BANC OF AMERICA SECURITIES ASIA LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST DECEMBER 2016

BANC OF AMERICA SECURITIES ASIA LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

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BANC OF AMERICA SECURITIES ASIA LIMITED

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31st December 2016.

Principal activities

Banc of America Securities Asia Limited (the "Company") is a restricted licensed bank regulated by Hong Kong Monetary Authority and Securities and Futures Commission.

The principal activities of the Company are trading Fixed Income and Currency products.

Results and appropriations

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

The directors do not recommend the payment of a dividend.

Shares issued in the year

Details of the shares issued in the year ended 31st December 2016 are set out in note 16 to the financial statements.

Directors

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

Anand, Puneet	
Chan, Wai Ching	(resigned on 31st August 2016)
Hughes, Caron Margaret	(appointed on 22nd January 2016)
Laul, Bharat	
Su, Chin	(appointed on 27th May 2016)

All the existing directors would continue in office.

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's fellow subsidiaries or holding companies 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.

Directors' and chief executives' interests and/or short positions in the shares, underlying shares and debenture of the Company or any specified undertaking of the Company or any other associated corporation

Certain directors of the Company are entitled to Employee Stock Compensation. Other than as disclosed in note 9 to the financial statements, at no time during the year was the Company, its fellow subsidiaries, its holding companies or its other associated corporation 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 corporation.

Employee stock compensation

Details of share-based payment transactions are set out in note 9 to the financial statements.

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.

Permitted indemnity provisions

The Bylaws of the Company's ultimate parent entity, Bank of America Corporation ("BAC"), provide that an individual serving as a director of BAC or its one of its affiliates (the "Indemnitee") shall be indemnified against all expense, liability and loss reasonably incurred in connection with any actions or proceedings brought against the Indemnitee by reason of Indemnitee's service as a director. The indemnification is only available if the Indemnitee acted in good faith and in a manner the Indemnity reasonably believed to be in or not opposed to the best interest of BAC and its affiliates, and, with respect to any criminal proceeding, had no reasonable cause to believe that Indemnitee's conduct was unlawful. BAC maintains insurance against the costs associated with defending any claims which may be brought against a director of BAC or one of its affiliates.

Compliance with the Banking (Disclosure) Rules

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

Auditors

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

On behalf of the Board

Hughes, Caron Margaret

Hong Kong, 24th April 2017

INDEPENDENT AUDITOR'S REPORT
TO THE SOLE MEMBER OF BANC OF AMERICA SECURITIES ASIA LIMITED
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The financial statements of Banc of America Securities Asia Limited (the "Company") set out on pages 6 to 42, which comprise:

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

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31st December 2016, and of its financial performance and its 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.

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 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 Company 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.

Other Information

The directors are responsible for the other information. The other information comprises all of the information included in the Directors' Report and Supplementary Financial Information, but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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[7]. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT
TO THE SOLE MEMBER OF BANC OF AMERICA SECURITIES ASIA LIMITED
(CONTINUED)
(incorporated in Hong Kong with limited liability)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

We communicate with the directors 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, 24th April 2017

BANC OF AMERICA SECURITIES ASIA LIMITED

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

	Note	2016 US$'000	2015 US$'000
Interest income		1,253	450
Interest expense		(1)	-
Net interest income	4	1,252	450
Fee and commission expense	5	(1)	(2)
Net trading expense	6	(99)	-
Operating income		1,152	448
Operating expenses	7	(93)	(97)
Profit before taxation		1,059	351
Taxation	10	(171)	(58)
Profit for the year		888	293
Total comprehensive income for the year		888	293
Attributable to			
Equity holders		888	293

The notes on page 10 to 42 form an integral part of these financial statements.

BANC OF AMERICA SECURITIES ASIA LIMITED

BALANCE SHEET
AS AT 31ST DECEMBER 2016

	Note	2016 US$'000	2015 US$'000	Cross Reference to Definition of Capital Components in Appendix 1
Assets				
Cash and balances with banks	12	264,968	43,687	
Placements with banks maturing between one and twelve months		-	220,042	
Financial assets at fair value through profit or loss	13	1,418	-	
Derivative financial instruments	14	3	-	
Total assets		266,389	263,729	
Liabilities				
Deposits and balances from banks		1,665	-	
Amount due to intermediate holding company	18	64	63	
Derivative financial instruments	14	5	-	
Current income tax liabilities		130	14	
Deferred income tax liabilities	11	2	17	
Other liabilities	15	38	38	
Total liabilities		1,904	132	
Equity				
Share capital	16	220,000	220,000	(1)
Retained earnings		38,018	37,130	(2)
Other reserves	17	6,467	6,467	(3)
Total equity		264,485	263,597	
Total equity and liabilities		266,389	263,729	

The financial statements on pages 6 to 42 were approved and authorised for issue by the Board of Directors on 24th April 2017 and were signed on its behalf by:

Hughes, Caron Margaret Su, Chin

The notes on page 10 to 42 form an integral part of these financial statements.

BANC OF AMERICA SECURITIES ASIA LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2016

	Share capital US$'000	Retained earnings US$'000	Other reserves US$'000	Total US$'000
Beginning balance at 1st January 2015	220,000	36,837	6,467	263,304
Profit and total comprehensive income for the year	-	293	-	293
Ending balance at 31st December 2015	220,000	37,130	6,467	263,597
Beginning balance at 1st January 2016	220,000	37,130	6,467	263,597
Profit and total comprehensive income for the year	-	888	-	888
Ending balance at 31st December 2016	220,000	38,018	6,467	264,485

The notes on page 10 to 42 form an integral part of these financial statements.

BANC OF AMERICA SECURITIES ASIA LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER 2016

	2016 US$'000	2015 US$'000
Cash flows from operating activities		
Profit before taxation	1,059	351
Adjustment for:		
Net interest income	(1,252)	(450)
Interest received	1,253	450
Interest paid	(1)	-
Operating cash flows before movements in working capital	1,059	351
Change in financial assets at fair value through profit or loss	(1,418)	-
Change in derivative financial instruments	2	-
Change in placements with banks with original maturity beyond three months	144	50,006
Change in amount due to intermediate holding company	1	(4)
Change in other liabilities	-	9
Cash (used in)/ generated from operating activities	(212)	50,362
Income taxes paid	(70)	(13)
Net cash (used in)/ generated from operating activities	(282)	50,349
Net (decrease)/ increase in cash and cash equivalents	(282)	50,349
Cash and cash equivalents at beginning of year	263,729	213,380
Cash and cash equivalents at end of year	263,447	263,729

Analysis of the balances of cash and cash equivalents:

	2016 US$'000	2015 US$'000
Cash and balances with banks and other financial institutions	4,959	2,086
Money at call and short notice	260,009	41,601
Placements with banks with original maturity within three months	-	220,042
Deposits and balances from banks with original maturity within three months	(1,521)	-
	263,447	263,729

The notes on page 10 to 42 form an integral part of these financial statements.

BANC OF AMERICA SECURITIES ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Banc of America Securities Asia Limited ("the Company") trades Fixed Income and Currency products. The ultimate holding company is Bank of America Corporation ("BAC"), a listed company incorporated in the United States of America.

The Company is a restricted licensed bank regulated by Hong Kong Monetary Authority and Securities and Futures Commission. The address of its registered office is 52/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong.

The financial statements are presented in US dollars, unless otherwise stated.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and requirements of the Hong Kong Companies Ordinance Cap. 622. The financial statements have been prepared under the historical cost convention.

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 Company's accounting policies.

(a) New and amended standards adopted by the Company

The standards, amendments and interpretations which are effective for the financial year beginning on 1st January 2016 are not material to the Company.

(b) New standards and interpretations not yet adopted by the Company

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

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(b) New standards and interpretations not yet adopted by the Company (Continued)

- HKFRS 9, "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss ("FVTPL"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at FVTPL with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at FVTPL. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is assessing HKFRS 9's impact.

- HKFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 "Revenue" and HKAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company is assessing the impact of HKFRS 15.

There are no other standards or interpretations that are not yet effective that would be expected to have a material impact on the Company.

2.2 Interest income and expense

Interest income and expenses are recognised in the statement of comprehensive income for all interest-bearing financial instruments, except for those classified as designated at fair value through profit or loss, 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 Company estimates cash flows considering all contractual terms of the financial instrument 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.

2 Summary of significant accounting policies (Continued)

2.2 Interest income and expense (Continued)

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.

2.3 Fee and commission expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

2.4 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in US dollars, which is the Company's functional currency.

(b) Transactions and balances

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 such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying net investment hedges.

2.5 Current and deferred income tax

The tax expense for the period comprises current tax 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 other comprehensive income or directly 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 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 income tax 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 and laws that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred income tax asset is realised or the deferred income 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.

2 Summary of significant accounting policies (Continued)

2.6 Share-based compensation

The Company operates an equity-settled, share-based compensation plan. Stocks and stock options of BAC, the ultimate holding company, are granted to eligible directors and employees of the Company under BAC's restricted stocks plan and stock options scheme.

