

# BANK OF COMMUNICATIONS (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

## REGULATORY DISCLOSURE STATEMENT

31 December 2018  
(Unaudited)



SINCE 1908 YOUR WEALTH MANAGEMENT BANK

Bank of Communications (Hong Kong) Limited

20 Pedder Street, Central, Hong Kong

[www.hk.bankcomm.com](http://www.hk.bankcomm.com)

# Contents

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**REGULATORY DISCLOSURE STATEMENT (UNAUDITED)**

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The following disclosures contained all disclosures required by the Banking (Disclosure) Rules and disclosure templates issued by the HKMA.

## Key prudential ratios and overview of risk management and RWA

### KM1: Key prudential ratios

		31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note)
<b>Regulatory capital (amount)</b>						
1.	Common Equity Tier 1 (CET1)	17,821,621	17,775,567	17,511,408	7,392,057	N/A
2.	Tier 1	17,821,621	17,775,567	17,511,408	7,392,057	N/A
3.	Total capital	20,845,033	20,694,426	20,084,226	9,973,311	N/A
<b>RWA (amount)</b>						
4.	Total RWA	115,005,469	109,587,558	60,726,985	58,578,482	N/A
<b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>						
5.	CET1 ratio (%)	15.50%	16.22%	28.84%	12.62%	N/A
6.	Tier 1 ratio (%)	15.50%	16.22%	28.84%	12.62%	N/A
7.	Total capital ratio (%)	18.13%	18.88%	33.07%	17.03%	N/A
<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>						
8.	Capital conservation buffer requirement (%)	1.875%	1.875%	1.875%	1.875%	N/A
9.	Countercyclical capital buffer requirement (%)	1.524%	1.470%	1.687%	1.739%	N/A
10.	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	0.000%	0.000%	0.000%	0.000%	N/A
11.	Total AI-specific CET1 buffer requirements (%)	3.399%	3.345%	3.562%	3.614%	N/A
12.	CET1 available after meeting the AI's minimum capital requirements (%)	9.50%	10.22%	22.84%	6.62%	N/A
<b>Basel III leverage ratio</b>						
13.	Total leverage ratio (LR) exposure measure	212,179,002	194,000,996	186,046,438	196,149,668	N/A
14.	LR (%)	8.40%	9.16%	9.41%	3.77%	N/A
<b>Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)</b>						
Applicable to category 1 institution only:						
15.	Total high quality liquid assets (HQLA)	18,344,119	25,360,604	35,739,131	46,761,565	N/A
16.	Total net cash outflows	10,346,618	12,979,109	16,437,410	16,072,981	N/A
17.	LCR (%)	182.69%	213.11%	234.12%	298.91%	N/A
Applicable to category 2 institution only:						
17a.	LMR (%)	N/A	N/A	N/A	N/A	N/A
<b>Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)</b>						
Applicable to category 1 institution only:						
18.	Total available stable funding	161,334,586	152,253,762	154,080,500	163,367,671	N/A
19.	Total required stable funding	125,303,104	120,510,120	83,264,206	87,500,473	N/A
20.	NSFR (%)	128.76%	126.34%	185.05%	186.70%	N/A
Applicable to category 2A institution only:						
20a.	CFR (%)	N/A	N/A	N/A	N/A	N/A

Note: Under section 3(14A) of the Banking (Disclosure) Rules ("the Disclosure Rules"), the Company is exempted from the application of the Disclosure Rules as it has not yet commenced its banking business until 29 January 2018. As such, no comparative figures before business commencement are available and no explanation of material changes is applicable.

## Key prudential ratios and overview of risk management and RWA (Continued)

### OVA: Overview of risk management

#### Overview

Throughout 2018, the Bank has maintained “stable, balanced, compliant and innovative” as the core concept behind its risk appetite. Through excellent risk management, the Bank is guided onto a sustainable growth path and strengthened its market leading position.

During this reporting period, the Bank thoroughly implements a sound strategy and establishes a mature management structure. Under the guidance of the Board of Directors, the Bank pursues balance between returns and risks, thereby achieving a balanced development in scale, quality and efficiency. We adhere to the principle of compliance management, comply with all regulatory requirements, strengthen the maintenance of risk data, increase the technical level of risk measurements, and enhance the overall risk management capabilities. Through the spirit of risk management, we inherited innovative thinking, grasped development opportunities, achieved strategic goals and created greater value.

As the Bank’s main business is still dominated by credit business such as lending, billing and stock financing, credit risk is one of key risks encountered by the Bank. The Bank also attaches great importance to the development of treasury business, but market risks such as exchange rate risk, interest rate risk and option risk arise from such market price fluctuations. Beyond credit and market risks, key risks encountered by the Bank also include operational, strategy, liquidity, legal and compliance risk.

#### Risk Governance

The Bank’s risk management governance structure is designed to cover all business processes. It ensures various risks are properly managed and controlled throughout the course of conducting business. The Bank has a robust organisational structure for risk management and a comprehensive set of policies and procedures to identify, measure, monitor and control various risks that may arise. These risk management policies and procedures are regularly reviewed and updated to reflect changes in markets and business strategies. Various groups of risk takers assume their respective responsibilities for risk management.

