s accounting for financial liabilities, as the new requirement 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 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions 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, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard 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.

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**2 Summary of significant accounting policies (Continued)**

**(a) Basis of preparation (Continued)**

*(ii) New standards and interpretations not yet adopted (Continued)*

HKFRS 9, "Financial instruments" (Continued)

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

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 a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- Revenue from service - the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.
- Accounting for certain costs incurred in fulfilling a contract - certain costs which are currently expensed may need to be recognised as an asset under HKFRS 15, and
- Rights of return HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's consolidated financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

HKFRS 16, "Leases"

HKFRS 16 will result in almost all lease being recognised on the balance sheet, as the distinction between operating and finance leases 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 exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating lease. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$26,625,340 see note 21. 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.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**2 Summary of significant accounting policies (Continued)**

**(a) Basis of preparation (Continued)**

*(i) New standards and interpretations not yet adopted (Continued)*

HKFRS 16, "Leases" (Continued)

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

**(b) Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated into the financial statements from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investment in subsidiaries is stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

**(c) Associate**

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

The investment in the associate is accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

In the Company's balance sheet, the investment in the associate is stated at cost less allowance for impairment losses. The result of the associate is accounted for by the Company on the basis of dividend received and receivable.

## BPI INTERNATIONAL FINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 2 Summary of significant accounting policies (Continued)

##### (d) Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

##### (e) Fee and commission income and expense

Fee and commission income and expense are generally recognised on an accrual basis when the service has been provided.

Service fees represents fees received from customers for custodian services. The fees are calculated based on agreed percentages on the value of client investment portfolio over the servicing period. The fee is recognized on an accrual, time-proportionate basis.

Commission income is recognized on completion of the underlying transactions.

##### (f) Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, held-to-maturity securities and available-for-sale securities. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition.

###### (i) *Loans and receivables*

Loans and receivables include cash and short-term funds, placements with banks and other financial institutions and advances to customers. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognized at fair value and subsequently measured at amortised cost using the effective interest method less impairment losses.

## BPI INTERNATIONAL FINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 2 Summary of significant accounting policies (Continued)

##### (f) Financial assets (Continued)

###### (ii) *Held-to-maturity securities*

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction cost, and subsequently measured at amortised cost using the effective interest rate method, less any impairment allowance. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

###### (iii) *Available-for-sale securities*

Available-for-sale securities are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or not classified in any of the other categories.

Available-for-sale securities are stated at fair value. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income and accumulated separately in equity in the investment revaluation reserve until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in the investment revaluation reserve is recognised in the statement of comprehensive income. Interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(d)

Purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

##### (g) Impairment of financial assets

###### (i) *Financial assets carried at amortized cost*

The Group assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.



## BPI INTERNATIONAL FINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 2 Summary of significant accounting policies (Continued)

##### (g) Impairment of financial assets (Continued)

###### (i) *Financial assets carried at amortized cost (Continued)*

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes that asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. If the financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

## BPI INTERNATIONAL FINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 2 Summary of significant accounting policies (Continued)

##### (g) Impairment of financial assets (Continued)

###### (i) *Financial assets carried at amortized cost (Continued)*

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, overdue status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income.

###### (ii) *Financial assets classified as available-for-sale*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of comprehensive income.

## **BPI INTERNATIONAL FINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **2 Summary of significant accounting policies (Continued)**

##### **(h) Financial liabilities**

Financial liabilities are initially recognized at fair value net of transaction costs incurred, and subsequently, carried at amortized cost. Any difference between proceeds net of transaction costs and the redemption value is recognized in the statement of comprehensive income over the period of the financial liabilities using the effective interest method.

##### **(i) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

##### **(j) Impairment of investment in subsidiaries and associates and non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation, but are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

##### **(k) Fixed assets**

Fixed assets are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged in the statement of comprehensive income during the financial period in which they are incurred.

Depreciation of fixed assets is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold improvements	over the remaining period of lease
Furniture, fixtures and equipment	3-5 years

## **BPI INTERNATIONAL FINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **2 Summary of significant accounting policies (Continued)**

##### **(k) Fixed assets (Continued)**

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

##### **(l) Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associate operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred taxation is charged or credited in the statement of comprehensive income except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity, such as the investment revaluation reserve.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

##### **(m) Employee benefits**

###### **(i) Employee leave entitlements**

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are recognised when the absences occur.

**BPI INTERNATIONAL FINANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**2 Summary of significant accounting policies (Continued)**

**(m) Employee benefits (Continued)**

**(ii) Pension obligations**

The Group contributes to defined contribution retirement schemes under either recognised Occupational Retirement Schemes Ordinance (“ORSO”) schemes or Mandatory Provident Fund (“MPF”) schemes that are available to the Group’s employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees’ basic salaries for the ORSO schemes and in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the statement of comprehensive income as incurred and represent contributions payable by the Group to the schemes. Contributions made by the Group that are forfeited by those employees who leave the ORSO scheme prior to the full vesting of their entitlement to the contributions are used by the Group to reduce the existing level of contributions or to meet its expenses under the trust deed of the ORSO schemes.

The assets of the schemes are held in independently-administered funds separate from those of the Group.

**(n) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

**(o) Translation of foreign currencies**

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Hong Kong dollars, which is the Company’s functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions are recognised directly in the statement of comprehensive income. Assets and liabilities denominated in foreign currencies are translated at the closing rate at the balance sheet date. The differences arising from translation are recognised in the statement of comprehensive income except for translation differences on non-monetary items such as debt securities classified as available for-sale securities are included in the other comprehensive income, and accumulated in investment revaluation reserve in equity.

**(p) Operating lease**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the statement of comprehensive income on a straight-line basis over the period of the lease.

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**2 Summary of significant accounting policies (Continued)**

**(q) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When the inflow is virtually certain, it will be recognised as an asset.

**(r) Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash and balances with banks and other financial institutions.

**(s) Related parties**

For the purposes of the consolidated financial statements, a party is considered to be related to the Group if that party controls, jointly controls or has significant influence over the Group; is a member of the same financial reporting group, such as parents, subsidiaries and fellow subsidiaries; is an associate or a joint venture of the Group or parent reporting group; is a key management personnel of the Group or parents, or where the Group and the party are subject to common control. Related parties may be individuals or entities.

**(t) Fiduciary activities**

The Group commonly acts in a fiduciary capacity that results in the holding or placing of assets on behalf of individuals and other institutions. These assets and income arising thereon are excluded from the consolidated financial statements, as they are not assets of the Group.

## **BPI INTERNATIONAL FINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **3 Financial and operational risk management**

The Group's activities are principally related to the use of financial instruments. It accepts deposits from customers, seeks to earn interest margins by investing these funds in high-quality assets and obtaining above-average margins through lending to commercial borrowers.

The Group's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk and interest rate risk) and liquidity risk. Information related to the risk the Group is exposed to and its management and control of the primary risk associated with the use of financial instruments are set out below:

##### **3.1 Credit risk**

The Group takes on exposure to credit risk, which is the risk arising from the possibility that borrowing customers or counterparties in a transaction may default on their payment obligations. It arises from the lending, other activities undertaken by the Group.

The Group has no significant concentrations of credit risk on individual customer. Due to nature of the business of the Group, the Group has geographical concentration of advances to customers (Note 3.1(b)(ii)). Policies and procedures for credit evaluation, approval, documentation, implementation, safekeeping, servicing, administration, collection, and impairment allowances are formalized and approved by the Board of Directors of the Company. Compliance with these policies/procedures is independently reviewed by Group's internal auditors with formal reporting on the results of examinations to Board of Directors of the Company. Risk Management Committee ("RMC") is responsible for the monitoring of the Company's credit risk.

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**3 Financial and operational risk management (Continued)**

**3.1 Credit risk (Continued)**

- (a) Maximum exposures to credit risk before collateral held or other enhancements are summarized as follows:

	2016 HK\$'000	2015 HK\$'000
<b>On-balance sheet assets</b>		
Short-term funds	152,207	119,336
Placements with banks and other financial institutions maturing between one and twelve months	124,057	125,942
Held-to-maturity securities	29,662	39,424
Advances and other accounts	24,606	47,052
Available-for-sale securities	93,734	104,206
<b>Off-balance sheet items</b>		
Loan commitment and contingent liabilities	34,577	22,080
	<u>458,843</u>	<u>458,040</u>

The maximum exposure is a worst case scenario of credit risk exposure to the Group without taking account of any collateral held or other credit enhancements. For on-balance sheet assets, the maximum exposure to credit risk equals their carrying amount. For loan commitment and other credit related liabilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The nature of the collateral held and other credit enhancements and their financial effect to the different classes of the Group's financial assets are as follows:

- i) *Short term funds and placements with banks and other financial institutions maturing between one and twelve months*

These exposures are generally considered to be low risk due to the nature of the counterparties and take into account of credit quality. Collateral is generally not sought on these assets.

- ii) *Held-to-maturity securities and available-for-sale securities*

Collateral is generally not sought on debt securities.

- iii) *Advances and other accounts, loan commitments and contingent liabilities*

The general types of collateral are investment securities and cash deposits. Advances and other accounts, loan commitments are collateralised to the extent considered appropriate by the Group taking account of the risk assessment of individual exposures. The advances to customers are fully collateralised at all time. The Group monitors the market value of the investment securities and ensure that the loan to value ratio is within pre-set limits. The components and nature of contingent liabilities and commitments are disclosed in Note 22. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would assess the necessity to withdraw the credit line in case where the credit quality of a borrower deteriorates. Accordingly, these commitments do not expose the Group to significant credit risk.



**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**3 Financial and operational risk management (Continued)**

**3.1 Credit risk (Continued)**

(b) Gross advances to customers

(i) Gross advances by customer type

	2016 HK\$'000	2015 HK\$'000
Personal	<u>17,986</u>	<u>40,064</u>

As at balance sheet date, there are no loans and advances to customers which are past due or impaired. There are no rescheduled advances as at 31st December 2016 and 2015.

(ii) Geographical concentration of gross advances to customers

The following geographical analysis of gross advances to customers is based on the country of residence of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

	2016 HK\$'000	2015 HK\$'000
The Philippines	<u>17,986</u>	<u>40,064</u>

(c) Debt securities that are neither past due nor impaired

The table below presents an analysis of debt securities by rating agency designation at 31st December, based on the Moody's ratings or their equivalent that the Group has used in relation to credit risk exposures. Refer to Notes 12 and 14 for the analysis on the debt securities by type of issuers.