The fair value of the employee services received in exchange for the grant of the stocks or stock options are recognised as expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the stocks and stock options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, and a corresponding adjustment to equity over the remaining vesting period.

2.7 Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

(i) Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL") and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment of financial assets below).

2 Summary of significant accounting policies (Continued)

2.7 Financial instruments (Continued)

(i) Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts and excluding future credit losses that have not been incurred) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

(ii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise 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.

(iii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced directly by the impairment loss.

2 Summary of significant accounting policies (Continued)

2.7 Financial instruments (Continued)

(iii) Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iv) Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. None of the derivatives entered into during 2016 and 2015 were designated as hedges for accounting purposes.

(v) Financial liabilities

Financial liabilities issued by the Company are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability.

The Company's financial liabilities are classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at FVTPL, of which the interest expense is included in net gains or losses.

2 Summary of significant accounting policies (Continued)

2.7 Financial instruments (Continued)

(v) Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss

Financial liabilities are classified at FVTPL when the financial liability is either held for trading or it is designated as FVTPL. The Company's derivatives are categorised as held as trading as at period end.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities (including other payables and amounts due to group companies) are subsequently measured at amortised cost, using the effective interest method.

(vi) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the statement of comprehensive income.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the statement of comprehensive income.

2.8 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise of balances with less than three months' maturity from the date of acquisition including cash and balances with banks and placements with banks.

3 Financial risk management

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The most important types of risk are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate and other price risk.

3.1 Credit risk

In conducting its business activities, the Company is exposed to the risk that borrowers or counterparties may default on their obligations to the Company. Credit risk arises through counterparty exposures on capital markets transactions.

The Board of Directors of the Company has established procedures for reviewing and monitoring credit decisions adopted and transactional activity. The Company also takes into account the requirements of the Hong Kong Banking Ordinance and the guidelines issued by the Hong Kong Monetary Authority ("HKMA") with respect to large exposures requirements.

(a) Credit risk measurement

For cash, placements with banks, external rating such as Standard & Poor's and Moody's rating are used for managing the credit risk exposures.

(b) Risk limit control and mitigation policies

The Company maintains strict control limits on derivative position. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Company together with the potential exposures from market movement. The credit risk exposure arise from derivative exposure is managed as part of the overall lending limits with customers.

Daily settlement limits are established for each counterparty to cover aggregate of all settlement risk arising from the Company's market transactions on any single day.

(c) Maximum exposure to credit risk before collateral held or other credit enhancements

	2016 US$'000	2015 US$'000
Cash and balances with banks	264,968	43,687
Placements with banks maturing between one and twelve months	-	220,042
Financial assets at fair value through profit or loss	1,418	-
Derivative financial instruments	3	-
	266,389	263,729

At 31st December 2016 and 31st December 2015, there were no loans and advances to customers.

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

(d) Financial assets at fair value through profit or loss

The table below presents an analysis of financial assets at fair value through profit or loss by rating agency designation for the respective issues at 31st December, based on Standard & Poor's ratings or their equivalent:

	US$'000
As at 31st December 2016	
AAA	-
AA- to AA+	1,418
A- to A+	-
B- to BBB+	-
Unrated	-
Total	1,418
As at 31st December 2015	
AAA	-
AA- to AA+	-
A- to A+	-
B- to BBB+	-
Unrated	-
Total	-

At 31st December 2016 and 31st December 2015, there are no overdue nor individually impaired financial assets at fair value through profit or loss.

3 Financial risk management (Continued)

3.1 Credit risk (Continued)

(e) Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorised by geographical region as of 31st December. For this table, the Company has allocated exposures to regions based on the country of domicile of its counterparties. Credit risk exposure by geographical sectors is classified according to the location of counterparties after taking into account the transfer risk.

	Hong Kong US$'000	Asia Pacific excluding Hong Kong US$'000	North America and South America US$'000	Europe US$'000	Total US$'000
As at 31st December 2016					
Cash and balances with banks	-	15	264,953	-	264,968
Placements with banks maturing between one and twelve months	-	-	-	-	-
Financial assets at fair value through profit or loss	-	1,418	-	-	1,418
Derivative financial instruments	-	-	-	3	3
As at 31st December 2015					
Cash and balances with banks	-	16	43,671	-	43,687
Placements with banks maturing between one and twelve months	-	-	220,042	-	220,042
Financial assets at fair value through profit or loss	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-

3 Financial risk management (Continued)

3.2 Market risk

The Company takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Company applies a 'Value-at-Risk' ("VaR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Company has in place limits on the VaR that may be accepted. The Company's VaR is monitored on a daily basis.

The daily market VaR is an estimate, with a confidence level set at 99%, of the potential loss that might arise if the current positions were to be held unchanged for one business day. The measurement is structured so that daily losses exceeding the VaR figure should occur, on average, not more than once every 100 days. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VaR calculation.

As VaR constitutes an integral part of the Company's market risk control regime, VaR limits are established for all trading and portfolio operations; actual exposure against limits is reviewed daily by management.

The following table shows the year-end VaR, average, high and low VaR utilisation for trading market risk:

In US$'000	VaR Utilisation As at 31st December 2016	VaR Utilisation 10th October 2016 to 31st December 2016 Average	High	Low
Total	4	2	5	-

However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(a) Currency risk

The Company takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The tables below summarise the Company's exposure to foreign currency exchange rate risk at 31st December. Included in the table are the Company's assets and liabilities at carrying amounts in US dollars equivalent, categorised by the original currency.

3 Financial risk management (Continued)

3.2 Market risk (Continued)

(a) Currency risk (Continued)

	HKD US$'000	USD US$'000	CNY US$'000	Other US$'000	Total US$'000
As at 31st December 2016					
Assets					
Cash and balances with banks	71	264,870	12	15	264,968
Placements with banks maturing between one and twelve months	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	1,418	-	1,418
Derivative financial instruments	-	73	(70)	-	3
Total assets	71	264,943	1,360	15	266,389
Liabilities					
Deposits and balances from banks	-	1,665	-	-	1,665
Amount due to intermediate holding company	64	-	-	-	64
Derivative financial instruments	-	(1,428)	1,433	-	5
Other liabilities	38	-	-	-	38
Total liabilities	102	237	1,433	-	1,772
Net on-balance sheet position	(31)	264,706	(73)	15	264,617

3 Financial risk management (Continued)

3.2 Market risk (Continued)

(a) Currency risk (Continued)

	HKD US$'000	USD US$'000	CNY US$'000	Other US$'000	Total US$'000
As at 31st December 2015					
Assets					
Cash and balances with banks	85	43,586	-	16	43,687
Placements with banks maturing between one and twelve months	-	220,042	-	-	220,042
Financial assets at fair value through profit or loss	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-
Total assets	85	263,628	-	16	263,729
Liabilities					
Deposits and balances from banks	-	-	-	-	-
Amount due to intermediate holding company	63	-	-	-	63
Derivative financial instruments	-	-	-	-	-
Other liabilities	38	-	-	-	38
Total liabilities	101	-	-	-	101
Net on-balance sheet position	(16)	263,628	-	16	263,628

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3 Financial 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 changes in market interest rates. The Company 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.

The tables summarise the Company's exposure to interest rate risk as at 31st December. Included in the tables are the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month US$'000	1 to 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Non-interest bearing US$'000	Total US$'000
As at 31st December 2016							
Assets							
Cash and balances with banks	260,022	-	-	-	-	4,946	264,968
Placements with banks maturing between one and twelve months	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	70	741	607	-	1,418
Derivative financial instruments	-	-	-	-	-	3	3
Total assets	260,022	-	70	741	607	4,949	266,389
Liabilities							
Deposits and balances from banks	1,521	-	144	-	-	-	1,665
Amount due to intermediate holding company	-	-	-	-	-	64	64
Derivative financial instruments	-	-	-	-	-	5	5
Other liabilities	-	-	-	-	-	38	38
Total liabilities	1,521	-	144	-	-	107	1,772
Total interest sensitivity gap	258,501	-	(74)	741	607	4,842	

3 Financial risk management (Continued)

3.2 Market risk (Continued)

(b) Interest rate risk (Continued)

	Up to 1 month US$'000	1 to 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Non-interest bearing US$'000	Total US$'000
As at 31st December 2015							
Assets							
Cash and balances with banks	41,601	-	-	-	-	2,086	43,687
Placements with banks maturing between one and twelve months	-	220,042	-	-	-	-	220,042
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Total assets	41,601	220,042	-	-	-	2,086	263,729
Liabilities							
Deposits and balances from banks	-	-	-	-	-	-	-
Amount due to intermediate holding company	-	-	-	-	-	63	63
Derivative financial instruments	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	38	38
Total liabilities	-	-	-	-	-	101	101
Total interest sensitivity gap	41,601	220,042	-	-	-	1,985	

3 Financial risk management (Continued)

3.2 Market risk (Continued)

(b) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting year. A 200 basis points change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

If interest rate had been 200 basis points higher/lower (subject to interest rate floor) and all other variables were held constant, the Company's profit before taxation for the year ended 31st December 2016 would increase/decrease by US$5,195,000/US$5,195,000 (2015: increase/decrease by US$4,456,000/US$4,456,000), respectively.