The Board of Directors, with the assistance of its committees, has the primary responsibility for the formulation of risk management strategies and ensuring that the Bank has an effective risk management system to implement these strategies. The Risk Management Committee, a standing committee established by the Board of Directors, is responsible for overseeing the Bank’s various types of risks, approving high level risk management policies and monitoring their implementation, reviewing significant or high risk exposures or transactions and exercising its power of veto if it considers that any transaction should not proceed.

The Chief Executive is responsible for managing the Bank’s various types of risks, and material risk exposures or transactions within his authority delegated by the Board of Directors. The Chief Risk Officer assists the Chief Executive in fulfilling his responsibilities for the day-to-day management of risks. The Chief Risk Officer is responsible for initiating new risk management strategies, projects and measures in response to regulatory changes that will enable the Bank to better monitor and manage new risk issues or areas that may arise from time to time from new businesses, products and changes in the operating environment. The Chief Risk Officer is also responsible for reviewing material risk exposures or transactions within his delegated authority. In accordance with the principle of setting the hierarchy of risk management policies approved by the Board of Directors, Senior Management are also responsible for approving the detailed risk management policies of their responsible areas.

Various units of the Bank have their respective risk management responsibilities. Business units act as the first line of defence while risk management units, which are independent from the business units, are responsible for the day-to-day management of different kinds of risks. Risk management units have the primary responsibilities for drafting, reviewing and updating various risk management policies and procedures.

## Key prudential ratios and overview of risk management and RWA (Continued)

### OVA: Overview of risk management (Continued)

As the main operational function in risk management, the Risk Management Department is tasked with identifying, understanding, controlling and reporting of all risks. The Risk Management Department should also provide reliable and comprehensive risk information (such as risk heat map). Other than that, the Risk Management Department is tasked with performing stress tests and reporting the Bank's risk situation under stressed scenarios. Finally, when any event that causes major changes to the Bank's financial and risk situation arises, the Risk Management Department should draw the Board of Director's, Risk Management Committee's and Chief Executive's attention to said event.

Risk information is taken from different risk measurement systems of the Risk Management Department. The information is analysed and presented in management committees. The information is visualized using different business intelligence tools, targeting to provide management with some easy-to-understand risk analytics accompanied with suitable narratives. The committees then report to the Board of Directors with a summary of discussions and recommendations supported by analyses and figures.

#### Risk Culture

A prudent risk management culture is maintained through making clear risk governance, providing staff trainings, creating proper incentives and setting up various communication channels. The management believes that a strong risk culture would be one of the key attributes stakeholders are looking forward, which will in turn help the Bank sustains in a long run. The promotion of risk culture is aligned with the management incentives through proper performance evaluations. This ensures both the financial and non-financial targets would be achieved simultaneously.

#### Stress Testing

Stress testing is an important risk management tool for estimating risk exposures under stressed conditions arising from extreme but plausible external factors. The Bank uses a comprehensive bank-wide stress testing program to support risk management and capital planning. The Bank's stress testing policy is approved by Risk Management Committee. The stress test results are presented in the same committee. The stress testing program aims to provide management with the performance and capital strength of the Bank under some stress scenarios. It enables them to better understand and mitigate risks. The Bank resilience to market shocks is thus enhanced. Stress testing tools include sensitivity analysis, hypothetical and historical stress scenarios as well as reverse stress test. Under stress tests, the incremental expected and the unexpected loss would be reflected in a decrease in capital level and an increase in risk weighted assets respectively.

In sensitivity analysis, it is assumed that extreme changes occur to a single risk factor (such as USD exchange rate decreasing by 10% or yield curve shifting up by 200 bps). These stress test scenarios are used to test the sensitivity of the Bank's business to a single factor, thereby evaluating if the Bank's risk is overly concentrated.

Scenario analysis assumes extreme changes to multiple risk factors at the same time. There are two types of scenario analysis, namely historical scenario analysis and hypothetical scenario analysis. Historical scenario analysis assumes historical extreme fluctuations periods (such as the 1997 Asian Financial Crisis) reoccur. Hypothetical situation analysis uses the discretion and professional judgment of test conductors to design potential movement in future extreme fluctuation periods.

Reverse stress testing assumes that stress test results are above the threshold, such as low capital adequacy ratio, low liquidity or losses beyond profit level, identifying risk drivers that can cause such situations and their respective scenario changes. After that, the probability of such events are identified through quantitative analysis and then classified as very low, low, medium or high.