2016	Available-for- sale securities HK\$'000	Held-to- maturity securities HK\$'000	Total HK\$'000
Aaa	23,145	-	23,145
Aa1 to Aa3	20,858	-	20,858
A1 to A3	23,984	16,107	40,091
Below A3 and above C	24,130	13,555	37,685
Unrated	1,617	-	1,617
	<u>93,734</u>	<u>29,662</u>	<u>123,396</u>

**BPI INTERNATIONAL FINANCE LIMITED****NOTES TO THE FINANCIAL STATEMENTS****3 Financial and operational risk management (Continued)****3.1 Credit risk (Continued)**

(c) Debt securities that are neither past due nor impaired (Continued)

2015	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	Total HK\$'000
Aaa	15,500	-	15,500
Aa1 to Aa3	33,007	-	33,007
A1 to A3	27,888	25,663	53,551
Below A3 and above C	26,143	13,761	39,904
Unrated	1,668	-	1,668
	<u>104,206</u>	<u>39,424</u>	<u>143,630</u>

There are no overdue debt securities as at 31 December 2016 (2015: nil).

**3.2 Market risk**

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Group's exposures to market risk for the non-trading portfolios primarily arise from the interest rate management of the Group's assets and liabilities. Non-trading portfolios also consist of foreign exchange and credit risks arising from the Group's held-to-maturity and available-for-sale investments. Analysis of the Group's currency risk and interest rate risk are stated in Note 3.2(a) and 3.2(b) below, respectively.

(a) Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Except to cover transactional requirements, the Group does not hold positions for trading purposes.

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31st December. Included in the tables are the Group's assets and liabilities at carrying amounts in Hong Kong dollar equivalent, categorised by the original currency.

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**3 Financial and operational risk management (Continued)**

**3.2 Market risk (Continued)**

(a) Currency risk (Continued)

	2016			
	HKD HK\$'000	USD HK\$'000	Other HK\$'000	Total HK\$'000
<b>Assets</b>				
Cash and short-term funds	31,483	117,729	3,330	152,542
Placements with banks and other financial institutions maturing between one and twelve months	26,814	75,296	21,947	124,057
Held-to-maturity securities	16,107	13,555	-	29,662
Advances and other accounts	3,765	20,749	92	24,606
Current tax assets	828	-	-	828
Available-for-sale securities	-	85,734	8,000	93,734
Fixed assets	631	179	-	810
Deferred tax assets	202	-	-	202
<b>Total assets</b>	<b>79,830</b>	<b>313,242</b>	<b>33,369</b>	<b>426,441</b>
<b>Liabilities</b>				
Deposits from customers	257	203,182	33,173	236,612
Other payables	3,733	2,058	5	5,796
Tax payable	585	-	-	585
<b>Total liabilities</b>	<b>4,575</b>	<b>205,240</b>	<b>33,178</b>	<b>242,993</b>
<b>Net on-balance sheet position</b>	<b>75,255</b>	<b>108,002</b>	<b>191</b>	<b>183,448</b>
<b>Credit commitments</b>	<b>-</b>	<b>34,577</b>	<b>-</b>	<b>34,577</b>

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**3 Financial and operational risk management (Continued)**

**3.2 Market risk (Continued)**

(a) Currency risk (Continued)

	2015			
	HKD HK\$'000	USD HK\$'000	Other HK\$'000	Total HK\$'000
<b>Assets</b>				
Cash and short-term funds	27,812	87,503	4,179	119,494
Placements with banks and other financial institutions maturing between one and twelve months	19,505	82,959	23,478	125,942
Held-to-maturity securities	25,663	13,761	-	39,424
Advances and other accounts	3,580	43,290	182	47,052
Current tax assets	242	-	-	242
Available-for-sale securities	-	96,159	8,047	104,206
Fixed assets	1,576	446	-	2,022
Deferred tax assets	115	-	-	115
<b>Total assets</b>	<b>78,493</b>	<b>324,118</b>	<b>35,886</b>	<b>438,497</b>
<b>Liabilities</b>				
Deposits from customers	255	215,672	35,019	250,946
Other payables	4,221	2,640	4	6,865
Tax payable	358	-	-	358
<b>Total liabilities</b>	<b>4,834</b>	<b>218,312</b>	<b>35,023</b>	<b>258,169</b>
<b>Net on-balance sheet position</b>	<b>73,659</b>	<b>105,806</b>	<b>863</b>	<b>180,328</b>
<b>Credit commitments</b>	<b>-</b>	<b>22,080</b>	<b>-</b>	<b>22,080</b>

## **BPI INTERNATIONAL FINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **3 Financial and operational risk management (Continued)**

##### **3.2 Market risk (Continued)**

###### **(b) Interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of change in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movement arise. The Assets and Liabilities Committee ("ALCO") regularly meets to review historical information and make forecasts. Once a month, a formal report of average rates of interest income and expenses are presented to the senior management of the Group.

The tables below summarise the Group's exposure to interest rate risk as at 31st December. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates (other than non-interest bearing balances).

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**3 Financial and operational risk management (Continued)**

**3.2 Market risk (Continued)**

(b) Interest rate risk (Continued)

	2016						Total HK\$'000
	Up to 1 month HK\$'000	1 - 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non - interest bearing HK\$'000	
<b>Assets</b>							
Cash and short-term funds	152,207	-	-	-	-	335	152,542
Placements with banks and other financial institutions maturing between one and twelve months	-	96,407	27,650	-	-	-	124,057
Held-to-maturity securities	9,529	8,580	7,526	4,027	-	-	29,662
Advances and other accounts	3,811	3,954	10,221	-	-	6,620	24,606
Current tax assets	-	-	-	-	-	828	828
Available-for-sale securities	4,709	11,639	31,125	45,471	790	-	93,734
Fixed assets	-	-	-	-	-	810	810
Deferred tax assets	-	-	-	-	-	202	202
<b>Total assets</b>	<b>170,256</b>	<b>120,580</b>	<b>76,522</b>	<b>49,498</b>	<b>790</b>	<b>8,795</b>	<b>426,441</b>
<b>Liabilities</b>							
Deposits from customers	44,809	130,323	61,480	-	-	-	236,612
Other payables	-	-	-	-	-	5,796	5,796
Tax payable	-	-	-	-	-	585	585
<b>Total liabilities</b>	<b>44,809</b>	<b>130,323</b>	<b>61,480</b>	<b>-</b>	<b>-</b>	<b>6,381</b>	<b>242,993</b>
<b>Interest sensitivity gap</b>	<b>125,447</b>	<b>(9,743)</b>	<b>15,042</b>	<b>49,498</b>	<b>790</b>		

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**3 Financial and operational risk management (Continued)**

**3.2 Market risk (Continued)**

**(b) Interest rate risk (Continued)**

	2015						Total HK\$'000
	Up to 1 month HK\$'000	1 - 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non - interest bearing HK\$'000	
<b>Assets</b>							
Cash and short-term funds	119,336	-	-	-	-	158	119,494
Placements with banks and other financial institutions maturing between one and twelve months	-	102,562	23,380	-	-	-	125,942
Held-to-maturity securities	11,120	-	14,543	13,761	-	-	39,424
Advances and other accounts	26,694	4,343	9,028	-	-	6,987	47,052
Current tax assets	-	-	-	-	-	242	242
Available-for-sale securities	3,964	11,643	23,700	64,103	796	-	104,206
Fixed assets	-	-	-	-	-	2,022	2,022
Deferred tax assets	-	-	-	-	-	115	115
<b>Total assets</b>	<b>161,114</b>	<b>118,548</b>	<b>70,651</b>	<b>77,864</b>	<b>796</b>	<b>9,524</b>	<b>438,497</b>
<b>Liabilities</b>							
Deposits from customers	45,438	135,157	70,351	-	-	-	250,946
Other payables	-	-	-	-	-	6,865	6,865
Tax payable	-	-	-	-	-	358	358
<b>Total liabilities</b>	<b>45,438</b>	<b>135,157</b>	<b>70,351</b>	<b>-</b>	<b>-</b>	<b>7,223</b>	<b>258,169</b>
<b>Interest sensitivity gap</b>	<b>115,675</b>	<b>(16,609)</b>	<b>300</b>	<b>77,864</b>	<b>796</b>		

## BPI INTERNATIONAL FINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 3 Financial and operational risk management (Continued)

##### 3.2 Market risk (Continued)

(c) Market risk sensitivity analysis

(i) Currency risk

As at 31st December 2016 and 2015, the Group's foreign currency exposure is mainly to US dollar. As HK dollar and USD dollar are pegged, it is expected that any movements in the exchange rate will have minimal impact to the earnings of the Group.

(ii) Interest rate risk

The Group's interest rate risk mainly arises from the timing differences in the repricing of interest bearing assets, liabilities and off balance sheet positions.

The Group is principally exposed to HK dollar, US dollar, and Australian dollar in terms of interest rate risk. At 31 December 2016, if HK dollar, US dollar, and Australia dollar market interest rates had been 50 basis point lower/higher with other variables held constant, earnings of the Group over the next 12 months would be reduced/increased by HK\$ 242,952 (2015: HK\$1,025,750).

##### 3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and other creditors and fulfil commitments to lend.

(a) Liquidity risk management process

The liquidity condition of the Group is monitored on a daily basis by the Company's chief executive. The balance between liquidity and profitability is carefully considered but the former is given higher priority in case of conflicts in meeting targets or regulatory requirements. The liquidity management processes are as below:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met.
- Performing periodic liquidity stress testing on Company's liquidity position by assuming a faster rate of withdrawals in its deposit base.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flows.
- Monitoring liquidity gaps against internal and regulatory requirements.



**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**3 Financial and operational risk management (Continued)**

**3.3 Liquidity risk (Continued)**

(b) Maturity analysis

The tables below analyse assets and liabilities of the Group as at 31st December into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts disclosed in the tables below are the approximation of the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows.