3.3 Liquidity risk

Liquidity risk is the risk that the Company 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 fulfil commitments to lend.

(a) Liquidity risk management process

The Company's management of liquidity is conducted in accordance with the corporate strategy on liquidity and in compliance with the rules, regulations and guidelines stipulated by the local regulatory authority. The process, as carried out within the Company and monitored by the Treasury unit, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure liquidity requirements can be met;
- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity against internal and regulatory requirements;
- Management review on balance sheet profile and maturity gaps; and
- Reporting of non-compliance on internal and regulatory requirements.

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

(b) Maturity analysis

The tables below summarise the Company's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	Repayable on demand US$'000	Up to 1 month US$'000	1 to 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Undated US$'000	Total US$'000
As at 31st December 2016								
Assets								
Cash and balances with banks	4,959	260,009	-	-	-	-	-	264,968
Placement with banks maturing between one and twelve months	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	70	741	607	-	1,418
Derivative financial instruments	-	-		3	-	-	-	3
Total assets	4,959	260,009	-	73	741	607	-	266,389
Liabilities								
Deposits and balances from banks	-	-	1,521	144	-	-	-	1,665
Amount due to intermediate holding company	-	64	-	-	-	-	-	64
Derivative financial instruments	-	5	-	-	-	-	-	5
Other liabilities	-	-	-	38	-	-	-	38
Total liabilities	-	69	1,521	182	-	-	-	1,772
Net liquidity gap	4,959	259,940	(1,521)	(109)	741	607	-	264,617

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

(b) Maturity analysis (Continued)

As at 31st December 2015	Repayable on demand US$'000	Up to 1 month US$'000	1 to 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Undated US$'000	Total US$'000
Assets								
Cash and balances with banks	2,086	41,601	-	-	-	-	-	43,687
Placement with banks maturing between one and twelve months	-	-	220,042	-	-	-	-	220,042
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
Total assets	2,086	41,601	220,042	-	-	-	-	263,729
Liabilities								
Deposits and balances from banks	-	-	-	-	-	-	-	-
Amount due to intermediate holding company	-	63	-	-	-	-	-	63
Derivative financial instruments	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	38	-	-	-	38
Total liabilities	-	63	-	38	-	-	-	101
Net liquidity gap	2,086	41,538	220,042	(38)	-	-	-	263,628

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

(c) Funding approach

Sources of liquidity are regularly reviewed by the Treasury unit to ensure daily and expected funding requirement can be fully met.

(d) Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Company under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Up to 1 month US$'000	1 to 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Undated US$'000	Total US$'000
At 31st December 2016							
Deposits and balances from banks	-	1,521	144	-	-	-	1,665
Amount due to intermediate holding company	64	-	-	-	-	-	64
Other liabilities	-	-	38	-	-	-	38
	64	1,521	182	-	-	-	1,767
Assets held for managing liquidity risk	264,968	-	70	741	607	-	266,386
At 31st December 2015							
Deposits and balances from banks	-	-	-	-	-	-	-
Amount due to intermediate holding company	63	-	-	-	-	-	63
Other liabilities	-	-	38	-	-	-	38
	63	-	38	-	-	-	101
Assets held for managing liquidity risk	43,687	220,042	-	-	-	-	263,729

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

(e) Derivative liabilities

The table below analyses the Company's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cashflows on all derivatives. Some of the Company's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity. The amounts discloses in the table are the contractual undiscounted cash flows.

	Up to 1 month US$'000	1 to 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Undated US$'000	Total US$'000
At 31st December 2016							
Derivative financial instruments:							
Exchange rate contracts							
- Outflow	1,436	-	-	-	-	-	1,436
- Inflow	1,428	-	-	-	-	-	1,428
At 31st December 2015							
Derivative financial instruments:							
Exchange rate contracts							
- Outflow	-	-	-	-	-	-	-
- Inflow	-	-	-	-	-	-	-

3.4 Fair value of financial assets and liabilities

The fair value of financial instruments traded in an active market (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

3 Financial risk management (Continued)

3.4 Fair value of financial assets and liabilities (Continued)

(a) The fair values of financial assets and liabilities not presented at fair value in the Company's balance sheet are estimated as follows:

Cash and short term funds

The fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits, which is normally less than one year, is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. Therefore the fair value is approximately equal to its carrying value.

Placements with banks

The estimated fair value of fixed interest-bearing deposits of banks without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. As they are normally less than one year, their fair values are approximately equal to their carrying values.

Other liabilities

The carrying value of other liabilities approximates their fair value as these balances are generally short term in nature and the associated credit risk considered to be insignificant.

(b) Fair value hierarchy

HKFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes actively traded securities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes the majority of the OTC derivative contracts. The sources of input parameters are Bloomberg and Reuters.

Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

3 Financial risk management (Continued)

3.4 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

	Level 2 US$'000
At 31st December 2016	
Assets	
Financial assets at fair value through profit or loss	
Debt securities	1,418
Derivative financial instruments	
Exchange rate contracts	3
Total assets	1,421
Liabilities	
Derivative financial instruments	
Exchange rate contracts	5
Total liabilities	5

At 31st December 2015, there were no financial assets and liabilities at fair value through profit and loss.

There were no transfers of financial assets or liabilities between levels of the fair value hierarchy classifications during the years ended 31st December 2016 and 2015.

3.5 Capital management

The Company's objectives when managing capital are as follows:

- To comply with the capital requirement under the Banking (Capital) Rule of the Hong Kong Banking Ordinance;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits of other stakeholders;
- To support the Company's stability and growth; and
- To maintain a strong capital base to support the development of its business.

3 Financial risk management (Continued)

3.5 Capital management (Continued)

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

Capital adequacy and the use of capital are monitored daily by the Company's management. The Company applies an internal trigger capital adequacy ratio which is well above the minimum statutory requirement as an indicator for managing the capital adequacy. In addition, the Company will assess the impact on its capital adequacy ratio when there are new products, new investments or any significant transactions.

The table below summarises the ratio and the composition of regulatory capital of the Company as at 31st December.

	2016	2015
Capital adequacy ratios		
Common Equity Tier 1	487.40%	491.60%
Tier 1	487.40%	491.60%
Total	487.40%	491.60%

The capital base used in the calculation of the above capital adequacy ratios as at 31st December and reported to HKMA is analysed as follows:

	2016 US$'000	2015 US$'000
Components of capital base:		
Common Equity Tier 1:		
Paid up ordinary share capital	220,000	220,000
Disclosed reserves	43,597	43,304
Profit and loss account	888	293
Total capital base	264,485	263,597

The capital adequacy ratios (including Common Equity Tier 1, Tier 1 Capital and Total Capital ratios) as at 31st December 2016 and 31st December 2015 were calculated in accordance with the Banking (Capital) Rules (the "Capital Rules") issued by the HKMA under section 98A of the Hong Kong Banking Ordinance. HKMA has implemented Basel III capital adequacy requirements with effective on 1st January 2014. In accordance with the Capital Rules, the Company has adopted the "standardised (credit risk) approach" for the calculation of the risk-weighted assets for credit risk and the "basic indicator approach" for the calculation of operational risk.

Besides, the HKMA is satisfied that the Company meets the criteria set out in section 22(1)(a) and (b) of the Capital Rules which exempted the Company from the calculation of market risk under section 17 of the Capital Rules accordingly.

There were no regulatory deductions on the Company's Common Equity Tier 1 capital and the total capital base as at 31st December 2016 and 31st December 2015. In addition, there were no limits or minima applied to the calculation of the capital base of the Company in accordance with the Capital Rules.

3 Financial risk management (Continued)

3.5 Capital management (Continued)

The Banking (Capital) (Amendment) Rules 2014 came into effect on 1st January 2015 to implement the Basel III capital buffer requirements in Hong Kong. The changes include the phase-in from 2016 to 2019 of the Capital Conservation Buffer ("CCB") which is designed to ensure banks build up capital outside periods of stress of 2.5% of risk-weighted assets, the Countercyclical Capital Buffer ("CCyB") which is set on an individual country basis and is built up during periods of excess credit growth to protect against future losses, and the Higher Loss Absorbency ("HLA") requirements for Domestic Systemically Important Banks ("D-SIB"). On 27th January 2015 and 14th January 2016, the HKMA announced a CCyB for Hong Kong of 0.625% and 1.25% of risk-weighted assets from 1st January 2016 and 1st January 2017 respectively under the phase-in arrangements of Basel III, equivalent to 2.5% once fully phased in. On 16th March 2015 and 31st December 2015, the HKMA announced that the Company is not designed as a D-SIB in Hong Kong and is not required to establish risk-weighted assets for HLA from 1st January 2016 under the phase-in arrangement.