## Key prudential ratios and overview of risk management and RWA (Continued)

### OV1: Overview of RWA

		RWA		Minimum capital requirements
		As at 31 Dec 2018	As at 30 Sep 2018	As at 31 Dec 2018
		HK\$'000	HK\$'000	HK\$'000
1.	Credit risk for non-securitization exposures	105,937,667	100,422,427	8,475,013
2.	Of which STC approach	105,937,667	100,422,427	8,475,013
2a.	Of which BSC approach	-	-	-
3.	Of which foundation IRB approach	-	-	-
4.	Of which supervisory slotting criteria approach	-	-	-
5.	Of which advanced IRB approach	-	-	-
6.	Counterparty default risk and default fund contributions	1,565,639	1,455,243	125,251
7.	Of which SA-CCR*	Not applicable	Not applicable	-
7a.	Of which CEM	1,565,639	1,455,243	125,251
8.	Of which IMM(CCR) approach	-	-	-
9.	Of which others	-	-	-
10.	CVA risk	673,175	597,500	53,854
11.	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12.	Collective investment scheme ("CIS") exposures – LTA*	Not applicable	Not applicable	-
13.	CIS exposures – MBA*	Not applicable	Not applicable	-
14.	CIS exposures – FBA*	Not applicable	Not applicable	-
14a.	CIS exposures – combination of approaches*	Not applicable	Not applicable	-
15.	Settlement risk	-	-	-
16.	Securitization exposures in banking book	-	-	-
17.	Of which SEC-IRBA	-	-	-
18.	Of which SEC-ERBA	-	-	-
19.	Of which SEC-SA	-	-	-
19a.	Of which SEC-FBA	-	-	-
20.	Market risk	818,963	794,738	65,517
21.	Of which STM approach	818,963	794,738	65,517
22.	Of which IMM approach	-	-	-
23.	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	Not applicable	Not applicable	-
24.	Operational risk	6,010,025	6,317,650	480,802
25.	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-
26.	Capital floor adjustment	-	-	-
26a.	Deduction to RWA	-	-	-
26b.	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
26c.	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-
27.	Total	115,005,469	109,587,558	9,200,437

Point to note: Items marked with an asterisk (\*) will be applicable only after their respective policy frameworks take effect. Until then, "Not applicable" should be reported in the rows.



## Key prudential ratios and overview of risk management and RWA (Continued)

### OV1: Overview of RWA (Continued)

The Bank's RWA, aggregate of all risks, amounted to HK\$115,005 million as of Dec 2018, increasing by 4.9% compared to HK\$109,588 million as of Sep 2018, or HK\$5,417 million by increment. The majority of RWA is still from credit risk for non-securitization exposures, which amounts to HK\$105,938 million as of Dec 2018, this is a HK\$5,516 million increase compared to Sep 2018. The increase is mainly due to an increase in corporate loans during Q4 of 2018. The remaining HK\$9,067 million consists of RWA for counterparty credit risk, market risk, CVA risk and operational risk.

### Linkages between financial statements and regulatory exposures

#### LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
			HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>							
Cash and balances with central bank	2,353,780	2,353,780	2,353,780	-	-	-	-
Due from banks and other financial institutions	25,082,437	25,082,437	24,381,390	-	-	-	701,047
Loans and advances to customers	67,688,719	67,688,719	67,688,719	-	-	-	-
Financial assets at fair value through profit or loss	1,855,354	1,855,354	-	1,290,050	-	1,850,206	-
Financial assets at fair value through other comprehensive income	109,315,062	109,315,062	109,315,062	250,842	-	-	-
Property and equipment	67,418	67,418	67,418	-	-	-	-
Deferred income tax assets	10,978	10,978	-	-	-	-	10,978
Other assets	1,502,974	1,502,974	919,197	-	-	3,576	580,201
<b>Total assets</b>	<b>207,876,722</b>	<b>207,876,722</b>	<b>204,725,566</b>	<b>1,540,892</b>	-	<b>1,853,782</b>	<b>1,292,226</b>

## Linkages between financial statements and regulatory exposures (Continued)

### L11: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (Continued)

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
			HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Liabilities</b>							
Due to banks and other financial institutions	21,126,951	21,126,951	-	250,000	-	-	20,876,951
Financial liabilities at fair value through profit or loss	467,764	467,764	-	-	-	438,645	29,119
Due to customers	162,074,683	162,074,683	-	-	-	-	162,074,683
Current tax liabilities	151,997	151,997	-	-	-	-	151,997
Other liabilities	5,422,094	5,422,094	-	-	-	-	5,422,094
<b>Total liabilities</b>	<b>189,243,489</b>	<b>189,243,489</b>	<b>-</b>	<b>250,000</b>	<b>-</b>	<b>438,645</b>	<b>188,554,844</b>

## Linkages between financial statements and regulatory exposures (Continued)

### LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Items subject to:				
		Total	credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1.	<b>Asset carrying value amount under scope of regulatory consolidation (as per template LI1)</b>	206,584,496	204,725,566	-	1,540,892	1,853,782
2.	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	688,645	-	-	250,000	438,645
3.	Total net amount under regulatory scope of consolidation	205,895,851	204,725,566	-	1,290,892	1,415,137
4.	Off-balance sheet amounts	12,121,698	2,398,850	-	-	-
5.	Differences due to consideration of provisions	217,552	217,552	-	-	-
6.	Differences due to potential exposures for counterparty credit risk	2,083,339	-	-	2,083,339	-
7.	<b>Exposure amounts considered for regulatory purposes</b>	220,318,440	207,341,968	-	3,374,231	1,415,137

### LIA: Explanations of differences between accounting and regulatory exposure amounts

The main differences between accounting values and amounts considered for regulatory purpose are as follow:

- (i) Off-balance sheet items under regulatory purpose are converted into credit equivalent amount through the use of credit conversion factors (CCFs) ;
- (ii) Carrying amounts reported in financial statements are net of Stage 1, 2 and 3 provisions, whereas exposure amount under regulatory purpose are net of Stage 3 provision only ;
- (iii) Counterparty credit risk exposures under regulatory purpose not only include the current exposures but also the potential exposures.