	2016							Total HK\$'000
	Repayable on demand	Up to 1 month	1 - 3 months	3 - 12 Months	1 - 5 years	Over 5 years	Undated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Assets</b>								
Cash and short-term funds	66,669	85,873	-	-	-	-	-	152,542
Placements with banks and other financial institutions maturing between one and twelve months	-	-	96,407	27,650	-	-	-	124,057
Held-to-maturity securities	-	9,529	8,580	7,526	4,027	-	-	29,662
Advances and other accounts	-	4,137	4,001	13,183	624	-	2,661	24,606
Current tax assets	-	-	-	-	-	-	828	828
Available-for-sale securities	-	4,709	11,639	31,125	45,471	790	-	93,734
Fixed assets	-	-	-	-	-	-	810	810
Deferred tax assets	-	-	-	-	-	-	202	202
<b>Total assets</b>	<b>66,669</b>	<b>104,248</b>	<b>120,627</b>	<b>79,484</b>	<b>50,122</b>	<b>790</b>	<b>4,501</b>	<b>426,441</b>
<b>Liabilities</b>								
Deposits from customers	-	44,809	130,323	61,480	-	-	-	236,612
Other payables	2,037	2,394	-	815	467	-	83	5,796
Tax payable	-	-	-	-	-	-	585	585
<b>Total liabilities</b>	<b>2,037</b>	<b>47,203</b>	<b>130,323</b>	<b>62,295</b>	<b>467</b>	<b>-</b>	<b>668</b>	<b>242,993</b>
<b>Net liquidity gap</b>	<b>64,632</b>	<b>57,045</b>	<b>(9,696)</b>	<b>17,189</b>	<b>49,655</b>	<b>790</b>	<b>3,834</b>	<b>183,448</b>

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**3 Financial and operational risk management (Continued)**

**3.3 Liquidity risk (Continued)**

**(b) Maturity analysis (Continued)**

	2015							Total HK\$'000
	Repayable on demand	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Undated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Assets</b>								
Cash and short-term funds	51,476	68,018	-	-	-	-	-	119,494
Placements with banks and other financial institutions maturing between one and twelve months	-	-	102,562	23,380	-	-	-	125,942
Held-to-maturity securities	-	11,120	-	14,543	13,761	-	-	39,424
Advances and other accounts	-	26,897	4,457	12,694	593	-	2,411	47,052
Current tax assets	-	-	-	-	-	-	242	242
Available-for-sale securities	-	3,964	11,643	23,700	64,103	796	-	104,206
Fixed assets	-	-	-	-	-	-	2,022	2,022
Deferred tax assets	-	-	-	-	-	-	115	115
<b>Total assets</b>	<b>51,476</b>	<b>109,999</b>	<b>118,662</b>	<b>74,317</b>	<b>78,457</b>	<b>796</b>	<b>4,790</b>	<b>438,497</b>
<b>Liabilities</b>								
Deposits from customers	-	45,438	135,157	70,351	-	-	-	250,946
Other payables	1,442	2,598	-	2,286	467	-	72	6,865
Tax payable	-	-	-	-	-	-	358	358
<b>Total liabilities</b>	<b>1,442</b>	<b>48,036</b>	<b>135,157</b>	<b>72,637</b>	<b>467</b>	<b>-</b>	<b>430</b>	<b>258,169</b>
<b>Net liquidity gap</b>	<b>50,034</b>	<b>61,963</b>	<b>(16,495)</b>	<b>1,680</b>	<b>77,990</b>	<b>796</b>	<b>4,360</b>	<b>180,328</b>

**(c) Off-balance sheet items**

**Loan commitments**

The contractual amounts of the Group's off-balance sheet financial instruments as at 31st December 2016 that commit it to extend credit to customers and other facilities amounted to HK\$34,577,055 (2015: HK\$22,079,590) and mature within 1 year.

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**3 Financial and operational risk management (Continued)**

**3.4 Fair value of financial assets and liabilities**

(a) Financial Instrument carried at other than fair value

The financial assets and liabilities not presented at fair value in the Group's consolidated balance sheet are estimated as follows:

(i) Balances and placements with banks

The maturities of these financial assets are within one year and the carrying value approximates fair value.

(ii) Advances and other accounts

The maturities of most of the advances and other accounts are within one year and their carrying value approximates fair value.

(iii) Deposits from customers

All the deposits from customers mature within one year from balance sheet date and their carrying value approximates fair value.

(iv) Other payables

The carrying amount of other payables, which are normally repayable within one year, approximate to their fair value.

The following table summarises the carrying amounts and fair values of the financial assets and liabilities, apart from those disclosed above, not presented on the Group's consolidated balance sheet at their fair value.

The Group

	Carrying value		Fair value	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Financial assets				
Held-to-maturity securities	<u>29,662</u>	<u>39,424</u>	<u>29,723</u>	<u>39,644</u>

Fair value for held-for-maturity securities is based on quoted market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**3 Financial and operational risk management (Continued)**

**3.4 Fair value of financial assets and liabilities (Continued)**

(b) Financial instruments measured at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter market) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable. The instrument is included in level 2.

Financial instruments measured at fair value are classified into following three levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as price) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016.

	<b>2016</b>			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Financial assets</b>				
Available-for sale securities				
- Debt securities	-	93,734	-	93,734
<b>Total</b>	-	93,734	-	93,734
	<b>2015</b>			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Financial assets</b>				
Available-for sale securities				
- Debt securities	-	104,206	-	104,206
<b>Total</b>	-	104,206	-	104,206

There were no transfers between levels 1 and 2 during the year.

Level 2 fair values of debt securities have been determined based on quotes from brokers supported by observable inputs.

## **BPI INTERNATIONAL FINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **3 Financial and operational risk management (Continued)**

##### **3.5 Capital management**

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of balance sheets, are:

- To comply with the capital requirements under the Banking (Capital) Rule of the Hong Kong Banking Ordinance;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To allocate capital in an efficient and risk based approach to optimise risk adjusted return to the shareholders; and
- To maintain a strong capital base to support the development of its business.

For the Company's funding requirements, it relies principally on time deposits from customers and parent bank as well as internally generated capital. The Company adopts a prudent policy on capital management and the funding position is monitored and reviewed regularly to ensure it is at a reasonable cost.

The Hong Kong Banking Ordinance requires each authorized institution to maintain a ratio of total regulatory capital to the risk-weighted assets (the capital adequacy ratio) at or above the minimum of 8%.

During the year ended 31st December 2016 and 2015, the Company complied with the capital requirements under the Hong Kong Banking Ordinance.

##### **3.6 Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external sources. Operational risk management (ORM) involves the management of all business processes, employees and manual and automated systems to minimise the adverse effects of these risks.

The Group has put in place an internal control process that requires the establishment of policies and procedures for key business activities. Proper segregation of duties and authorisation are the fundamental principles followed by the Group. It is the duty of every employee to manage the risks inherent to his functions. The supervisors have the primary responsibility to monitor compliance with existing ORM policies, standards, guidelines and procedures.

Business continuity plans are in place to support business operations in the event of emergency or disaster.

## BPI INTERNATIONAL FINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 4 Critical accounting estimates and assumptions

The Group makes certain assumptions and estimates in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Held-to-maturity securities

The Group follows the guidance of HKAS 39 on classifying on-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would then be measured at fair value instead of amortized cost.

(b) Impairment assessment on investments in debt securities included in the available-for-sale and held-to-maturity

The Group has conducted assessment of its investments in debt securities included in the available-for-sale ("AFS"), and held-to-maturity ("HTM") categories as of the end of the year and up to the date of the approval of the consolidated financial statements of the Group. Assessment for any impairment, on individual basis, is determined based on judgement and judgement is made with reference to the financial strength and credit rating of each issuer, and industry development and market conditions. The Group has concluded that there are no objective or specific indications that any of its AFS, and HTM securities is impaired.

(c) Income taxes

When applying the relevant tax rules, there are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. In these circumstances, judgement is involved in determining the group-wide provision for income taxes. The Group recognizes liabilities for expected tax issues based on reasonable estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

#### 5 Interest income

	2016 HK\$'000	2015 HK\$'000
Interest income on investments in securities	2,741	3,545
Interest income on placements with banks	1,751	1,076
Interest income from advances to customers	525	1,022
	<u>5,017</u>	<u>5,643</u>

**BPI INTERNATIONAL FINANCE LIMITED****NOTES TO THE FINANCIAL STATEMENTS****6 Other operating income**

	2016 HK\$'000	2015 HK\$'000
Service fees and commission income	14,513	16,181
Foreign exchange gains from customer transactions	12,626	8,147
Net gain from dealing in securities	5,581	3,749
Net gain on redemption/ disposal of available-for-sale securities	-	29
Other income	6	106
	<u>32,726</u>	<u>28,212</u>

**7 Operating expenses**

	2016 HK\$'000	2015 HK\$'000
Staff costs:		
- Wages and salaries	13,236	8,897
- Unutilized Annual Leaves	233	149
- Pension costs - defined contribution plans	342	244
- Other benefits and allowance	3,533	2,425
Rental of premises	6,301	6,190
Depreciation (Note 17)	1,330	1,388
Auditor's remuneration	933	1,157
Telecommunication and postage	885	686
Other operating expenses	5,490	3,531
	<u>32,283</u>	<u>24,667</u>

Staff costs include directors' emoluments (Note 8).

**8 Directors' emoluments**

	2016 HK\$'000	2015 HK\$'000
Salaries	1,226	1,009
Housing allowance	285	277
Employer's contribution to a retirement scheme	8	-
	<u>1,519</u>	<u>1,286</u>

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**9 Income tax expense**

Hong Kong profits tax has been calculated at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year.

The amount of taxation charged to profit or loss represents:

	2016 HK\$'000	2015 HK\$'000
Current income tax		
- Hong Kong profits tax	1,045	1,281
- Adjustment in respect of prior years	(99)	(4)
Deferred taxation relating to the origination and reversal of temporary differences (Note 18)	(147)	(56)
	<u>799</u>	<u>1,221</u>
Net charge to profit or loss	<u><u>799</u></u>	<u><u>1,221</u></u>

The taxation on the Group's profits before taxation differs from the theoretical amount that would arise using the taxation rate in Hong Kong as follows:

	2016 HK\$'000	2015 HK\$'000
Profit before taxation	<u>3,609</u>	<u>7,161</u>
Calculated at a taxation rate of 16.5% (2015: 16.5%)	595	1,182
Income not subject to taxation	(2)	(7)
Expenses not deductible for taxation purpose	37	50
Adjustment in respect of prior years	(99)	(4)
Tax loss for which no deferred tax asset was recognised	268	-
	<u>799</u>	<u>1,221</u>
	<u><u>799</u></u>	<u><u>1,221</u></u>

The tax credit relating to components of other comprehensive income is as follows:

	2016			2015		
	Before tax HK\$'000	Tax debit HK\$'000	After tax HK\$'000	Before tax HK\$'000	Tax credit HK\$'000	After tax HK\$'000
Change in value of available-for-sale investment	<u>370</u>	<u>(60)</u>	<u>310</u>	<u>107</u>	<u>(18)</u>	<u>89</u>
Other comprehensive income	<u>370</u>	<u>(60)</u>	<u>310</u>	<u>107</u>	<u>(18)</u>	<u>89</u>
Deferred tax asset/ (liabilities) (Note 18)		<u>(60)</u>			<u>(18)</u>	