The applicable CCyB ratio to the Company as at 31st December is as follows:

	2016	2015
Countercyclical capital buffer ("CCyB") ratio	0%	N/A

During the year, the Company has complied with all of the externally imposed capital requirements set by the HKMA.

4 Net interest income

	2016 US$'000	2015 US$'000
Interest income		
Placements with banks	1,235	450
Financial assets at fair value through profit or loss	18	-
	1,253	450
Interest expense		
Deposits and balances from banks	(1)	-
	(1)	-
Net interest income	1,252	450

Included within interest income and interest expenses are US$1,235,460 (2015: US$449,807) and US$ 799 (2015: Nil) for financial assets and financial liabilities that are not at fair value through profit or loss respectively.

5 Fee and commission expense

	2016 US$'000	2015 US$'000
Other fees paid	1	2
Fee and commission expense	1	2

No fee income and fee expenses, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value.

6 Net trading expense

	2016 US$'000	2015 US$'000
Net foreign exchange loss	14	-
Net loss from financial assets at fair value through profit or loss	85	-
	99	-

7 Operating expenses

	2016 US$'000	2015 US$'000
Foreign exchange	-	3
Auditors' remuneration	31	44
Legal and professional fees	4	-
Licence fee	58	50
	93	97

8 Directors' emoluments

None of the directors received or will receive any fees or emoluments in respect of their services to the Company during the year 2016 and 2015.

Certain directors of the Company are members of stock option schemes and restricted stock plans which give them the rights to acquire shares in BAC. During the year ended 31st December 2016, no stock and/ or stock option in respect of their services to the Company is granted to the directors.

9 Share-based payments

Under the Company's stock option schemes and restricted stock plans, stock options and stocks of BAC, the ultimate holding company, are granted to eligible directors and employees. Stock options and stocks can be exercised or granted when they are vested, which is in stages over three years, or when the stock reaches its certain prices.

(a) Stock option schemes

Movements in the number of stock options outstanding and their related weighted average grant/exercise prices are as follows:

	2016		2015	
	Average grant exercise price in US$ per share	Number of options	Average grant exercise price in US$ per share	Number of options
At the beginning of the year		126		126
Granted	-	-	-	-
Exercised	-	-	-	-
Lapsed/ forfeited		-		-
At the end of the year		126		126

There were 126 outstanding options (2015: 126 options), which were exercisable. There is no option exercised in 2016 (2015: Nil).

Stock options outstanding at the end of the year have the following expiry date and weighted average exercise prices:

	2016		2015	
	Average grant exercise price in US$ per share	Number of options	Average grant exercise price in US$ per share	Number of options
Expiry date				
2017	53.85	126	53.85	126
		126		126

No stock options were granted in 2016 and 2015.

(b) Restricted stock plans

During the year ended 31st December 2016 and 31st December 2015, no shares were granted, paid, forfeited, transferred in/out or released from contingencies.

10 Taxation

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

(a) The amount of tax charged to the statement of comprehensive income represents:

	2016 US$'000	2015 US$'000
Current income tax:		
- Hong Kong profits tax	186	41
Deferred tax		
- (Reversal)/ Origination of temporary differences	(15)	17
Taxation	171	58

(b) The tax on the Company's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2016 US$'000	2015 US$'000
Profit before taxation	1,059	351
Calculated at Hong Kong profits tax rate of 16.5%	175	58
Tax effect:		
Expenses not deductible for tax purposes	13	-
Utilisation of previously unrecognised tax losses	-	(17)
Temporary differences (reversal)/recognised	(15)	17
Adjustment in respect of prior years	(2)	-
Taxation	171	58

11 Deferred income tax liabilities

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 movement in the deferred income tax liability in respect of depreciation allowances during the year is as follows:

	US$'000
Beginning balance at 1st January 2015	-
Charge to the statement of comprehensive income for the year	17
Ending balance at 31st December 2015	17
Charge to the statement of comprehensive income for the year	(15)
Ending balance at 31st December 2016	2

12 Cash and balances with banks

	2016 US$'000	2015 US$'000
Demand balances with banks	4,959	2,086
Money at call and short notice	260,009	41,601
	264,968	43,687

13 Financial assets at fair value through profit or loss

	2016 US$'000	2015 US$'000
Unlisted debt securities, at fair value:		
Government bonds	1,418	-

14 Derivative financial instruments

The Company uses the following derivative instruments for trading purpose.

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates or a combination of these. No exchange of principal takes place, except for certain currency swaps. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market.

The notional amounts provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial instrument assets and liabilities can fluctuate significantly from time to time. None of the derivative financial instruments is subject to bilateral netting arrangement.

The fair values of derivative instruments held are set out below:

	Notional amount	Fair Value	
		Assets	Liabilities
	US$'000	US$'000	US$'000
At 31st December 2016			
Derivatives held for trading			
- Exchange rate contracts			
Currency swaps	2,932	3	(5)
At 31st December 2015			
Derivatives held for trading			
- Exchange rate contracts			
Currency swaps	-	-	-

14 Derivative financial instruments (Continued)

As at 31st December, the credit risk-weighted amounts of the financial derivative exposures entered during the year, are shown on a gross basis as follows:

	Credit risk weighted amount	
	2016	2015
	US$'000	US$'000
Derivatives:		
- Exchange rate contracts		
Currency swaps	23	-

The contractual amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date, they do not represent amounts at risk.

The credit risk-weighted amounts at 31st December 2016 and 31st December 2015 were computed in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

15 Other liabilities

	2016	2015
	US$'000	US$'000
Other payable	38	38

16 Share capital

	Number of shares	Share capital
		US$'000
Ordinary shares, issued and fully paid:		
At 31st December 2016 and 31st December 2015	110,000,000	220,000

17 Other reserves

	Share-based payments reserve US$'000
At 1st January 2016	6,467
Directors' and employees' stocks and stock options granted	-
At 31st December 2016	6,467
At 1st January 2015	6,467
Directors' and employees' stocks and stock options granted	-
At 31st December 2015	6,467

Share-based payments reserve is not available for distribution.

18 Balances with group companies

Included in the following balance sheet captions are balances with subsidiaries of BAC, the ultimate holding company.

	2016 US$'000	2015 US$'000
Assets		
Cash and balance with bank		
Demand balances with banks	4,932	2,086
Money at call and short notice	260,009	41,601
	264,941	43,687
Placement with bank maturing between one and twelve months	-	220,042
Derivative financial instruments	3	-
	264,944	263,729
Liabilities		
Deposits and balances from banks	1,665	-
Amount due to intermediate holding company	64	63
Derivative financial instruments	5	-
	1,734	63

19 Related party transactions

The Company is wholly owned by BankAmerica International Financial Corporation, a limited company incorporated in the United States of America. The ultimate holding and controlling party of the Company is BAC, a limited company incorporated in the United States of America.

In addition to balances with group companies as set out in note 18, the Company had the following material transactions with related parties during the year:

(a) Profit and loss

	Note	2016 US$'000	2015 US$'000
Interest income on placements	(i)	1,235	450
Interest expense on deposits	(ii)	(1)	-

Note:

(i) The interest income was generated from placements with an intermediate holding company. The interest rates are similar to that which would normally apply to customers of comparable standing.

(ii) The interest expenses were paid on deposits from an intermediate holding company. The interest rates are similar to that which would normally apply to customers of comparable standing.

(b) Derivatives transactions

	Note	2016 US$'000	2015 US$'000
Exchange rate contracts with a fellow subsidiary for trading purpose	(i)	2,932	-

Note:

(i) Balances represent the contractual notional amount of the outstanding currency swap contracts entered into with a fellow subsidiary. The terms of these contracts were entered in accordance with terms and conditions which would apply to customers of comparable standing.

20 Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, whether directly or indirectly, including the members of the Board of Directors and the members of the Operating Committee of the Company.

Apart from the aggregated amount of directors' emoluments as disclosed in note 8 above, there were no other contracts and transactions with key managements during the year of 2015 and 2016.

21 Contingent liabilities and commitments

At 31st December 2016 and 31st December 2015, the Company did not have any contingent liabilities and commitments.

22 Ultimate holding company

The ultimate holding company is Bank of America Corporation, a company incorporated in the United States of America.

23 Approval of accounts

The accounts were approved by the Board of Directors on 24th April 2017.

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

BANC OF AMERICA SECURITIES ASIA LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

1 Liquidity maintenance ratio

	2016 %	2015 %
Average liquidity maintenance ratio for the financial year	N/A	N/A

The Banking (Liquidity) Rules ('BLR'), effective on 1st January 2015, signified the implementation of Liquidity Maintenance Ratio ('LMR') for category 2 Institution under Basel III liquidity standards in Hong Kong.