Disclosure for valuation methodologies and independent price verification, please refer to note 3.4 of Fair value of financial assets and liabilities under Financial Risk Management Section of the 2018 Annual Report.

## Linkages between financial statements and regulatory exposures (Continued)

### PV1: Prudent valuation adjustments

		Equity	Interest rates	FX	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1.	Close-out uncertainty, of which:	-	-	-	-	-	-	-	-
2.	<i>Mid-market value</i>	-	-	-	-	-	-	-	-
3.	<i>Close-out costs</i>	-	-	-	-	-	-	-	-
4.	<i>Concentration</i>	-	-	-	-	-	-	-	-
5.	Early termination	-	-	-	-	-	-	-	-
6.	Model risk	-	-	-	-	-	-	-	-
7.	Operational risks	-	-	-	-	-	-	-	-
8.	Investing and funding costs	-	-	-	-	-	-	-	-
9.	Unearned credit spreads	-	-	-	-	-	-	-	-
10.	Future administrative costs	-	-	-	-	-	-	-	-
11.	Other adjustments	-	-	-	-	-	-	-	-
<b>12.</b>	<b>Total adjustments</b>	-	-	-	-	-	-	-	-

Prudent valuation adjustment applies to exotic and / or illiquid financial instruments which require alternative valuation. As the Bank does not current possess such financial instruments, no prudent valuation adjustment is necessary.

## Composition of regulatory capital

### CC1: Composition of regulatory capital

		Amount HK\$'000	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation
	<b>CET1 capital: instruments and reserves</b>		
1.	Directly issued qualifying CET1 capital instruments plus any related share premium	17,900,000	(10)
2.	Retained earnings	646,259	(12)
3.	Disclosed reserves	86,974	(11)
4.	<i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	Not applicable	Not applicable
5.	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	-
6.	<b>CET1 capital before regulatory adjustments</b>	18,633,233	-
	<b>CET1 capital: regulatory deductions</b>		
7.	Valuation adjustments	-	-
8.	Goodwill (net of associated deferred tax liabilities)	-	-
9.	Other intangible assets (net of associated deferred tax liabilities)	1,495	(6)
10.	Deferred tax assets (net of associated deferred tax liabilities)	10,978	(4)
11.	Cash flow hedge reserve	-	-
12.	Excess of total EL amount over total eligible provisions under the IRB approach	-	-
13.	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	-
14.	Gains and losses due to changes in own credit risk on fair valued liabilities	4,220	(3)+(8)
15.	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	-
16.	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	-
17.	Reciprocal cross-holdings in CET1 capital instruments	-	-
18.	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
19.	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
20.	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21.	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable

## Composition of regulatory capital (Continued)

### CC1: Composition of regulatory capital (Continued)

		Amount HK\$'000	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation
22.	Amount exceeding the 15% threshold	Not applicable	Not applicable
23.	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24.	of which: mortgage servicing rights	Not applicable	Not applicable
25.	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26.	National specific regulatory adjustments applied to CET1 capital	794,919	-
26a.	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	-
26b.	Regulatory reserve for general banking risks	794,919	(13)
26c.	Securitization exposures specified in a notice given by the MA	-	-
26d.	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	-
26e.	Capital shortfall of regulated non-bank subsidiaries	-	-
26f.	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	-
27.	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	-
28.	<b>Total regulatory deductions to CET1 capital</b>	811,612	-
29.	<b>CET1 capital</b>	17,821,621	-
	<b>AT1 capital: instruments</b>		
30.	Qualifying AT1 capital instruments plus any related share premium	-	-
31.	of which: classified as equity under applicable accounting standards	-	-
32.	of which: classified as liabilities under applicable accounting standards	-	-
33.	<i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	-	-
34.	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	-
35.	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	-
36.	<b>AT1 capital before regulatory deductions</b>	-	-
	<b>AT1 capital: regulatory deductions</b>		
37.	Investments in own AT1 capital instruments	-	-
38.	Reciprocal cross-holdings in AT1 capital instruments	-	-

## Composition of regulatory capital (Continued)

### CC1: Composition of regulatory capital (Continued)

		Amount HK\$'000	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation
39.	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
40.	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	-
41.	National specific regulatory adjustments applied to AT1 capital	-	-
42.	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	-
43.	<b>Total regulatory deductions to AT1 capital</b>	-	-
44.	<b>AT1 capital</b>	-	-
45.	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	17,821,621	-
<b>Tier 2 capital: instruments and provisions</b>			
46.	Qualifying Tier 2 capital instruments plus any related share premium	2,000,000	(7)
47.	<i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	-	-
48.	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	-
49.	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	-
50.	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,023,412	(9)+(13)-(1)-(2)-(5)
51.	<b>Tier 2 capital before regulatory deductions</b>	3,023,412	-
<b>Tier 2 capital: regulatory deductions</b>			
52.	Investments in own Tier 2 capital instruments	-	-
53.	Reciprocal cross-holdings in Tier 2 capital instruments	-	-
54.	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
55.	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
56.	National specific regulatory adjustments applied to Tier 2 capital	-	-
56a.	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	-