**BPI INTERNATIONAL FINANCE LIMITED****NOTES TO THE FINANCIAL STATEMENTS****10 Cash and short-term funds**

	2016 HK\$'000	2015 HK\$'000
Cash in hand	335	158
Cash and balances with banks and other financial institutions	66,334	51,318
Placements with banks and other financial institutions maturing within one month	85,873	68,018
	<u>152,542</u>	<u>119,494</u>

**11 Placements with banks and other financial institutions maturing between one and twelve months**

	2016 HK\$'000	2015 HK\$'000
Placements with banks and other financial institutions		
- maturing between 1 and 3 months	96,408	102,562
- maturing between 3 and 12 months	27,649	23,380
	<u>124,057</u>	<u>125,942</u>

**12 Held-to-maturity securities**

	2016 HK\$'000	2015 HK\$'000
Debt securities		
- Unlisted and issued by banks and other financial institutions	16,106	25,663
- Listed outside Hong Kong and issued by banks and other financial institutions	13,556	13,761
	<u>29,662</u>	<u>39,424</u>
Fair value of unlisted securities	16,103	25,762
Fair value of listed securities	13,620	13,882
	<u>29,723</u>	<u>39,644</u>

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**13 Advances and other accounts**

	2016 HK\$'000	2015 HK\$'000
Advances to customers	17,986	40,064
Other accounts	6,620	6,988
	<u>24,606</u>	<u>47,052</u>

**14 Available-for-sale securities**

	2016 HK\$'000	2015 HK\$'000
At fair value:		
Debt securities		
- Listed outside Hong Kong and issued by banks and other financial institutions	31,827	41,583
- Listed inside Hong Kong and issued by banks and other financial institutions	7,912	11,965
- Listed outside Hong Kong and issued by corporate entities	1,552	1,551
- Listed inside Hong Kong and issued by corporate entities	7,885	7,936
- Listed outside Hong Kong and issued by central government	37,681	22,617
- Unlisted and issued by banks and other financial institutions	6,877	18,554
	<u>93,734</u>	<u>104,206</u>

**15 Associate**

	2016 HK\$'000	2015 HK\$'000
Unlisted shares, cost	1,137	1,137
Allowance for impairment loss	(1,137)	(1,137)
	<u>-</u>	<u>-</u>

Particulars of the associate are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Percentage of issued ordinary share capital held</u>	<u>Principal activity</u>
AF Capital Sdn Bhd	Malaysia	49	Dormant

No summary financial information of the associate is provided as the company is dormant.

**BPI INTERNATIONAL FINANCE LIMITED****NOTES TO THE FINANCIAL STATEMENTS****16 Subsidiaries**

The following is a list of the principle subsidiaries at 31 December 2016:

Name	Proportion of ordinary shares directly held by the company (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Proportion of preference shares held by the Group (%)
BPI Nominees Limited	50.00%	100.00%	-	-
BPI Remittance Centre (HK) Limited	99.99%	100.00%	-	-
Begara Company Limited	100.00%	100.00%	-	-
Hilldale Company Limited	100.00%	100.00%	-	-

Begara Company Limited and Hilldale Company Limited have been deregistered on the date of 13 January 2017.

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**17 Fixed assets**

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
<b>At 1st January 2015</b>			
Cost	2,658	929	3,587
Accumulated depreciation	(487)	(628)	(1,115)
Net book amount	<u>2,171</u>	<u>301</u>	<u>2,472</u>
<b>Year ended 31st December 2015</b>			
Opening net book amount	2,171	301	2,472
Additions	19	919	938
Depreciation charge	(886)	(502)	(1,388)
Closing net book amount	<u>1,304</u>	<u>718</u>	<u>2,022</u>
<b>At 31st December 2015 and 1st January 2016</b>			
Cost	2,677	1,635	4,312
Accumulated depreciation	(1,373)	(917)	(2,290)
Net book amount	<u>1,304</u>	<u>718</u>	<u>2,022</u>
<b>Year ended 31st December 2016</b>			
Opening net book amount	1,304	718	2,022
Additions	39	80	119
Written off	-	(1)	(1)
Depreciation charge	(895)	(435)	(1,330)
Closing net book amount	<u>448</u>	<u>362</u>	<u>810</u>
<b>At 31st December 2016</b>			
Cost	2,716	1,691	4,407
Accumulated depreciation	(2,268)	(1,329)	3,597
Net book amount	<u>448</u>	<u>362</u>	<u>810</u>

**BPI INTERNATIONAL FINANCE LIMITED****NOTES TO THE FINANCIAL STATEMENTS****18 Deferred taxation**

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2015: 16.5%).

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2016 HK\$'000	2015 HK\$'000
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	224	115
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	22	-

The movement on the deferred tax assets/(liabilities) are as follows:

	2016 HK\$'000	2015 HK\$'000
Deferred tax assets		
At 1st January	115	77
Charged to statement of comprehensive income (Note 9)	147	56
Credit directly to equity (Note 9)	(38)	(18)
At 31st December	224	115
Deferred tax liabilities		
At 1st January	-	-
Charged to statement of comprehensive income (Note 9)	-	-
Charged directly to equity (Note 9)	22	-
At 31st December	22	-

As at 31st December 2016, deferred tax assets/liabilities on the balance sheet is comprised of temporary differences from investment revaluation reserves for available-for-sale investments and accelerated tax depreciation.

**BPI INTERNATIONAL FINANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**18 Deferred taxation (Continued)**

	Investment revaluation reserve for available- for-sale securities		Accelerated tax depreciation		Total	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Deferred tax assets						
At 1st January	38	56	77	21	115	77
Recognised in the statement of comprehensive income	(38)	(18)	147	56	109	38
At 31st December	<u>-</u>	<u>38</u>	<u>224</u>	<u>77</u>	<u>224</u>	<u>115</u>
Deferred tax liabilities						
At 1st January	-	-	-	-	-	-
Recognised in the statement of comprehensive income	22	-	-	-	22	-
At 31st December	<u>22</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22</u>	<u>-</u>

**19 Share capital**

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital HK\$'000
At 1 January 2015, 31 December 2015 and 31 December 2016	<u>75,000</u>	<u>75,000</u>

**20 Reserves**

The Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 8 of the consolidated financial statements.

**21 Lease commitments**

At 31st December the future aggregate minimum lease payment under non-cancellable operating leases in respect of the premises is as follows:

	2016 HK\$'000	2015 HK\$'000
No later than one year	11,649	10,740
Later than one year and no later than five years	14,977	4,656
	<u>26,626</u>	<u>15,396</u>

**BPI INTERNATIONAL FINANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**22 Off-balance sheet exposures**

Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment as at 31st December:

	2016 HK\$'000	2015 HK\$'000
Loan commitments with an original maturity of under 1 year or which are unconditionally cancellable	34,577	22,080
	<u>34,577</u>	<u>22,080</u>

**23 Loans to officers**

There is no loan made to officers as pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32).

**24 Related party transactions**

Following transaction was carried out with related parties:

(a) Transaction amount during the year with related parties:

	2016 HK\$'000	2015 HK\$'000
Interest income generated from the cash and placement with the ultimate holding company	19	1
System services charge from ultimate holding company	1,405	811
	<u>1,424</u>	<u>812</u>

System service charge represents charges for usage of ultimate holding company's remittance system. Charges are calculated based on a fixed fee per remittance transaction executed through the system.

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**24 Related party transactions (Continued)**

(b) Year-end balances with related parties:

		2016 HK\$'000	2015 HK\$'000
Bank balance held in ultimate holding company	(a)	4,035	2,619
Accounts payable to ultimate holding company	(b)	996	773
Other payable to ultimate holding company	(c)	129	111
		<u>5,160</u>	<u>3,503</u>

(a) The bank balance held with the ultimate holding company which is a bank in the Republic of the Philippines. The balance are secured in nature and interest-bearing at commercial rate.

(b) The accounts payables to ultimate holding company arise mainly from remittance transaction for customer. The payables are repayable within the next working day in the Philippines.

(c) The other payables to ultimate holding company represents fees payable for usage of remittance system owned by the ultimate holding company. The payables are repayable on demand.

(c) Key management compensation:

Key management includes director, heads of departments. The compensation paid or payable to key management for employee services is shown below:

	2016 HK\$'000	2015 HK\$'000
Salaries and other short-term employee benefits	<u>8,115</u>	<u>4,529</u>

Director compensation is also disclosed in note 8 to the financial statements.



**BPI INTERNATIONAL FINANCE LIMITED****NOTES TO THE FINANCIAL STATEMENTS****25 Note to the cash flow statement**

Reconciliation of profit before taxation to net cash inflow from operating activities:

	2016 HK\$'000	2015 HK\$'000
Profit before taxation	3,609	7,161
Net interest income	(3,166)	(3,616)
Depreciation of fixed assets	1,330	1,388
Net gain on disposal of available-for-sale securities	-	(29)
Net gain of disposal of fixed assets	-	(2,750)
Written off of fixed assets	1	-
Interest received	6,776	10,644
Interest paid	(1,878)	(2,091)
	<hr/>	<hr/>
Operating cash inflow before changes in operating assets and liabilities	6,672	10,707
Change in placements with banks and other financial institutions with original maturity over three months	(4,269)	(3,875)
Change in advances and other accounts	22,431	35,857
Change in deposits from customers	(14,307)	(13,676)
Change in other payables	(1,069)	719
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>9,458</u>	<u>29,732</u>

**26 Immediate and ultimate holding company**

The immediate and ultimate holding company is Bank of the Philippine Islands, a bank incorporated and listed in the Republic of the Philippines.

**27 Events after reporting period**

During the first quarter of 2017, the Group renewed several non-cancellable operating leases for the use of its operations and staff quarters.