As the Company has no qualifying liabilities since September 2010 until November 2016, the Average Liquidity Maintenance Ratio is not applicable.

2 Mainland activities

The analysis of Mainland activities is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA return of Mainland activities.

As at 31st December 2016	On-balance sheet exposure US$'000	Off-balance sheet exposure US$'000	Total US$'000
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	1,418	-	1,418
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 government 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	-	-	-
Total	1,418	-	1,418
Total assets after provision	266,389		
On-balance sheet exposures as percentage of total assets	0.53%		

At 31st December 2015, the Company did not have any Mainland activities to non-bank counterparties.

3 Currency risk

The net positions in foreign currencies in US dollars equivalent are disclosed below where each currency constitutes 10% or more of the respective total net position in all foreign currencies.

	USD US$'000	CNY US$'000	NZD US$'000	Total US$'000
As at 31st December 2016				
Spot assets	264,873	1,430	15	266,318
Spot liabilities	(266,155)	-	-	(266,155)
Forward purchases	2,932	1,436	-	4,368
Forward sales	(1,431)	(2,945)	-	(4,376)
Net long/(short) position	219	(79)	15	155
As at 31st December 2015				
Spot assets	263,628	-	16	263,644
Spot liabilities	(263,597)	-	-	(263,597)
Forward purchases	-	-	-	-
Forward sales	-	-	-	-
Net long/(short) position	31	-	16	47

As at 31st December 2016 and 31st December 2015, the Company did not have any net structure position.

4 Segmental information

(a) By geographical area

The geographical segmental analysis is based on the principal place of operations of Company. For the years ended 31st December 2016 and 2015, most of the Company's operating income and profit before taxation were generated in Hong Kong and most of the assets were located in Hong Kong.

(b) By class of business

The Company's operating income (net of interest expense), operating profit before taxation and total assets are attributable to the following business segment:

	Global Markets US$'000	All Other US$'000	Total US$'000
2016			
Total operating income / (loss)	(83)	1,235	1,152
Operating profit / (loss) before taxation	(173)	1,232	1,059
Total assets	(77)	266,466	266,389
2015			
Total operating income	-	448	448
Operating profit before taxation	-	351	351
Total assets	-	263,729	263,729

4 Segmental information (Continued)

(c) International claims

	Banks	Official sector	Non-bank private sector: Non-bank financial institutions	Non-bank private sector: Non-financial private sector	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31st December 2016					
Developed countries					
- United States	264,953	-	-	-	264,953
- New Zealand	15	-	-	-	15
- United Kingdom	-	-	3	-	3
Developing Asia and Pacific					
- China	-	1,418	-	-	1,418
	264,968	1,418	3	-	266,389
As at 31st December 2015					
Developed countries					
- United States	263,713	-	-	-	263,713
- New Zealand	16	-	-	-	16
- United Kingdom	-	-	-	-	-
Developing Asia and Pacific					
- China	-	-	-	-	-
	263,729	-	-	-	263,729

The information of international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, transfer of risk from one country to another is recognised if the claims against counterparties are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country.

A country or geographical segment (including Hong Kong) should generally be reported individually if it constitutes 10% or more of the aggregated international claims.

5 Overdue and rescheduled assets

At 31st December 2016 and 31st December 2015, the Company did not have any overdue and rescheduled assets.

6 Repossessed assets

At 31st December 2016 and 31st December 2015, the Company did not have any repossessed assets.

7 Capital Charge for credit, market and operational risk

The capital requirements for each class of exposures are summarised as follows:

(a) Capital charge for credit risk

The Company uses the standardised approach for calculation of credit risk.

	Capital requirement	
	2016	2015
	US$'000	US$'000
Bank exposures	4,239	4,220
Total capital charge for on-balance sheet exposures	4,239	4,220
Exchange rate contracts	2	-
Total capital charge for off-balance sheet exposures	2	-
Credit valuation adjustment	1	-
Total capital charge for credit risk	4,242	4,220

This disclosure is made by multiplying the Company's risk-weighted amount derived from the relevant calculation approach by 8%, not the Company's actual "regulatory capital".

(b) Capital charge for market risk

The Company uses the standardized approach for calculation of market risk.

	Capital Charge	
	2016	2015
	US$'000	US$'000
Interest rate exposures	36	-
Foreign exchange exposures	6	1
Capital charge for market risk	42	1

7 Capital Charge for credit, market and operational risk (Continued)

(c) Operational risk capital charges

The Company uses the Basic Indicator Approach for calculating operational risk.

	2016 US$'000	2015 US$'000
Capital charge for operational risk	99	70

8 Capital base

(a) Breakdown of the Company's regulatory capital as at 31st December 2016 and 31st December 2015

See Appendix 1 on pages 59 to 72.

(b) Main features of issued Common Equity Tier 1 ("CET1") capital instrument outstanding as at 31st December 2016 and 31st December 2015

See Appendix 2 on pages 73 to 74. There had been no new issuance, reduction or material changes to the nature of the CET1 capital instrument for the years ended 31st December 2016 and 31st December 2015

The Company did not have Additional Tier 1 or Tier 2 capital instruments as of 31st December 2016 and 31st December 2015

(c) Reconciliation between regulatory capital components to the Statement of Financial Position as at 31st December 2016 and 31st December 2015 (the "Reconciliation")

The Company's audited financial statements for accounting and regulatory purposes as at 31st December 2016 and 31st December 2015 are identical. See Appendix 1 for the Reconciliation on pages 59 to 72.

9 Leverage ratio

	2016	2015
Leverage ratio	99.27%	99.95%
Figures in US$'000		
Tier 1 capital	264,485	263,597
Total exposures	266,433	263,729

Breakdown of the Company's leverage ratio exposure measures and reconciliation between the Company's statement of financial position to leverage ratio exposure measures as at 31st December 2016 and 31st December 2015 are disclosed in Appendix 3 on pages 75 to 76 and Appendix 4 on pages 77 to 78 respectively.

10 Countercyclical capital buffer ratio

Countercyclical capital buffer ("CCyB") ratio is the weighted average of the applicable jurisdictional CCyB ("JCCyB") rates in respect of the jurisdictions (including Hong Kong) where the Company has private sector credit exposures. The attribution of the Company's private sector credit exposures by jurisdiction is determined on an ultimate risk basis set out in the guideline on "Countercyclical Capital Buffer – Geographic Allocation of Private Sector Credit Exposures" under the Supervisory Policy Manual issued by HKMA.

Geographical breakdown of risk-weighted amounts (RWA) in relation to private sector credit exposures as at 31st December 2016

Jurisdiction	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio	CCyB ratio	CCyB amount
	%	US$'000	%	US$'000
United Kingdom	0.000%	23		
Total		23	0.000%	-

11 Corporate Governance

Corporate governance is a system by which business entities are directed, supervised, monitored and controlled. The corporate governance structure specifies the interaction of rights and responsibilities among the shareholders, Board of Directors, officers, senior management and other stakeholders, and sets forth the rules, policies, procedures and guidelines for making decisions on corporate affairs. The corporate governance structure of the Company met the relevant requirements set out in the guideline on "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by HKMA.

As at 31st December 2016, the Board of Directors of the Company comprises of four officers from business and control functions including executive business management, finance and risk management. Appointment to the directorships must be approved by the Board and HKMA.

In addition to the Board of Directors, the businesses and affairs of the Company are also monitored by the following governance framework:

11 Corporate Governance (Continued)

Country Leadership Team

Bank of America Corporation's operations in the Asia Pacific region are managed by a Country Leadership Team ("CLT") in each jurisdiction with membership generally comprised of the Country Executive, Country Operating Officer, Risk, Compliance, Finance, HR and Representatives from Local Lines of Business and other Enterprise Control Functions. The CLT is chaired by the Country Executive.

Country governance and control is managed by the Country Executive and the CLT and connects at the regional level through the Regional President and the Regional Executive Committee ("APAC ExCo"). Issues and agenda items at a country level are brought to the APAC ExCo for resolution.

The management of BASAL is accountable to the Hong Kong CLT. The Chief Executive's office will ensure that any material issues and/or changes in operational or reputational risk profile identified are promptly escalated and reported to the Hong Kong CLT.

Credit and Market Risk Compliance Committee

The Credit and Market Risk Compliance Committee is dispensed as the Company's operation was dormant, however, it is in discussion with HKMA for its re-activation. Market Risk and Credit Risk continue to be monitored under the Regional Risk Management.

Asia Risk Forum

Asia Risk Forum is responsible for reviewing and approving New Business Initiatives, New Products and Non-Standard Transactions.

The Risk Forums are coordinated and chaired by the relevant representative from Risk Management or their designate. Their membership consists at the minimum of local representatives from the relevant support groups such as: Compliance, Legal, Risk Management, Finance, Tax, Technology, Middle Office, Operations, Corporate Treasury and Audit (as non-voting member), as well as the relevant business units. The Risk Forum chair may require other areas to attend the meeting at his discretion (i.e. Model Validation, Accounting Policy, etc.)