## Composition of regulatory capital (Continued)

### CC1: Composition of regulatory capital (Continued)

		Amount HK\$'000	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation
57.	<b>Total regulatory adjustments to Tier 2 capital</b>	-	-
58.	<b>Tier 2 capital (T2)</b>	3,023,412	-
59.	<b>Total regulatory capital (TC = T1 + T2)</b>	20,845,033	-
60.	<b>Total RWA</b>	115,005,469	-
	<b>Capital ratios (as a percentage of RWA)</b>		
61.	<b>CET1 capital ratio</b>	15.50%	-
62.	<b>Tier 1 capital ratio</b>	15.50%	-
63.	<b>Total capital ratio</b>	18.13%	-
64.	<b>Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)</b>	3.399%	-
65.	of which: capital conservation buffer requirement	1.875%	-
66.	of which: bank specific countercyclical capital buffer requirement	1.524%	-
67.	of which: higher loss absorbency requirement	0.000%	-
68.	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	9.50%	-
	<b>National minima (if different from Basel 3 minimum)</b>		
69.	National CET1 minimum ratio	Not applicable	Not applicable
70.	National Tier 1 minimum ratio	Not applicable	Not applicable
71.	National Total capital minimum ratio	Not applicable	Not applicable
	<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72.	Insignificant capital investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	9,990	-
73.	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	-
74.	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75.	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
	<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>		
76.	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	1,023,412	-
77.	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	1,343,791	-



## Composition of regulatory capital (Continued)

### CC1: Composition of regulatory capital (Continued)

		Amount HK\$'000	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation
78.	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	-
79.	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	-
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>			
80.	<i>Current cap on CET1 capital instruments subject to phase-out arrangements</i>	Not applicable	Not applicable
81.	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	Not applicable	Not applicable
82.	<i>Current cap on AT1 capital instruments subject to phase-out arrangements</i>	-	-
83.	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	-	-
84.	<i>Current cap on Tier 2 capital instruments subject to phase-out arrangements</i>	-	-
85.	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	-	-

## Composition of regulatory capital (Continued)

### CC1: Composition of regulatory capital (Continued)

#### Notes to the Template

	Description	Hong Kong basis HK\$'000	Basel III basis HK\$'000
9.	<b>Other intangible assets (net of associated deferred tax liabilities)</b>	1,495	-
	<p><u>Explanation</u></p> <p>As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights ("MSRs") may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</p>		
10.	<b>Deferred tax assets (net of associated deferred tax liabilities)</b>	10,978	-
	<p><u>Explanation</u></p> <p>As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</p>		

## Composition of regulatory capital (Continued)

### CC1: Composition of regulatory capital (Continued)

Notes to the Template (Continued)

	Description	Hong Kong basis HK\$'000	Basel III basis HK\$'000
18.	<b>Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	-	-
	<p><u>Explanation</u> For the purpose of determining the total amount of insignificant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p>		
19.	<b>Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	-	-
	<p><u>Explanation</u> For the purpose of determining the total amount of significant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p>		

## Composition of regulatory capital (Continued)

### CC1: Composition of regulatory capital (Continued)

Notes to the Template (Continued)

	Description	Hong Kong basis HK\$'000	Basel III basis HK\$'000
39.	<b>Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	-	-
	<p><u>Explanation</u> The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in AT1 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 39 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p>		
54.	<b>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)</b>	-	-
	<p><u>Explanation</u> The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in Tier 2 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 54 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 54 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p>		
<p>Remarks: The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.</p>			

## Composition of regulatory capital (Continued)

### CC2: Reconciliation of regulatory capital to balance sheet

	Balance sheet as in published financial statements (as at 31 Dec 2018)	Under regulatory scope of consolidation (as at 31 Dec 2018)	Reference
	HK\$'000	HK\$'000	
<b>Assets</b>			
Cash and balances with central bank	2,353,780	2,353,780	
Due from banks and other financial institutions	25,082,437	25,082,437	
<i>of which: collective impairment allowances (Stage 1 and 2) reflected in regulatory capital</i>		(6,085)	(1)
Loans and advances to customers	67,688,719	67,688,719	
<i>of which: collective impairment allowances (Stage 1 and 2) reflected in regulatory capital</i>		(208,660)	(2)
Financial assets at fair value through profit or loss	1,855,354	1,855,354	
<i>of which: debit valuation adjustments in respects of derivative contracts</i>		4,220	(3)
Financial assets at fair value through other comprehensive income	109,315,062	109,315,062	
Property and equipment	67,418	67,418	
Deferred income tax assets	10,978	10,978	(4)
Other assets	1,502,974	1,502,974	
<i>of which: collective impairment allowances (Stage 1 and 2) reflected in regulatory capital</i>		(2,807)	(5)
<i>of which: other intangible assets</i>		1,495	(6)
<b>Total assets</b>	<b>207,876,722</b>	<b>207,876,722</b>	
<b>Liabilities</b>			
Due to banks and other financial institutions	21,126,951	21,126,951	
<i>of which: subordinated loan eligible for inclusion in regulatory capital</i>		2,000,000	(7)
Financial liabilities at fair value through profit or loss	467,764	467,764	
<i>of which: debit valuation adjustments in respects of derivative contracts</i>		-	(8)
Due to customers	162,074,683	162,074,683	
Current tax liabilities	151,997	151,997	
Other liabilities	5,422,094	5,422,094	
<i>of which: collective impairment allowances (Stage 1 and 2) reflected in regulatory capital</i>		10,941	(9)
<b>Total liabilities</b>	<b>189,243,489</b>	<b>189,243,489</b>	