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

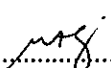
**28 Balance Sheet and reserve movement of the Company**

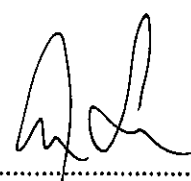
**Balance sheet of the Company**

	2016 HK\$'000	2015 HK\$'000
<b>Assets</b>		
Cash and short-term funds	124,672	97,324
Placements with banks and other financial institutions maturing between one and twelve months	124,057	125,942
Held-to-maturity securities	29,662	39,424
Advances and other accounts	23,757	46,259
Current tax assets	828	242
Available-for-sale securities	93,734	104,206
Investment in associate	-	-
Investment in subsidiaries	500	500
Fixed assets	774	1,965
Deferred tax assets	201	115
<b>Total assets</b>	<u><u>398,185</u></u>	<u><u>415,977</u></u>
<b>Liabilities</b>		
Deposits from customers	236,612	250,946
Other payables	3,434	4,627
<b>Total liabilities</b>	<u><u>240,046</u></u>	<u><u>255,573</u></u>
<b>Equity</b>		
Share capital	75,000	75,000
Retained earnings	83,028	85,603
Investment revaluation reserve	111	(199)
	<u><u>158,139</u></u>	<u><u>160,404</u></u>
<b>Total equity and liabilities</b>	<u><u>398,185</u></u>	<u><u>415,977</u></u>

The balance sheet of the Company was approved by the Board of Directors on and was signed on its behalf

**21 APR 2017**

  
 .....  
 Natividad N. Alejo

  
 .....  
 Archie Lin

**BPI INTERNATIONAL FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**28 Balance Sheet and reserve movement of the Company (Continued)**

**Reserve movement of the Company**

	Retained earnings <sup>1</sup> HK\$'000	Investment revaluation reserve HK\$'000	Total HK\$'000
At 1 January 2015	82,033	(288)	81,745
Profit for the year	3,570	-	3,570
Change in fair value of available-for-sale securities, net of tax	-	89	89
<b>At 31st December 2015</b>	<b>85,603</b>	<b>(199)</b>	<b>85,404</b>
At 1 January 2016	85,603	(199)	85,404
Loss for the year	(2,575)	-	(2,575)
Change in fair value of available-for-sale securities, net of tax	-	310	310
<b>At 31st December 2016</b>	<b>83,028</b>	<b>111</b>	<b>83,139</b>

<sup>1</sup>As at 31st December 2016, an amount of HK\$1,691,649 (2015: HK\$1,691,649) was earmarked from retained earnings as a regulatory reserve. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve, if any, are made directly through retained earnings following consultation with the Hong Kong Monetary Authority.

**29 Approval of financial statements**

The financial statements were approved by the board of directors on **21 APR 2017**

## BPI INTERNATIONAL FINANCE LIMITED

### UNAUDITED SUPPLEMENTARY INFORMATION

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements.

#### 1 Liquidity Position

	2016	2015
Average liquidity maintenance ratio	<u>643.92%</u>	<u>682.80%</u>

The liquidity maintenance ratio ("LMR") is calculated in accordance with the Banking (Liquidity) Rules effective from 1st January 2015. The average liquidity maintenance ratio is calculated based on the average value of the LMR for each calendar month as reported in the liquidity position return submitted to HKMA.

#### Liquidity risk management process

The liquidity condition of the Group is monitored on a daily basis by the Company's chief executive. The balance between liquidity and profitability is carefully considered but the former is given higher priority in case of conflicts in meeting targets or regulatory requirements.

#### 2 Other than functional currency concentrations

	EUR HK\$'000	US\$ HK\$'000	GBP HK\$'000	AUD HK\$'000	PHP HK\$'000	Total HK\$'000
Equivalent in Hong Kong dollars						
2016						
Spot assets	405	313,242	51	32,838	75	346,611
Spot liabilities	(384)	(205,240)	-	(32,788)	(6)	(238,418)
Net long position	<u>21</u>	<u>108,002</u>	<u>51</u>	<u>50</u>	<u>69</u>	<u>108,193</u>
Net structural position		<u>-</u>				<u>-</u>
2015						
Spot assets	1,028	324,118	2,115	32,660	83	360,004
Spot liabilities	(1,084)	(218,312)	(1,386)	(32,549)	(4)	(253,335)
Net long position	<u>(56)</u>	<u>105,806</u>	<u>729</u>	<u>111</u>	<u>79</u>	<u>106,669</u>
Net structural position		<u>-</u>				<u>-</u>

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION**

**3 Non-Bank Mainland China Exposures**

The analysis of mainland activities exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the Hong Kong Monetary Authority (“HKMA”) under the Banking (Disclosure) Rules with reference to the HKMA Return of Mainland activities. This includes the mainland activities exposures extended by the Bank and its mainland banking subsidiary.

<b>2016</b>	On-balance sheet exposure	Off-balance sheet exposure	Total exposure
1. Central government, central government-owned entities and their subsidiaries and JVs	6,269	-	6,269
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
	<hr/> 6,269	-	6,269
Total assets after provision	<hr/> 396,515		
On-balance sheet exposures as percentage of total assets	<hr/> <hr/> 1,58%		
<b>2015 (Restated)</b>			
1. Central government, central government-owned entities and their subsidiaries and JVs	6,268		6,268
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
	<hr/> 6,268	-	6,268
Total assets after provision	<hr/> 415,977		
On-balance sheet exposures as percentage of total assets	<hr/> <hr/> 1,51%		

**BPI INTERNATIONAL FINANCE LIMITED****UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)****4 Capital structure and adequacy**

The calculation of the capital adequacy ratio as at 31st December 2016 and 2015 is based on the Banking (Capital) Rules ("BCR"). The capital adequacy ratio represent the consolidated ratio of the Company and BPI Remittance Centre (HK) Limited computed in accordance with section 3C(1) of the BCR.

The table below presents the balance sheets based on the accounting scope of consolidation and the regulatory scope of the consolidation respectively as at 31st December 2016.

	<b>Consolidated balance sheet as in published consolidated financial statements As at 31<sup>st</sup> December 2016 HK\$'000</b>	<b>Under regulatory scope of consolidation As at 31<sup>st</sup> December 2016 HK\$'000</b>
<b>Assets</b>		
Cash and short-term funds	152,542	152,542
Placements with banks and other financial institutions maturing between one and twelve months	124,057	124,057
Held-to-maturity securities	29,662	29,662
Advances and other accounts	24,606	24,606
Current tax assets	828	828
Available-for-sale securities	93,734	93,734
Investment in associate	-	-
Fixed assets	810	810
Deferred tax assets	202	202
Total assets	<u>426,441</u>	<u>426,441</u>
<b>Liabilities</b>		
Time deposits from customers	236,612	236,612
Other payables	5,796	5,796
Tax payable	585	585
Total liabilities	<u>243,993</u>	<u>243,993</u>
<b>Shareholders' Equity</b>		
Equity attributable to shareholders	183,448	183,448
Non-controlling interests	-	-
Total shareholders' equity	<u>183,448</u>	<u>183,448</u>
Total liabilities and shareholders' equity	<u>426,441</u>	<u>426,441</u>

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The table below shows the reconciliation of the capital components from balance sheet based on regulatory scope of the consolidation to the Capital Disclosures Template.

	<b>Consolidated balance sheet as in published consolidated financial statements As at 31st December 2016 HK\$'000</b>	<b>Under regulatory scope of consolidation As at 31st December 2016 HK\$'000</b>	Cross reference to Definition of Capital Components
<b>Assets</b>			
Cash and short-term funds	152,542	152,542	
Placements with banks and other financial institutions maturing between one and twelve months	124,057	124,057	
Held-to-maturity securities	29,662	29,662	
Advances and other accounts	24,606	24,606	
Current tax assets	828	828	
Available-for-sale securities	93,734	93,734	
Investment in associate	-	-	
Fixed assets	810	810	
Deferred tax assets	202	202	
<i>of which: deferred tax assets</i>	<i>202</i>	<i>202</i>	(1)
<b>Total assets</b>	<b>426,441</b>	<b>426,441</b>	
<b>Liabilities</b>			
Time deposits from customers	236,612	236,612	
Other payables	5,796	5,796	
Tax payable	585	585	
<b>Total liabilities</b>	<b>242,993</b>	<b>242,993</b>	
<b>Shareholders' Equity</b>			
Equity attributable to shareholders	183,448	183,448	
<i>of which: paid-in share capital</i>	<i>75,000</i>	<i>75,000</i>	(2)
<i>retained earnings</i>	<i>108,337</i>	<i>108,337</i>	(3)
<i>of which: Regulatory reserve for general banking risk disclosed reserve</i>	<i>1,692</i>	<i>1,692</i>	(4)
<i>disclosed reserve</i>	<i>111</i>	<i>111</i>	(5)
Non-controlling interests	-	-	
<b>Total shareholders' equity</b>	<b>183,448</b>	<b>183,448</b>	
<b>Total liabilities and shareholders' equity</b>	<b>426,441</b>	<b>426,441</b>	

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The Company has already applied full capital deductions under the BCR. The Capital Disclosure Template as at 31st December 2016 is shown as below:

	<b>Component of regulatory capital reported by bank</b>	<b>Cross- referenced to balance sheet under regulatory scope of consolidation</b>
<b>CET1 capital: instruments and reserves</b>		
Directly issued qualifying CET1 capital instruments plus any		
1 related share premium	75,000	(2)
2 Retained earnings	108,337	(3)
3 Disclosed reserves	111	(5)
4 <i>Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)</i>	Not applicable	
5 Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6 <b>CET1 capital before regulatory deductions</b>	<b>183,448</b>	
<b>CET1 capital: regulatory deductions</b>		
7 Valuation adjustments	-	
8 Goodwill (net of associated deferred tax liability)	-	
9 Other intangible assets (net of associated deferred tax liability)	-	
10 Deferred tax assets net of deferred tax liabilities	202	(1)
11 Cash flow hedge reserve	-	
12 Excess of total EL amount over total eligible provisions under the IRB approach	-	
13 Gain-on-sale arising from securitization transactions	-	
14 Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15 Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16 Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17 Reciprocal cross-holdings in CET1 capital instruments	-	
18 Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20 Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22 Amount exceeding the 15% threshold	Not applicable	
23 of which: significant investments in the common stock of financial sector entities	Not applicable	
24 of which: mortgage servicing rights	Not applicable	
25 of which: deferred tax assets arising from temporary differences	Not applicable	



**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The Company has already applied full capital deductions under the BCR. The Capital Disclosure Template as at 31st December 2016 is shown as below (continued):

	Component of regulatory capital reported by bank	Cross- referenced to balance sheet under regulatory scope of consolidation
<b>CET1 capital: regulatory deductions (Continued)</b>		
26	National specific regulatory adjustments applied to CET1 capital	1,692
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-
26b	Regulatory reserve for general banking risks	1,692
26c	Securitization exposures specified in a notice given by the Monetary Authority	-
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-
26e	Capital shortfall of regulated non-bank subsidiaries	-
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-
28	<b>Total regulatory deductions to CET1 capital</b>	<b>1,894</b>
29	<b>CET1 capital</b>	<b>181,554</b>
30	Qualifying AT1 capital instruments plus any related share premium	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	<i>Capital instruments subject to phase out arrangements from AT1 capital</i>	-
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements</i>	-
36	<b>AT1 capital before regulatory deductions</b>	<b>-</b>
37	Investments in own AT1 capital instruments	-
38	Reciprocal cross-holdings in AT1 capital instruments	-
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-
41	National specific regulatory adjustments applied to AT1 capital	-
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The Company has already applied full capital deductions under the BCR. The Capital Disclosure Template as at 31st December 2016 is shown as below (continued):