Audit Committee

The Company does not have its own Audit Committee, but its internal and external audit functions are subject to the direct supervision of the Audit Committee of BAC.

The Board of Directors of the Company has adopted the same risk management philosophies and control procedures that are established by BAC and has designed a corporate governance structure to monitor different risks of the business.

11 Corporate Governance (Continued)

Remuneration system

Introduction

The following information sets forth the remuneration disclosures required under Section 3 of the Guideline on a Sound Remuneration System (CG-5) issued by the Hong Kong Monetary Authority ("HKMA") in March 2015 (the "Guideline"), to reflect the Pillar 3 requirements for remuneration disclosure published by the Basel Committee on Banking Supervision, July 2011. The information relates to the incentive compensation programs operated in respect of performance year 2016 by Bank of America Corporation ("Bank of America" or "the Company"). Annex A of the Guideline outlines the qualitative remuneration disclosure requirements under paragraphs (a) to (f) as exhibited in the following information. The quantitative remuneration disclosures required under paragraphs (g) to (m) of Annex A in respect of Bank of America operations in Hong Kong appear after this section.

The Company applies prudent risk management practices to its incentive compensation programs across the enterprise and is committed to a compensation governance structure that effectively contributes to our company's overall risk management policies.

In order to provide an appropriate balance of risk and reward, incentive compensation plans will be developed in accordance with the Global Compensation Principles:

> Principle 1. Compensation should be comprised of an appropriate mix of salary, benefits and incentives paid over time that properly aligns employee and stockholder interests.
> Principle 2. Criteria for payment of incentive compensation should take into account Bank-wide, business unit and individual factors.
> Principle 3. Compensation should be determined on the basis of a combination of financial and non-financial factors that reflect both the current period and a longer period.
> Principle 4. Compensation programs should incorporate appropriate governance processes and procedures.

These principles work in conjunction with broader compensation practices, including the Company's overall commitment to pay for performance, remuneration policies and risk management processes set forth in the Company's Risk Framework and Risk Appetite.

Governance and the decision-making process for determining the remuneration policy

The Company applies its compensation policy on a global basis and has four primary levels for the governance of incentive compensation plans:

(i) the Board of Directors (the "Board"),
(ii) the Board of Directors Compensation and Benefits Committee (the "Committee"), which is wholly made up of independent directors and functions as the Company's global Remuneration Committee,
(iii) the Management Compensation Committee, and
(iv) Governance by Line of Business Management and Independent Control Functions aligned to the Line of Business.

11 Corporate Governance (Continued)

Remuneration System (Continued)

Governance and the decision-making process for determining the remuneration policy (Continued)

The Committee oversees the establishment, maintenance and administration of the Company's compensation programs and employee benefit plans, including approving and recommending the compensation of its Chief Executive Officer (the "CEO") to the Board for its approval and approving the compensation of the CEO's direct reports. Under supervision of the Committee, oversight, review and responsibility for remuneration decision-making is allocated to the appropriate level of the Company's structure so that the most relevant level of management makes remuneration decisions with documented input from the Company's Independent Control Functions.

The Committee has adopted and annually reviews the Bank of America Compensation Governance Policy to govern incentive compensation decisions and define the framework for design oversight of incentive compensation programs across the Company. The Compensation Governance Policy is designed to be consistent with global regulatory initiatives so that the Company's incentive compensation plans do not encourage excessive risk-taking.

The Committee receives, from time to time, direct feedback from the Independent Control Functions on compensation programs. The Committee also holds periodic meetings with the Chief Risk Officer to review and evaluate employee compensation programs to assess any risk posed by the programs so that the programs appropriately balance risks and rewards in a manner that does not encourage excessive risk-taking and are otherwise consistent with the Company's Compensation Governance Policy.

As authorized under its charter, the Committee has engaged Farient Advisors, LLC as its independent compensation consultant. The independent compensation consultant meets regularly with the Committee outside the presence of management and alone with the Committee chair.

During performance year 2016, the Committee held seven (7) meetings. Additional information regarding the Committee is included in the annual Proxy Statement available on Bank of America's Investor Relations website.

11 Corporate Governance (Continued)

Remuneration System (Continued)

The link between pay and performance

The cornerstone of Bank of America's compensation philosophy across all lines of business is to pay for performance – Company, line of business and individual performance. Through the Company's Performance Management process, employees understand performance expectations for their role through on-going dialogue with their manager. The Performance Management process is designed and monitored by the Leadership Development function in Human Resources. This process is reviewed periodically so that it meets the needs of managers to assess and communicate performance expectations. Throughout the year, employees receive coaching on their performance and ultimately receive a rating for their full year of performance based upon their achievement of goals for their job.

Each employee's performance is assessed on financial and non-financial metrics as well as specific behaviors, and performance is factored into each employee's incentive compensation award. Depending on the employee, financial performance metrics may be focused on corporate-wide, line of business, or product results. Non-financial performance metrics may include quality and sustainability of earnings, successful implementation of strategic initiatives, adoption of risk culture/adherence to risk framework and operating principles and other core values of the Company.

Employees receive two ratings – a Result rating (based on objective metrics such as business performance) and a Behavior rating (based on subjective metrics such as contributions to the Company, leadership, conduct, teamwork, etc.). The scale for both ratings is Exceeds Expectations, Meets Expectations, and Does Not Meet Expectations. Both the Result and Behavior ratings are used in determining employees' compensation. As a result, an employee's compensation can be influenced not only by what the employee achieves, but how the employee achieves it and the employee may receive no variable award if performance is not sufficiently strong.

The Company's pay-for-performance program also requires that all employees complete annual mandatory risk and compliance training.

11 Corporate Governance (Continued)

Remuneration System (Continued)

Risk Management and Incentive Plans

Risk is inherent in every material business activity that the Company undertakes. The Company's business exposes it to strategic, credit, market, liquidity, compliance, operational and reputational risks. The Company must manage these risks to maximize its long-term results by ensuring the integrity of its assets and the quality of its earnings. To support the Company's corporate goals and objectives, risk appetite, and business and risk strategies, the Company maintains a governance structure that delineates the responsibilities for risk management activities, as well as governance and oversight of those activities, by management and the Company's Board.

Executive management develops for Board approval the Company's Risk Framework, which defines the accountability of the Company and its employees in managing risk; the Company's Risk Appetite Statement, which defines the parameters under which the Company will take risk; and the Company's strategic and financial operating plans. Management monitors, and the Board oversees directly and through its committees, the Company's financial performance, execution against the strategic and financial operating plans, compliance with the risk appetite metrics and the adequacy of internal controls.

The Company believes that prudent risk management practices are applied to its incentive remuneration programs across the enterprise. The Company continually evaluates the design of its remuneration programs in accordance with the risk framework. The Committee is committed to a compensation governance structure that effectively contributes to the Company's broader risk management policies.

The Company's incentive plans are designed to compensate employees based on their performance ratings for results against their individual performance plan and behaviors, as well as overall Company and line of business performance.

Incentive plan bonus pools are based on profit measures, which inherently recognize certain underlying risk factors and are further adjusted to reflect the use of capital associated with individual lines of business or products and/or the quality and sustainability of earnings over time. The determination of incentive plan bonus pools is also subject to management discretion which operates so proper account is taken of the performance of the overall Company, individual lines of business, products and other factors including the achievement of strategic objectives.

Incentive plan bonus pools may be adjusted to reflect long-term risk arising through line of business and product performance. These pools are tied to the overall performance, inclusive of risk, of Bank of America and/or specific lines of business or products, creating for employees a vested interest in profitable performance across the Company and its businesses.

Long-term risk is also taken into account and managed in connection with the Company's incentive compensation programs through arrangements permitting performance adjustment of deferred variable compensation. Employees in positions where the greatest risk is being taken are subject to higher levels of deferral and potential performance adjustments.

The compensation of the Independent Control Functions is determined independently from the line of business supported. The funding of the incentive pool for these employees is based upon overall Company performance with the actual employee awards determined based upon individual performance against predetermined objectives.

11 Corporate Governance (Continued)

Employee Pay

Bank of America compensates its employees using a balanced mix of fixed remuneration, annual cash incentives and deferred incentives (which are delivered in equity, equity-based instruments or cash). In general, the higher an employee's management level or amount of incentive compensation award, the greater the proportion of incentive compensation should be (i) subject to deferral and (ii) delivered in the form of equity-based compensation. The Company believes equity-based awards are the simplest, most direct way to align employee interests with those of its stockholders. A significant portion of incentive awards is provided as a deferred incentive that generally becomes earned and payable over a period of three years after grant and will be cancelled in case of detrimental conduct or (for certain risk-takers) failure of the Company, line of business or business unit (as applicable) to remain profitable during the vesting period. This approach serves two key objectives, which are to focus employees on long-term sustainable results and to subject compensation awards to risk over an appropriate time horizon that can be easily communicated and understood.