## Composition of regulatory capital (Continued)

### CC2: Reconciliation of regulatory capital to balance sheet (Continued)

	Balance sheet as in published financial statements (as at 31 Dec 2018)	Under regulatory scope of consolidation (as at 31 Dec 2018)	Reference
	HK\$'000	HK\$'000	
<b>Equity</b>			
Share capital	17,900,000	17,900,000	(10)
Other reserves	86,974	86,974	(11)
Retained earnings	646,259	646,259	(12)
<i>of which: regulatory capital for general banking risk</i>		794,919	(13)
<b>Total equity</b>	<b>18,633,233</b>	<b>18,633,233</b>	
<b>Total equity and liabilities</b>	<b>207,876,722</b>	<b>207,876,722</b>	

## Composition of regulatory capital (Continued)

### CCA: Main features of regulatory capital instruments

		Ordinary shares	Tier 2 capital subordinated loan
1.	Issuer	Bank of Communications (Hong Kong) Limited	Bank of Communications (Hong Kong) Limited
2.	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable	Not applicable
3.	Governing law(s) of the instrument	Hong Kong law	Hong Kong law
	<i>Regulatory treatment</i>		
4.	Transitional Basel III rules	Common Equity Tier 1	Tier 2
5.	Post-transitional Basel III rules	Common Equity Tier 1	Tier 2
6.	Eligible at solo / group / solo and group	Solo	Solo
7.	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Other Tier 2 instruments
8.	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HK\$17,900 million	HK\$2,000 million
9.	Par value of instrument	Not applicable	HK\$2,000 million
10.	Accounting classification	Shareholders' equity	Liability - amortised cost
11.	Original date of issuance	1 share issued on 29 July 2014 299,999,999 shares issued on 9 February 2015 7,600,000,000 shares issued on 19 January 2018 10,000,000,000 shares issued on 28 June 2018	19 January 2018
12.	Perpetual or dated	Perpetual	Dated
13.	Original maturity date	No maturity	19 January 2028
14.	Issuer call subject to prior supervisory approval	No	Yes

## Composition of regulatory capital (Continued)

### CCA: Main features of regulatory capital instruments (Continued)

		Ordinary shares	Tier 2 capital subordinated loan
15.	Optional call date, contingent call dates and redemption amount	Not applicable	The Borrower may repay the Loan in whole but not in part at any time on or after 19 January 2023, at the outstanding principal amount together with interest accrued to (but excluding) the date of repayment. In addition, the Borrower may repay the Loan in whole but not in part at the outstanding principal amount together with interest accrued to (but excluding) the date of repayment for taxation reasons, tax deductions reasons and regulatory reasons. Prepayment is subject to prior written consent of the Hong Kong Monetary Authority.
16.	Subsequent call dates, if applicable	No	The Borrower may repay the Loan in whole but not in part at any time on or after 19 January 2023.
	<i>Coupons / dividends</i>		
17.	Fixed or floating dividend / coupon	Not applicable	Floating
18.	Coupon rate and any related index	Not applicable	The rate of interest on the Loan for each interest period shall be the percentage rate per annum which is the aggregate of 1.50 per cent per annum and three-month HIBOR.
19.	Existence of a dividend stopper	Not applicable	No
20.	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory
21.	Existence of step-up or other incentive to redeem	Not applicable	No
22.	Non-cumulative or cumulative	Non-cumulative	Cumulative
23.	Convertible or non-convertible	Non-convertible	Non-convertible
24.	If convertible, conversion trigger(s)	Not applicable	Not applicable
25.	If convertible, fully or partially	Not applicable	Not applicable
26.	If convertible, conversion rate	Not applicable	Not applicable
27.	If convertible, mandatory or optional conversion	Not applicable	Not applicable



## Composition of regulatory capital (Continued)

### CCA: Main features of regulatory capital instruments (Continued)

		Ordinary shares	Tier 2 capital subordinated loan
28.	If convertible, specify instrument type convertible into	Not applicable	Not applicable
29.	If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable
30.	Write-down feature	No	Yes
31.	If write-down, write-down trigger(s)	Not applicable	If a Non-Viability Event occurs and is continuing. “Non-Viability Event” means the earlier of: (a) the Monetary Authority notifying the Borrower in writing that the Monetary Authority is of the opinion that a write-off or conversion is necessary, without which the Borrower would become non-viable; and (b) the Monetary Authority notifying the Borrower in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Borrower would become non-viable.
32.	If write-down, full or partial	Not applicable	Always be written down fully
33.	If write-down, permanent or temporary	Not applicable	Permanent
34.	If temporary write-down, description of write-up mechanism	Not applicable	Not applicable