	<b>Component of regulatory capital reported by bank</b>	<b>Cross- referenced to balance sheet under regulatory scope of consolidation</b>
43 <b>Total regulatory deductions to AT1 capital</b>	-	
44 <b>AT1 capital</b>	-	
45 <b>Tier 1 capital (Tier 1 = CET1 + AT1)</b>	181,554	
<b>AT1 capital: regulatory deductions</b>		
<b>Tier 2 capital: instruments and provision</b>		
46 Qualifying Tier 2 capital instruments plus any related share premium	-	
47 <i>Capital instruments subject to phase out arrangements from Tier 2 capital</i>	-	
48 Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49 <i>of which: capital instruments issued by subsidiaries subject to phase out arrangements</i>	-	
50 Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,692	
51 <b>Tier 2 capital before regulatory deductions</b>	1,552	
<b>Tier 2 capital: regulatory deductions</b>		
52 Investments in own Tier 2 capital instruments	-	
53 Reciprocal cross-holdings in Tier 2 capital instruments	-	
54 Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
55 Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
56 National specific regulatory adjustments applied to Tier 2 capital	-	
56a Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
57 <b>Total regulatory deductions to Tier 2 capital</b>	-	
58 <b>Tier 2 capital</b>	1,552	
59 <b>Total capital (Total capital = Tier 1 + Tier 2)</b>	183,106	
60 <b>Total risk weighted assets</b>	184,976	

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The Company has already applied full capital deductions under the BCR. The Capital Disclosure Template as at 31st December 2016 is shown as below (continued):

	<b>Component of regulatory capital reported by bank</b>	<b>Cross- referenced to balance sheet under regulatory scope of consolidation</b>
<b>Capital ratios (as a percentage of risk weighted assets)</b>		
61 CET1 capital ratio	98.15%	
62 Tier 1 capital ratio	98.15%	
63 Total capital ratio	98.99%	
64 Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3B of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	8.98%	
65 <i>of which: capital conservation buffer requirement</i>	0.625%	
66 <i>of which: bank specific countercyclical buffer requirement</i>	0.086%	
67 <i>of which: G-SIB or D-SIB buffer requirement</i>	Not applicable	
68 CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3B of the BCR	89.17%	
<b>National minima (if different from Basel 3 minimum)</b>		
69 National CET1 minimum ratio	Not applicable	
70 National Tier 1 minimum ratio	Not applicable	
71 National Total capital minimum ratio	Not applicable	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72 Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	Not applicable	
73 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	Not applicable	
74 Mortgage servicing rights (net of related tax liability)	Not applicable	
75 Deferred tax assets arising from temporary differences (net of related tax liability)	202	
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>		
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardized (credit risk) approach (prior to application of cap)	Not applicable	
77 Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	Not applicable	
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	Not applicable	
79 Cap for inclusion of provisions in Tier 2 under the IRB approach	Not applicable	

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The Company has already applied full capital deductions under the BCR. The Capital Disclosure Template as at 31st December 2016 is shown as below (continued):

	Component of regulatory capital reported by bank	Cross- referenced to balance sheet under regulatory scope of consolidation
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>		
80	<i>Current cap on CET1 capital instruments subject to phase out arrangements</i>	Not applicable
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	Not applicable
82	<i>Current cap on AT1 capital instruments subject to phase out arrangements</i>	Not applicable
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	Not applicable
84	<i>Current cap on Tier 2 capital instruments subject to phase out arrangements</i>	Not applicable
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	Not applicable

**Notes to the template:**

Elements where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	Description	Hong Kong basis	Basel III basis
10	<b>Deferred tax assets net of deferred tax liabilities</b>	202	-

**Explanation**

As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III.

The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.

**Remark:**

The amount of the 10% / 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the BCR.

**Abbreviations:**

CET1: Common Equity Tier 1

AT1: Additional Tier 1

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The table below presents the balance sheets based on the accounting scope of consolidated and the regulatory scope of the consolidation respectively as at 31st December 2015.

	<b>Consolidated balance sheet as in published consolidated financial statements As at 31<sup>st</sup> December 2015 HK\$'000</b>	<b>Under regulatory scope of consolidation As at 31<sup>st</sup> December 2015 HK\$'000</b>
<b>Assets</b>		
Cash and short-term funds	119,494	119,494
Placements with banks and other financial institutions maturing between one and twelve months	125,942	125,942
Held-to-maturity securities	39,424	39,424
Advances and other accounts	47,052	47,052
Current tax assets	242	242
Available-for-sale securities	104,206	104,206
Investment in associate	-	-
Fixed assets	2,022	2,022
Deferred tax assets	115	115
<b>Total assets</b>	<u>438,497</u>	<u>438,497</u>
<b>Liabilities</b>		
Time deposits from customers	250,946	250,946
Other payables	6,865	6,865
Tax payable	358	358
<b>Total liabilities</b>	<u>258,169</u>	<u>258,169</u>
<b>Shareholders' Equity</b>		
Equity attributable to shareholders	180,328	180,328
Non-controlling interests	-	-
<b>Total shareholders' equity</b>	<u>180,328</u>	<u>180,328</u>
<b>Total liabilities and shareholders' equity</b>	<u>438,497</u>	<u>438,497</u>

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The table below shows the reconciliation of the capital components from balance sheet based on regulatory scope of the consolidation to the Capital Disclosures Template.

	<b>Consolidated balance sheet as in published consolidated financial statements As at 31st December 2015 HK\$'000</b>	<b>Under regulatory scope of consolidation As at 31st December 2015 HK\$'000</b>	Cross reference to Definition of Capital Components
<b>Assets</b>			
Cash and short-term funds	119,494	119,494	
Placements with banks and other financial institutions maturing between one and twelve months	125,942	125,942	
Held-to-maturity securities	39,424	39,424	
Advances and other accounts	47,052	47,052	
Current tax assets	242	242	
Available-for-sale securities	104,206	104,206	
Investment in associate	-	-	
Fixed assets	2,022	2,022	
Deferred tax assets	115	115	(1)
<b>Total assets</b>	<b>438,497</b>	<b>438,497</b>	
<b>Liabilities</b>			
Time deposits from customers	250,946	250,946	
Other payables	6,865	6,865	
Tax payable	358	358	
<b>Total liabilities</b>	<b>258,169</b>	<b>258,169</b>	
<b>Shareholders' Equity</b>			
Equity attributable to shareholders	180,328	180,328	
Share capital			
<i>of which: paid-in share capital</i>	75,000	75,000	(2)
Retained earnings	105,527	105,527	(3)
<i>of which: Regulatory reserve for general banking risk</i>	1,692	1,692	(4)
Disclosed reserve	(199)	(199)	(5)
Non-controlling interests	-	-	
<b>Total shareholders' equity</b>	<b>180,328</b>	<b>180,328</b>	
<b>Total liabilities and shareholders' equity</b>	<b>438,497</b>	<b>438,497</b>	

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The Company has already applied full capital deductions under the BCR. The Capital Disclosure Template as at 31st December 2015 is shown as below:

	Component of regulatory capital reported by bank	Cross- referenced to balance sheet under regulatory scope of consolidation
<b>CET1 capital: instruments and reserves</b>		
Directly issued qualifying CET1 capital instruments plus any		
1 related share premium	75,000	(2)
2 Retained earnings	105,527	(3)
3 Disclosed reserves	(199)	(5)
4 <i>Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)</i>	Not applicable	
5 Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6 <b>CET1 capital before regulatory deductions</b>	<b>180,328</b>	
<b>CET1 capital: regulatory deductions</b>		
7 Valuation adjustments	-	
8 Goodwill (net of associated deferred tax liability)	-	
9 Other intangible assets (net of associated deferred tax liability)	-	
10 Deferred tax assets net of deferred tax liabilities	115	(1)
11 Cash flow hedge reserve	-	
12 Excess of total EL amount over total eligible provisions under the IRB approach	-	
13 Gain-on-sale arising from securitization transactions	-	
14 Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15 Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16 Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17 Reciprocal cross-holdings in CET1 capital instruments	-	
18 Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20 Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22 Amount exceeding the 15% threshold	Not applicable	
23 of which: significant investments in the common stock of financial sector entities	Not applicable	
24 of which: mortgage servicing rights	Not applicable	
25 of which: deferred tax assets arising from temporary differences	Not applicable	

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The Company has already applied full capital deductions under the BCR. The Capital Disclosure Template as at 31st December 2015 is shown as below (continued):

	<b>Component of regulatory capital reported by bank</b>	<b>Cross- referenced to balance sheet under regulatory scope of consolidation</b>
<b>CET1 capital: regulatory deductions (Continued)</b>		
26 National specific regulatory adjustments applied to CET1 capital	1,692	
26a Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	
26b Regulatory reserve for general banking risks	1,692	(4)
26c Securitization exposures specified in a notice given by the Monetary Authority	-	
26d Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e Capital shortfall of regulated non-bank subsidiaries	-	
26f Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27 Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28 <b>Total regulatory deductions to CET1 capital</b>	<b>1,807</b>	
29 <b>CET1 capital</b>	<b>178,521</b>	
<b>AT1 capital: instruments</b>		
30 Qualifying AT1 capital instruments plus any related share premium	-	
31 of which: classified as equity under applicable accounting standards	-	
32 of which: classified as liabilities under applicable accounting standards	-	
33 <i>Capital instruments subject to phase out arrangements from AT1 capital</i>	-	
34 AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35 <i>of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements</i>	-	
36 <b>AT1 capital before regulatory deductions</b>	<b>-</b>	
37 Investments in own AT1 capital instruments	-	
38 Reciprocal cross-holdings in AT1 capital instruments	-	
39 Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40 Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41 National specific regulatory adjustments applied to AT1 capital	-	
42 Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	



**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The Company has already applied full capital deductions under the BCR. The Capital Disclosure Template as at 31st December 2015 is shown as below (continued):

	Component of regulatory capital reported by bank	Cross- referenced to balance sheet under regulatory scope of consolidation
43 Total regulatory deductions to AT1 capital	-	
44 AT1 capital	-	
45 Tier 1 capital (Tier 1 = CET1 + AT1)		178,521
		<b>AT1 capital: regulatory deductions</b>
		<b>Tier 2 capital: instruments and provision</b>
46 Qualifying Tier 2 capital instruments plus any related share premium	-	
47 <i>Capital instruments subject to phase out arrangements from Tier 2 capital</i>	-	
48 Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49 <i>of which: capital instruments issued by subsidiaries subject to phase out arrangements</i>	-	
50 Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,692	
51 Tier 2 capital before regulatory deductions	1,692	
		<b>Tier 2 capital: regulatory deductions</b>
52 Investments in own Tier 2 capital instruments	-	
53 Reciprocal cross-holdings in Tier 2 capital instruments	-	
54 Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
55 Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
56 National specific regulatory adjustments applied to Tier 2 capital	-	
56a Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
57 Total regulatory deductions to Tier 2 capital	-	
58 Tier 2 capital	1,692	
59 Total capital (Total capital = Tier 1 + Tier 2)	180,213	
60 Total risk weighted assets		208,264