Quantitative Disclosures

The Committee held seven (7) meetings in 2015 and seven (7) meetings in 2016. The 2015 remuneration of the Committee members is disclosed in the 2016 Proxy statement available on Bank of America's Investor Relations website. 2016 remuneration of the Committee members will similarly be disclosed in the 2017 Proxy statement, to be available 15th March 2017.

Banc of America Securities Asia Limited is part of a broader organizational structure. There have been no employees within the Banc of America Securities Asia Limited legal entity since December 2010, and thus no employees identified as Senior Management or Key Personnel for performance year 2015 or 2016, in respect of whom disclosures would be required under paragraphs (h) to (m) of Annex A of the Guideline.

12 Risk Management

(a) Credit Risk

(i) Credit risk exposures

Standard & Poor's Ratings Services and Moody's Investors Service are the ECAIs that the Company has used in relation to the each class of exposures below. The process it used to map ECAI issuer ratings to exposures booked in its banking book is a process as prescribed in Part 4 of the Banking (Capital) Rules.

	Total Exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted Amount
		Rated	Unrated	Rated	Unrated	
US$'000						
2016						
Class of Exposures						
A. On-balance Sheet						
1. Bank	264,968	264,968	-	52,994	-	52,994
B. Off-balance Sheet						
1. OTC derivative transactions	46	46	-	23	-	23
2015						
Class of Exposures						
A. On-balance Sheet						
1. Bank	263,729	263,729	-	52,746	-	52,746
B. Off-balance Sheet						
1. OTC derivative transactions	-	-	-	-	-	-

(ii) Counterparty credit risk exposures

The following table summaries the Company's credit exposure from OTC derivative transactions as at 31st December 2016. The Company does not have any Repo-style transactions and credit derivative contracts.

	Securities Firm US$'000
2016	
OTC derivatives:	
Gross total positive fair value	1,502
Credit equivalent amount	46
Value of recognised collateral	-
Credit equivalent amount net of recognised collateral	46
Risk weighted amount	23

At 31st December 2015, the Company does not have any OTC derivative transactions, Repo-style transactions and credit derivative contracts.

12 Risk Management (Continued)

(b) Interest rate exposures in banking book

The impact on earnings of the Company is calculated by assuming that the changes in interest rates last for a period of 12 months and all positions are repriced at the mid-point of each time band.

2016		Currency	
US$'000	HKD	USD	Total
Interest rate risk (+ 200 basis point)			
- Decline in earning	-	-	-
- Increase in earning	-	5,195	5,195
	-	5,195	5,195
Interest rate risk (- 200 basis point)			
- Decline in earning	-	(5,195)	(5,195)
- Increase in earning	-	-	-
	-	(5,195)	(5,195)

2015		Currency	
US$'000	HKD	USD	Total
Interest rate risk (+ 200 basis point)			
- Decline in earning	-	-	-
- Increase in earning	-	4,456	4,456
	-	4,456	4,456
Interest rate risk (- 200 basis point)			
- Decline in earning	-	(4,456)	(4,456)
- Increase in earning	-	-	-
	-	(4,456)	(4,456)

12 Risk Management (Continued)

(c) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. Operational risk also encompasses the failure to implement strategic objectives and initiatives in a successful, timely and cost-effective manner.

Bank of America Corporation (BAC) approaches operational risk from two perspectives: corporate-wide and line of business (LOB) specific. The BAC Compliance and Operational Risk Committee (CORC) provides oversight of significant corporate-wide operational and compliance issues. Within Global Risk Management, Global Compliance and Operational Risk Management develops and guides the strategies, policies, practices, controls and monitoring tools for assessing and managing operational risks across BAC. In turn, the LOB's are responsible for monitoring adherence to corporate practices. LOB management uses the LOB self-assessment process (or LOBSA) to identify and evaluate the status of risk and control issues. The goal of this self-assessment process is to periodically assess changing market and business conditions and to evaluate key operational risks impacting each LOB. In addition to information gathered from the LOBSA process, key operational risk indicators are used to help identify trends and issues.

The Company has established an operational risk management framework that reinforces and follows operational risk policies established by BAC. Within the Company, the CLT is responsible for monitoring the business operations. As noted above, LOBs, which are represented within the CLT, is responsible for all the risks within the business including operational risks. Such risks are managed through corporate-wide or LOB specific policies and procedures, controls, and monitoring tools. Examples of these include data reconciliation processes, fraud prevention, transaction processing monitoring and analysis and business recovery planning.

Economic capital for operational risk is determined for each LOB using historical loss event data and statistical modeling of the frequency and severity of the loss events.

BANC OF AMERICA SECURITIES ASIA LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2016

	Transition Disclosures Template		**Amounts subject to pre-Basel III treatment***	Cross Reference* to
	CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	220,000		(1)
2	Retained earnings	38,018		(2)
3	Disclosed reserves	6,467		(3)
4	*Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)*	Not applicable		
	Public sector capital injections grandfathered until 1 January 2018	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)	0		
6	**CET1 capital before regulatory deductions**	264,485		
	CET1 capital: regulatory deductions			
7	Valuation adjustments	0		
8	Goodwill (net of associated deferred tax liability)	0		
9	Other intangible assets (net of associated deferred tax liability)	0	0	
10	Deferred tax assets net of deferred tax liabilities	0		
11	Cash flow hedge reserve	0		
12	Excess of total EL amount over total eligible provisions under the IRB approach	0	0	
13	Gain-on-sale arising from securitization transactions	0		
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	0	0	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	0	0	
17	Reciprocal cross-holdings in CET1 capital instruments	0	0	
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)	0	0	
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)	0	0	

BANC OF AMERICA SECURITIES ASIA LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2016 (Continued)

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	
26	National specific regulatory adjustments applied to CET1 capital	0	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	0	
26b	Regulatory reserve for general banking risks	0	
26c	Securitization exposures specified in a notice given by the Monetary Authority	0	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	0	
26e	Capital shortfall of regulated non-bank subsidiaries	0	0
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0	0
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	0	
28	**Total regulatory deductions** to CET1 capital	0	
29	**CET1 capital**	264,485	

BANC OF AMERICA SECURITIES ASIA LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2016 (Continued)

	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	*Capital instruments subject to phase out arrangements from AT1 capital*	0	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	0	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements*	0	
36	**AT1 capital before regulatory deductions**	0	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	0	0
38	Reciprocal cross-holdings in AT1 capital instruments	0	0
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)	0	0
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	0
41	National specific regulatory adjustments applied to AT1 capital	0	
41a	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 1 capital	0	
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	0	
ii	of which: Capital shortfall of regulated non-bank subsidiaries	0	
iii	of which: Investments in own CET1 capital instruments	0	
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	0	
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0	

Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2016 (Continued)

vi	of which: 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	0	
vii	of which: Significant 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	0	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	0	
43	**Total regulatory deductions to AT1 capital**	0	
44	**AT1 capital**	0	
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	264,485	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	0	
47	*Capital instruments subject to phase out arrangements from Tier 2 capital*	0	
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)	0	
49	*of which: capital instruments issued by subsidiaries subject to phase out arrangements*	0	
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	0	
51	**Tier 2 capital before regulatory deductions**	0	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	0	0
53	Reciprocal cross-holdings in Tier 2 capital instruments	0	0
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)	0	0
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	0

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Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2016 (Continued)

56	National specific regulatory adjustments applied to Tier 2 capital	0
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	0
56b	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital	0
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	0
ii	of which: Capital shortfall of regulated non-bank subsidiaries	0
iii	of which: Investments in own CET1 capital instruments	0
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	0
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0
vi	of which: 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	0
vii	of which: Significant 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	0
57	**Total regulatory deductions to Tier 2 capital**	0
58	**Tier 2 capital**	0
59	**Total capital (Total capital = Tier 1 + Tier 2)**	264,485
59a	Deduction items under Basel III which during transitional period remain subject to risk-weighting, based on pre-Basel III treatment	0
i	of which: Mortgage servicing rights	0
ii	of which: Defined benefit pension fund net assets	0
iii	of which: Investments in own CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments	0

Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2016 (Continued)

iv	of which: Capital investment in a connected company which is a commercial entity	0
v	of which: 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	0
vi	of which: Significant 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	0
60	**Total risk weighted assets**	54,265
Capital ratios (as a percentage of risk weighted assets)		
61	CET1 capital ratio	487.40%
62	Tier 1 capital ratio	487.40%
63	Total capital ratio	487.40%
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3A, or s.3B, as the case requires, of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	0.00%
65	*of which: capital conservation buffer requirement*	0.00%
66	*of which: bank specific countercyclical buffer requirement*	0.00%
67	*of which: G-SIB or D-SIB buffer requirement*	0.00%
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.3A, or s.3B, as the case requires, of the BCR	0.00%
National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable
70	National Tier 1 minimum ratio	Not applicable
71	National Total capital minimum ratio	Not applicable
Amounts below the thresholds for deduction (before risk weighting)		

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SUPPLEMENTARY FINANCIAL INFORMATION

Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2016 (Continued)

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	0	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable	
Applicable caps on the inclusion of provisions in Tier 2 capital			
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)	0	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	0	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	0	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	0	
Capital instruments subject to phase-out arrangements			
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*	0	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	0	
84	*Current cap on Tier 2 capital instruments subject to phase out arrangements*	0	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	0	

* This refers to the position under the Banking (Capital) Rules in force on 31st December 2012.