## Composition of regulatory capital (Continued)

### CCA: Main features of regulatory capital instruments (Continued)

		Ordinary shares	Tier 2 capital subordinated loan
35.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Represents the most subordinated claim in liquidation	<p>In the event of a Winding-Up of the Borrower, the right of the Lender to payment of principal and interest on the Loan, and any other obligations in respect of the Loan, shall rank</p> <p>(i) subordinate and junior in right of payment to, and of all claims of, (a) all unsubordinated creditors of the Borrower (including its depositors), and (b) all other subordinated creditors of the Borrower whose claims are stated to rank senior to the Loan or rank senior to the Loan by operation of law or contract;</p> <p>(ii) pari passu in right of payment to, and all claims of, holders of any instrument or other obligation issued or entered into by the Borrower that constitutes or qualifies as a Tier 2 capital instruments or any instrument or other obligation issued, entered into, or guaranteed by the Borrower that ranks or is expressed to rank pari passu with the Loan by operation of law or contract;</p> <p>(iii) senior in right of payment to, and all claims of,</p> <p>(a) shareholders, and holders of any other class of the Borrower's share capital, and any instrument or other obligation issued or guaranteed by the Borrower that ranks or is expressed to rank junior to the Loan by operation of law or contract; and</p> <p>(b) holders of Tier 1 capital instruments of the Borrower.</p> <p>The Loan constitutes unsecured obligations of the Borrower.</p>

## Composition of regulatory capital (Continued)

### CCA: Main features of regulatory capital instruments (Continued)

		Ordinary shares	Tier 2 capital subordinated loan
36.	Non-compliant transitioned features	No	No
37.	If yes, specify non-compliant features	Not applicable	Not applicable
	Full terms and conditions of capital instruments	<a href="#">Ordinary shares</a>	<a href="#">Tier 2 loan due 2028</a>

## Macroprudential supervisory measures

### CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer ("CCyB")

	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect (%)	RWA used in computation of CCyB ratio (HK\$'000)	AI-specific CCyB ratio (%)	CCyB amount (HK\$'000)
1.	Hong Kong SAR	1.875%	44,769,710		
2.	Sweden	2.000%	727		
3.	United Kingdom	1.000%	194,397		
4.	Sum		44,964,834		
5.	Total		55,226,912	1.524%	1,752,683

CCyB ratio is calculated as the weighted average of the applicable jurisdictional CCyB ratio, effective at the date for which the determination is made, in respect of the jurisdictions (including Hong Kong) where the Bank has private sector credit exposures. The weight to be attributed to a given jurisdiction's applicable CCyB ratio is the ratio of the Bank's aggregate risk-weighted amount for its private sector credit exposures (in both the banking book and the trading book) in that jurisdiction (RWA<sub>j</sub>) to the sum of the Bank's aggregate RWA<sub>j</sub> across all jurisdictions in which the AI has private sector credit exposure.

## Leverage ratio

### LR1: Summary comparison of accounting assets against leverage ratio ("LR") exposure measure

	Item	Value under the LR framework (HK\$'000)
1.	Total consolidated assets as per published financial statements	207,876,722
2.	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3.	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4.	Adjustments for derivative contracts	1,860,825
5.	Adjustment for SFTs (i.e. repos and similar secured lending)	842
6.	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	3,102,282
6a.	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(102,197)
7.	Other adjustments	(559,472)
8.	<b>Leverage ratio exposure measure</b>	<b>212,179,002</b>

## Leverage ratio (Continued)

### LR2: Leverage ratio ("LR")

		31 Dec 2018	30 Sep 2018
		HK\$'000	HK\$'000
<b>On-balance sheet exposures</b>			
1.	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	206,588,812	188,557,069
2.	Less: Asset amounts deducted in determining Tier 1 capital	(811,612)	(729,764)
3.	<b>Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>	205,777,200	187,827,305
<b>Exposures arising from derivative contracts</b>			
4.	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and / or with bilateral netting)	1,068,476	1,383,976
5.	Add-on amounts for PFE associated with all derivative contracts	2,083,339	1,499,502
6.	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7.	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	(940)	(41,230)
8.	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9.	Adjusted effective notional amount of written credit derivative contracts	-	-
10.	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11.	<b>Total exposures arising from derivative contracts</b>	3,150,875	2,842,248
<b>Exposures arising from SFTs</b>			
12.	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	250,000	550,000
13.	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14.	CCR exposure for SFT assets	842	2,244
15.	Agent transaction exposures	-	-
16.	<b>Total exposures arising from SFTs</b>	250,842	552,244
<b>Other off-balance sheet exposures</b>			
17.	Off-balance sheet exposure at gross notional amount	12,121,698	11,497,406
18.	Less: Adjustments for conversion to credit equivalent amounts	(9,019,416)	(8,624,543)
19.	Off-balance sheet items	3,102,282	2,872,863
<b>Capital and total exposures</b>			
20.	<b>Tier 1 capital</b>	17,821,621	17,775,567
20a.	<b>Total exposures before adjustments for specific and collective provisions</b>	212,281,199	194,094,660
20b.	<b>Adjustments for specific and collective provisions</b>	(102,197)	(93,664)
21.	<b>Total exposures after adjustments for specific and collective provisions</b>	212,179,002	194,000,996
<b>Leverage ratio</b>			
22.	<b>Leverage ratio</b>	8.40%	9.16%