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The Company has already applied full capital deductions under the BCR. The Capital Disclosure Template as at 31st December 2015 is shown as below (continued):

	<b>Component of regulatory capital reported by bank</b>	<b>Cross-referenced to balance sheet under regulatory scope of consolidation</b>
<b>Capital ratios (as a percentage of risk weighted assets)</b>		
61 CET1 capital ratio	85.72%	
62 Tier 1 capital ratio	85.72%	
63 Total capital ratio	86.53%	
64 Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3B of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	4.5%	
65 <i>of which: capital conservation buffer requirement</i>	Not applicable	
66 <i>of which: bank specific countercyclical buffer requirement</i>	Not applicable	
67 <i>of which: G-SIB or D-SIB buffer requirement</i>	Not applicable	
68 CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3B of the BCR	81.22%	
<b>National minima (if different from Basel 3 minimum)</b>		
69 National CET1 minimum ratio	Not applicable	
70 National Tier 1 minimum ratio	Not applicable	
71 National Total capital minimum ratio	Not applicable	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72 Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	Not applicable	
73 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	Not applicable	
74 Mortgage servicing rights (net of related tax liability)	Not applicable	
75 Deferred tax assets arising from temporary differences (net of related tax liability)	115	
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>		
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardized (credit risk) approach (prior to application of cap)	Not applicable	
77 Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	Not applicable	
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	Not applicable	
79 Cap for inclusion of provisions in Tier 2 under the IRB approach	Not applicable	

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The Company has already applied full capital deductions under the BCR. The Capital Disclosure Template as at 31st December 2015 is shown as below (continued):

	Component of regulatory capital reported by bank	Cross- referenced to balance sheet under regulatory scope of consolidation
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>		
80	Current cap on CET1 capital instruments subject to phase out arrangements	Not applicable
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	Not applicable
82	Current cap on AT1 capital instruments subject to phase out arrangements	Not applicable
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	Not applicable
84	Current cap on Tier 2 capital instruments subject to phase out arrangements	Not applicable
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	Not applicable

**Notes to the template:**

Elements where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	Description	Hong Kong basis	Basel III basis
10	<b>Deferred tax assets net of deferred tax liabilities</b>	115	-

**Explanation**

As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III.

The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.

**Remark:**

The amount of the 10% / 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the BCR.

**Abbreviations:**

CET1: Common Equity Tier 1

AT1: Additional Tier 1

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

(a) Risk-weighted amount for credit risk

The Group uses the basic approach for calculation of credit risk.

	2016 HK\$'000	2015 HK\$'000
Sovereign exposures	16,851	16,415
Public Sector Entity exposures	-	-
Bank exposures	75,666	81,472
Other exposures	31,554	55,827
	<hr/>	<hr/>
Total risk-weighted amount for on-balance sheet exposures	124,071	153,714
	<hr/>	<hr/>
Transaction-related contingencies	-	-
Trade-related contingencies	-	-
	<hr/>	<hr/>
Total risk-weighted amount for off-balance sheet exposures	-	-
	<hr/>	<hr/>
Total risk-weighted amount for credit risk	<u>124,071</u>	<u>153,714</u>

(b) Risk-weighted amount for market risk

The Group is exempted from the calculation of market risk in 2016 and 2015.

(c) Risk-weighted amount for operational risk

The Group uses the basic indicator approach for calculation of operational risk.

	2016 HK\$'000	2015 HK\$'000
Risk-weighted amount for operational risk	<u>60,788</u>	<u>54,550</u>

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**4 Capital structure and adequacy (Continued)**

The main Features Template as at 31st December 2016 and 2015 is shown below:

1	Issuer	BPI International Finance Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N.A.
3	Governing law(s) of the instrument	Hong Kong
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules <sup>#</sup>	N.A.
5	Post-transitional Basel III rules <sup>+</sup>	Common Equity Tier 1
6	Eligible at solo*/group/group & solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK\$75 Million
9	Par value of instrument	N.A.
10	Accounting classification	Shareholders' equity
11	Original date of issuance	6 August 1974
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N.A.
16	Subsequent call dates, if applicable	N.A.
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N.A.
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N.A.
25	If convertible, fully or partially	N.A.
26	If convertible, conversion rate	N.A.
27	If convertible, mandatory or optional conversion	N.A.
28	If convertible, specify instrument type convertible into	N.A.
29	If convertible, specify issuer of instrument it converts into	N.A.
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N.A.
32	If write-down, full or partial	N.A.
33	If write-down, permanent or temporary	N.A.
34	If temporary write-down, description of write-up mechanism	N.A.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N.A.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N.A.
	<u>Footnote:</u>	
#	Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules	
+	Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules	
*	Include solo-consolidated	
N.A.	Not applicable	

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**5 Leverage Ratio**

The leverage ratio was introduced into the Basel III framework as a non-risk-based backstop limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and management errors. The ratio is a volume-based measure calculated as Basel III tier 1 capital divided by total on- and off-balance sheet exposure. Basel III provides for a transitional period for the introduction of this ratio, comprising a supervisory monitoring period that started in 2011 and a parallel run period from January 2013 to January 2017. The parallel run will be used to assess whether the proposed minimum ratio of 3% is appropriate, with a view to migrating to a Pillar 1 requirement from 1 January 2018.

The leverage summary comparison table of the Group as at 31st December 2016 and 2015 are shown as below:

	<u>Leverage ratio framework</u>	
	2016 HK\$'000	2015 HK\$'000
1. Total consolidated assets as per published financial statements	426,441	438,497
2. Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation		-
3. Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-
4. Adjustment for derivative financial instruments	-	-
5. Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-	-
6. Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	3,458	2,208
7. Other adjustments	-	-
<b>8. Leverage ratio exposure</b>	<b>429,899</b>	<b>440,705</b>

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**5 Leverage Ratio (Continued)**

The leverage ratio common disclosure template of the Group as at 31st December 2016 and 2015 are shown as below:

	<u>Leverage ratio framework</u>	
	2016	2015
	HK\$'000	HK\$'000
<b>On-balance sheet exposures</b>		
1. On-balance sheet items (excluding derivatives and SFTs, but including collateral)	426,441	438,497
2. (Asset amounts deducted in determining Basel III Tier 1 capital)	-	-
3. Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	426,441	438,497
<b>Derivative exposures</b>		
4. Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-	-
5. Add-on amounts for PFE associated with all derivatives transactions	-	-
6. Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7. (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8. (Exempted CCP leg of client-cleared trade exposures)	-	-
9. Adjusted effective notional amount of written credit derivatives	-	-
10. (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11. Total derivative exposures (sum of lines 4 to 10)	-	-
<b>Securities financing transactions exposures</b>		
12. Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13. (Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14. CCR exposure for SET assets	-	-
15. Agent transaction exposures	-	-
16. Total securities financing transaction exposures (sum of lines 12 to 15)	-	-
<b>Other off-balance sheet exposures</b>		
17. Off-balance sheet exposure at gross notional amount	34,577	22,080
18. (Adjustments for conversion to credit equivalent amounts)	(31,119)	(19,872)
19. Off-balance sheet items (sum of lines 17 and 18)	3,458	2,208
<b>Capital and total exposures</b>		
20. Tier 1 capital	181,554	177,687
21. Total exposures (sum of lines 3, 11, 16 and 19)	429,899	440,705
<b>Leverage ratio</b>		
22. Basel III leverage ratio	42.23%	40.32%

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**6 Segmental information**

(i) By geographical areas

Information has been classified according to the location of the principal operations of the Company. All of the Company's principal operations are conducted in Hong Kong.

(ii) Advances to customers

Gross advances to customers by industry sectors

	2016 HK\$'000	2015 HK\$'000
Loans for use in Hong Kong		
- Individuals – others	-	-
Loans for use outside Hong Kong	17,986	40,064
	<u>17,986</u>	<u>40,064</u>

Gross advances to customers by geographical area

	2016 HK\$'000	2015 HK\$'000
Residential status of customers:		
The Philippines	<u>17,986</u>	<u>40,064</u>

The above gross advances only include gross advances to customers.



**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**6 Segmental information (Continued)**

(iii) International claims

International claims are on-balance sheet exposure to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. The table shows claims on individual countries and territories or areas, after recognized risk transfer, amounting to not less than 10% of the Group's total international claims.

**2016**

	Banks	Official Sector	Non-Bank Private Sector		Other	Total
			Of which: Non-bank institution	Of which: Non- financial private sector		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31st December 2016						
1. Developed Countries						
of which Australia	8,000	-	-	-	-	8,000
of which United Kingdom	30,000	-	-	6,000	-	36,000
of which United States	15,000	23,000	-	-	-	38,000
of which Japan	4,000	-	-	-	-	4,000
2. Offshore Centers						
of which Cayman Island	-	-	-	2,000	-	2,000
of which Singapore	4,000	-	-	-	-	4,000
of which Hong Kong	231,000	-	-	2,000	-	233,000
3. Developing Africa and Middle East						
of United Arab Emirates	2,000	-	-	-	-	2,000
4. Developing Asia and Pacific						
of which Philippines	18,000	-	-	18,000	-	36,000
of which Indonesia	-	15,000	-	-	-	15,000
of which South Korea	-	-	12,000	-	-	12,000

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**6 Segmental information (Continued)**

(iii) International claims (Continued)

2015		Banks	Official Sector	Non-Bank Private Sector		Others	Total
				Of which: Non-bank financial institution	Of which: Non- financial private sector		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	As at 31st December 2016						
1.	Developed Countries						
	of which Australia	12,000	-	-	-	-	12,000
	of which Japan	6,000	-	-	6,000	-	12,000
	of which United States	29,000	16,000	-	-	-	45,000
2.	Offshore Centers						
	of which Cayman Island	-	-	-	2,000	-	2,000
	of which Singapore	4,000	-	-	-	-	4,000
	of which Hong Kong	217,000	-	-	-	-	217,000
3.	Developing Asia and Pacific						
	of which Philippines	18,000	-	-	40,000	-	58,000
	of which Indonesia	-	15,000	-	-	-	15,000
	of which South Korea	8,000	-	16,000	-	-	24,000

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**6 Segmental information (Continued)**

(iv) By class of business

The Company is primarily engaged in Retail and Corporate business, and Treasury activities.

Retail and Corporate business mainly covers deposit taking, consumer finance and securities services.