Abbreviations:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

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SUPPLEMENTARY FINANCIAL INFORMATION

Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2015

	Transition Disclosures Template		**Amounts subject to pre-Basel III treatment***	Cross Reference* to
	CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	220,000		(1)
2	Retained earnings	37,130		(2)
3	Disclosed reserves	6,467		(3)
4	*Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)*	Not applicable		
	Public sector capital injections grandfathered until 1 January 2018	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)	0		
6	**CET1 capital before regulatory deductions**	263,597		
	CET1 capital: regulatory deductions			
7	Valuation adjustments	0		
8	Goodwill (net of associated deferred tax liability)	0		
9	Other intangible assets (net of associated deferred tax liability)	0	0	
10	Deferred tax assets net of deferred tax liabilities	0		
11	Cash flow hedge reserve	0		
12	Excess of total EL amount over total eligible provisions under the IRB approach	0	0	
13	Gain-on-sale arising from securitization transactions	0		
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	0	0	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	0	0	
17	Reciprocal cross-holdings in CET1 capital instruments	0	0	
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)	0	0	
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)	0	0	

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SUPPLEMENTARY FINANCIAL INFORMATION

Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2015 (Continued)

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	
26	National specific regulatory adjustments applied to CET1 capital	0	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	0	
26b	Regulatory reserve for general banking risks	0	
26c	Securitization exposures specified in a notice given by the Monetary Authority	0	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	0	
26e	Capital shortfall of regulated non-bank subsidiaries	0	0
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0	0
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	0	
28	**Total regulatory deductions** to CET1 capital	0	
29	**CET1 capital**	263,597	

Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2015 (Continued)

	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	*Capital instruments subject to phase out arrangements from AT1 capital*	0	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	0	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements*	0	
36	**AT1 capital before regulatory deductions**	0	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	0	0
38	Reciprocal cross-holdings in AT1 capital instruments	0	0
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)	0	0
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	0
41	National specific regulatory adjustments applied to AT1 capital	0	
41a	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 1 capital	0	
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	0	
ii	of which: Capital shortfall of regulated non-bank subsidiaries	0	
iii	of which: Investments in own CET1 capital instruments	0	
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	0	
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0	

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Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2015 (Continued)

vi	of which: 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	0	
vii	of which: Significant 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	0	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	0	
43	**Total regulatory deductions to AT1 capital**	0	
44	**AT1 capital**	0	
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	263,597	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	0	
47	*Capital instruments subject to phase out arrangements from Tier 2 capital*	0	
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)	0	
49	*of which: capital instruments issued by subsidiaries subject to phase out arrangements*	0	
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	0	
51	**Tier 2 capital before regulatory deductions**	0	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	0	0
53	Reciprocal cross-holdings in Tier 2 capital instruments	0	0
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)	0	0
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	0

Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2015 (Continued)

56	National specific regulatory adjustments applied to Tier 2 capital	0	
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	0	
56b	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital	0	
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	0	
ii	of which: Capital shortfall of regulated non-bank subsidiaries	0	
iii	of which: Investments in own CET1 capital instruments	0	
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	0	
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0	
vi	of which: 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	0	
vii	of which: Significant 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	0	
57	**Total regulatory deductions to Tier 2 capital**	0	
58	**Tier 2 capital**	0	
59	**Total capital (Total capital = Tier 1 + Tier 2)**	263,597	
59a	Deduction items under Basel III which during transitional period remain subject to risk-weighting, based on pre-Basel III treatment		
i	of which: Mortgage servicing rights	0	
ii	of which: Defined benefit pension fund net assets	0	
iii	of which: Investments in own CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments	0	

Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2015 (Continued)

iv	of which: Capital investment in a connected company which is a commercial entity	0
v	of which: 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	0
vi	of which: Significant 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	0
60	**Total risk weighted assets**	53,620
Capital ratios (as a percentage of risk weighted assets)		
61	CET1 capital ratio	491.60%
62	Tier 1 capital ratio	491.60%
63	Total capital ratio	491.60%
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3A, or s.3B, as the case requires, of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	0.00%
65	*of which: capital conservation buffer requirement*	0.00%
66	*of which: bank specific countercyclical buffer requirement*	0.00%
67	*of which: G-SIB or D-SIB buffer requirement*	0.00%
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.3A, or s.3B, as the case requires, of the BCR	0.00%
National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable
70	National Tier 1 minimum ratio	Not applicable
71	National Total capital minimum ratio	Not applicable
Amounts below the thresholds for deduction (before risk weighting)		

Appendix 1 - Breakdown of the Company's regulatory capital as at 31st December 2015 (Continued)

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	0	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable	
Applicable caps on the inclusion of provisions in Tier 2 capital			
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)	0	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	0	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	0	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	0	
Capital instruments subject to phase-out arrangements			
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*	0	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	0	
84	*Current cap on Tier 2 capital instruments subject to phase out arrangements*	0	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	0	

* This refers to the position under the Banking (Capital) Rules in force on 31st December 2012.

<u>Abbreviations</u>:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

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SUPPLEMENTARY FINANCIAL INFORMATION

Appendix 2 - Main features of issued Common Equity Tier 1 ("CET1") capital instrument outstanding as at 31st December 2016 and 31st December 2015

Main Features Template

1	Issuer	Banc of America Securities Asia Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	BBG002Y21XT8
3	Governing law(s) of the instrument	Hong Kong
	Regulatory treatment	
4	Transitional Basel III rules#	Common Equity Tier 1
5	Post-transitional Basel III rules+	Ineligible
6	Eligible at solo*/group/group & solo	Solo
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)	USD 220 mil
9	Par value of instrument	USD 220 mil
10	Accounting classification	Shareholders' equity
11	Original date of issuance	May 22,1973
12	Perpetual or dated	Perpetual
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Discretionary dividend amount
18	Coupon rate and any related index	NA
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

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Appendix 2 - Main features of issued Common Equity Tier 1 ("CET1") capital instrument outstanding as at 31st December 2016 and 31st December 2015 (Continued)

22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Nonconvertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	No
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Footnote:

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*

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Appendix 3 - Leverage Ratio Exposure Measures as at 31st December 2016

	Item	Leverage ratio framework US$'000
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	266,386
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	0
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	266,386
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	3
5	Add-on amounts for PFE associated with all derivatives transactions	44
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	0
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	0
11	Total derivative exposures (sum of lines 4 to 10)	47
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	0
14	CCR exposure for SFT assets	0
15	Agent transaction exposures	0
16	Total securities financing transaction exposures (sum of lines 12 to 15)	0
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	0
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	0
19	Off-balance sheet items (sum of lines 17 and 18)	0
	Capital and total exposures	
20	Tier 1 capital	264,485
21	Total exposures (sum of lines 3, 11, 16 and 19)	266,433
	Leverage ratio	
22	**Basel III leverage ratio**	**99.27%**

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Appendix 3 - Leverage Ratio Exposure Measures as at 31st December 2015

	Item	Leverage ratio framework US$'000
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	263,729
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	0
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	263,729
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	0
5	Add-on amounts for PFE associated with all derivatives transactions	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	0
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	0
11	Total derivative exposures (sum of lines 4 to 10)	0
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	0
14	CCR exposure for SFT assets	0
15	Agent transaction exposures	0
16	Total securities financing transaction exposures (sum of lines 12 to 15)	0
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	0
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	0
19	Off-balance sheet items (sum of lines 17 and 18)	0
	Capital and total exposures	
20	Tier 1 capital	263,597
21	Total exposures (sum of lines 3, 11, 16 and 19)	263,729
	Leverage ratio	
22	**Basel III leverage ratio**	**99.95%**

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Appendix 4 - Reconciliation between the Company's unaudited statements of financial position to Leverage Ratio Exposure Measures as at 31st December 2016

	Item	Leverage ratio framework US$'000
1	Total consolidated assets as per published financial statements	266,389
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	0
4	Adjustments for derivative financial instruments	44
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	0
7	Other adjustments	0
8	**Leverage ratio exposure**	266,433

BANC OF AMERICA SECURITIES ASIA LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

Appendix 4 - Reconciliation between the Company's unaudited statements of financial position to Leverage Ratio Exposure Measures as at 31st December 2015

	Item	Leverage ratio framework US$'000
1	Total consolidated assets as per published financial statements	263,729
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	0
4	Adjustments for derivative financial instruments	0
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	0
7	Other adjustments	0
8	**Leverage ratio exposure**	263,729