Treasury activities relate to the managing of capital, liquidity, interest rate and foreign exchange positions of the Company in addition to proprietary trades.

Business segments

2016	Retail and Corporate business HK\$'000	Treasury HK\$'000	Others HK\$'000	Group HK\$'000
Interest income - external	2,276	2,741	-	5,017
Interest expense - external	(1,851)	-	-	(1,851)
Net interest income	425	2,741	-	3,166
Net fees and commission income	14,513	-	-	14,513
Other operating income	18,213	-	-	18,213
Operating income	33,151	2,741	-	35,892
Operating expenses	(32,283)	-	-	(32,283)
Profit before taxation	868	2,741	-	3,609
Depreciation and amortisation charge	-	-	1,330	1,330
Segment assets				
Total assets	294,585	123,396	8,460	426,441
Segment liabilities				
Total liabilities	236,612	-	6,381	242,993

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**6 Segmental information (Continued)**

(iv) Business segments (Continued)

2015	Retail and Corporate business HK\$'000	Treasury HK\$'000	Others HK\$'000	Group HK\$'000
Interest income - external	1,065	4,578	-	5,643
Interest expense - external	(2,027)	-	-	(2,027)
Net interest income	(962)	4,578	-	3,616
Net fees and commission	16,181	-	-	16,181
Other operating income	12,031	-	-	12,031
Operating income	27,250	4,578	-	31,828
Operating expenses	(24,667)	-	-	(24,667)
Profit before taxation	2,583	4,578	-	7,161
Depreciation and amortisation charge	-	-	1,388	1,388
Segment assets				
Total assets	285,501	143,630	9,366	438,497
Segment liabilities				
Total liabilities	250,946	-	7,223	258,169

**7 Overdue and rescheduled loans**

There were no overdue and rescheduled loans and repossessed assets as at 31st December 2016 (2015: Nil).

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**8 Countercyclical Capital Buffer Ratio**

The countercyclical capital buffer (“CCyB”) ratio is calculated according to the countercyclical capital buffer report submitted to the Hong Kong Monetary Authority (“HKMA”). The standard disclosure on CCyB ratio is effective since 31 March 2016, hence no comparative figure is disclosed.

The Group countercyclical capital buffer ratio is computed as the aggregate risk-weighted amount (“RWA”) of geographically allocated private sector credit exposures (to the extent allocated to jurisdictions on the “ultimate risk” basis) over the sum of RWA for each geographical allocated private sector credit exposures multiplied by its appropriate JCCyB ratio.

Geographical breakdown of risk-weighted amounts in relation to private sector credit exposures

**As 31 December 2016**

Jurisdiction (J)	a	b	c	d
	Applicable JCCyB Ratio in effect %	Total RWA used in computation of CCyB ratio of AI HK\$'000	CCyB ratio of AI %	CCyB amount of AI HK\$'000
1 Hong Kong	0.625%	3,169		
2 China	0.000%	6,269		
3 Philippines	0.000%	13,753		
<b>TOTAL</b>		<u>23,191</u>	<u>0.085%</u>	<u>20</u>

## **BPI INTERNATIONAL FINANCE LIMITED**

### **UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

#### **9 Corporate Governance**

The Company has fully complied with the requirements set out in the guideline on “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority.

##### **Board of Directors**

The Board of Directors is ultimately responsible for the operations and the financial soundness of the Company. The ultimate goal of which is to meet its overall responsibility to all its shareholders, depositors, creditors, employees and other stakeholders. The responsibilities include the following:

- (a) Ensure competent management
  - Appoint a chief executive with integrity, technical competence, and experience in banking business which enables him/her to administer the Company’s affairs effectively and prudently.
  - Oversee the appointment of other senior executives such as the division heads.
  - Approve the management succession policy of the Company.
  - Effectively supervise senior management’s performance on an ongoing basis.
- (b) Approve objectives, strategies and business plans
  - The Company shall establish its objectives and draw up a business strategy for achieving them.
  - Consistent with the Company’s objectives, business plans shall be established to direct the on-going activities of the Company.
  - The Board of Directors shall approve these objectives, strategy and business plans, and ensure that performance against plan is regularly reviewed.
  - The Board of Directors shall approve annual budgets and review performance against these budgets.
- (c) Ensure that the operations of the Company are conducted prudently, and within the framework of applicable laws and policies
  - The Board of Directors shall ensure that the internal control systems of the Company are effective and that the Company’s operations are properly controlled and comply with policies approved by the Board as well as with laws and regulations.
  - The Board of Directors are ultimately responsible for ensuring that the Company complies with laws and regulations, in particular the Hong Kong Banking Ordinance.

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**9 Corporate Governance (Continued)**

**Board of Directors (Continued)**

- (d) Ensure and monitor that the Company conducts its affairs with a high degree of integrity
- The Board of Directors shall ensure that the Company observes a high standard of integrity in its dealings with the public.
  - Particular case shall be taken to comply with laws and regulations of statutory bodies in order to ensure the Company conducts its affairs with a high degree of integrity.
  - The Board of Directors shall ensure that the Company's remuneration policy is consistent with its ethical values, objectives, strategies and control environment.
  - The Board of Directors shall approve a set of ethical values which are communicated throughout the Company such as code of conduct.
  - The Board of Directors shall establish policies and procedures to ensure compliance with ethical values.

**Audit Committee**

The Group's internal audit functions are subject to the direct supervision of the audit committee of the Company's ultimate holding company, Bank of the Philippine Islands.

**Other Specialised Committees**

The following committees have been established by the Company:

(a) Executive Committee

The Board of Directors of the Company serves as the Executive Committee of the Company.

It executes resolutions adopted in any stockholders' meetings, while the Company adopts business direction from the Board of Directors of the Company.

(b) Credit Committee

Credit Committee ensures that the Company's lending policy is adequate and lending activities are conducted in accordance with established policies and relevant laws and regulations. It also ensures that the Company's credit approval process is properly proceeded.

The Credit Committee is the Senior Management of the Company currently composed of the Managing Director, Treasury Head, Operations Head and Compliance Officer. All credit approvals are subsequently presented and confirmed by the Board of Directors during Regular Board Meetings.

**BPI INTERNATIONAL FINANCE LIMITED**

**UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

**9 Corporate Governance (Continued)**

**Other Specialised Committees (Continued)**

(c) Assets and Liability Committee

The Asset and Liability Committee (ALCO) manages the Company's assets and liabilities. Specifically, its objective is to plan, direct and control the levels, mix, volume and spreads on the various balance sheet and off balance sheet accounts. Aside from developing balance sheet strategies, the ALCO reviews and updates existing policies and guidelines and makes the necessary adjustments as needed to adapt to the changing financial environment.

This committee meets on a regular basis to discuss market developments, financial performance and risk and compliance issues and other matters relevant to the Company's business of managing house and clients' funds.

The ALCO members are: the Chief Executive, the Treasury Head, and the Compliance/Risk Management Head.

(d) Risk Management Committee

The Risk Management Committee (RMC) oversees and manages the Company's exposures to risks and monitor the Company's regulatory and internal capital adequacy via these exposures to risks.

RMC monitors the credit risk, market risk and operational and IT risks by

- reviewing the existing credit exposure to monitor the exposure portfolio quality and credit concentration risk
- reviewing stress test and sensitivity analysis for the exposure portfolio
- reviewing the defined risk limits
- monitoring completeness and relevance of management and operating manual including business continuity plans
- overseeing the implementation of a sound business continuity management framework

The RMC members are appointed by the Board of Directors and composed of at least three non-executive Directors of the Company with the relevant experience in risk management and compliance and the Company's Risk and Compliance officer.

This committee meets on a monthly basis. Special meeting could be convened by any member of the Committee or the RMC Chairperson anytime as the need arises.

(e) Anti-Money Laundering and Counter Financing of Terrorism Committee

The Anti-Money Laundering and Counter Financing of Terrorism Committee (AML/CFT committee) is responsible for the consistent and effective implementation of AML/CFT guidelines. And is responsible in conducting a regular risk analysis and ensuring that AML/CFT systems are capable of addressing the risks identified.

The members of the AML/CFT committee are: Compliance officer (acting likewise as the Money Laundering Reporting Officer), Managing Director, Head of Operations, Head of Middle Office and Head of Treasury.

The committee meets on a monthly basis to oversee, manage, evaluate and approve the standards of the suspicious transaction to ensure the appropriate actions are observed.



## **BPI INTERNATIONAL FINANCE LIMITED**

### **UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)**

#### **9 Corporate Governance (Continued)**

##### **Remuneration**

The Company adopts the remuneration policy and practices formulated by its parent bank, Bank of the Philippine Islands (BPI).

The objective of the Company's remuneration policy is to encourage employee behavior that supports the Company's risk tolerance, risk management framework and long-term financial soundness. It is in line with the objectives, business strategies and long-term goals of the Company and structured in a way that will not encourage excessive risk-taking by employees but allows the Company to attract and retain employees with relevant skills, knowledge and expertise to discharge their specific functions.

In response to the Hong Kong Monetary Authority's Supervisory Policy Manual, "Guideline on a Sound Remuneration System" (Revised) (the "Guideline") issued in March 2015, the Company conducted a review of the BPI's existing remuneration policy, and which study was certified by the Company's Board, in its December 2010 meeting, as substantially in compliance with the guideline. On 4 December 2012, the parent bank's Human Resources Head issued a certification on the Company's compliance with the Guideline on Sound Remunerations System. This certification was submitted to the HKMA.

Below are some relevant Policies:

- **Governance**  
The Personnel & Compensation Committee is a BPI Board level committee that reviews and approves BPI's remuneration policy. The consistent, continuing implementation of the policy shall be the responsibility of the Board and the local compliance unit. An annual review of the policy shall be conducted and passed upon by the Board to ensure compliance with the guideline.
- **Remuneration Structures**  
No variable remuneration and special payouts are provided to the Company's employees. A fixed monthly salary is paid instead.
- **Performance Measurement**  
A Performance & Planning Review (PPR) is conducted annually. This review includes all employees of the Company. A PPR is prepared and finalized by all employees at the beginning of year and approved by each employee's supervisor. The PPR details the employees' key result areas or expected deliverables for the year described in quantifiable terms. The PPR is used to evaluate the performance of each employee for the past year ending in June of each year. The PPR rating is the basis for the Company's annual merit increase.
- **Senior Management and Key Personnel Compensation**  
The aggregate fixed income payouts of the seven members of senior management and key personnel of the Company (in accordance with the disclosure requirement of 3.2.3 of the Guideline) were HK\$ 8,115,000 for 2016 (2015: HK\$ 4,529,000).

There were no variable remuneration and deferred remuneration for 2016.