## Liquidity

31 Dec 2018

Average liquidity coverage ratio ("LCR")	
- First quarter	298.91%
- Second quarter	234.12%
- Third quarter	213.11%
- Fourth quarter	182.69%
Average liquidity coverage ratio for the period	225.77%
Net stable funding ratio ("NSFR")	
- First quarter end	186.70%
- Second quarter end	185.05%
- Third quarter end	126.34%
- Fourth quarter end	128.76%

The Bank's LCR and NSFR are above the regulatory requirement for the period.

The Bank's average LCR for the period is 225.77%. It is well above the regulatory requirement of 90%. The Bank's NSFR for the quarter ends of year 2018 are 186.70%, 185.05%, 126.34% and 128.76% respectively. It is well above the regulatory requirement of 100%.

The Bank's quarterly average LCR declined as a result of decrease in HQLA portfolio.

The last two quarter ends NSFR are lower than the first two quarter ends due to an increase in non HQLA securities and loan portfolio.

Level 1 HQLA is the major component of the Bank's HQLA portfolio, which consists of balance with the HKMA, Exchange Fund Bills / Notes and unencumbered sovereign bonds. The Bank also holds a portion of Level 2 HQLA, which include corporate bonds with high credit rating. Customer deposit is the major component of the Bank's ASF source.

LCR net cash outflow and NSFR RSF arising from off-balance-sheet derivatives and additional collateral provision are not material.

The Bank holds Level 1 HQLA denominated in foreign currencies (mainly CNY and USD) to cover respective LCR net cash outflow in foreign currency. The foreign currency LCR mismatch is bolstered mainly by our HKD-denominated HQLA through FX contracts. The Bank has established internal monitoring limit on LCR for foreign major currencies according to the amendment of regulatory framework for supervision of major currency's liquidity risk under LM-1 by HKMA.

The Bank has established internal limit and management action trigger level on LCR and NSFR to ensure our liquidity risk is controlled at the level commensurate with our risk appetite.

## Liquidity (Continued)

### LIQA: Liquidity risk management

Funding liquidity risk relates to the Bank's ability to fulfill its obligations arising from financial liabilities as they fall due, or its ability to fulfill maturing funding needs, which subsequently affects the Bank's capacity to support deposit withdrawal or drawdown on loan commitments. Effective liquidity risk management helps to sustain the expansion of the Bank's business with liquidity cost and risk under control. The Bank has established and implemented its own liquidity risk management policy per local regulatory requirements in order to fulfill its liquidity risk management. The Asset and Liability Management Committee (ALCO) of the Bank is the decision-making body in balance sheet management and is responsible for coordinating and overseeing all related strategies, including risk management framework and risk appetite. Asset and Liability Management Department is responsible for analyzing and monitoring activities related to liquidity risk. Global Markets Department is responsible for managing daily liquidity position and related executions. Internal Audit Department is responsible for conducting periodic review to ensure liquidity risk management framework is effectively implemented.

The cornerstone of the Bank's funding sources is customer deposit. The Bank strives to build up core deposits while diversifying funding sources via various funding channels to enhance financing capacity. Regarding liquidity arrangement with parent bank, the Bank performs regular funding transfer with parent bank to preserve prompt intragroup backup funding supply if necessary. Monitoring and control on intragroup funding transactions are in line with those of third parties. Moreover, parent bank has set up groupwide internal limits to control the Bank's reliance on parent bank's funding.

The majority of the liquidity risk of the Bank arises from maturity mismatch of assets and liabilities. Therefore, regular cash flow analysis and projections on both on- and off-balance sheet items falling within different maturity buckets is performed to ensure funding need. Moreover, the Bank closely monitors off-balance sheet funding obligations (such as commitments or letters of guarantee) and assesses their impact to our liquidity capacity. Furthermore, the Bank strives to maintain high marketability of the asset portfolio to allow prompt monetization in case of unforeseeable liquidity crunch in the market.

The Bank has in place various limits and indicators for liquidity risk, including liquidity coverage ratio, loan-to-deposit ratio, concentration limits on customer deposits, interbank borrowing utilization ratio, etc. for effective identification and control of liquidity risk. The Bank utilizes relevant management information systems to perform daily liquidity risk management functions. Moreover, the Bank performs daily cash flow analysis to assess liquidity in normal circumstances, and performs regular stress test (at least monthly) to evaluate the Bank's resilience under significant stress conditions. The stress test scenarios are designed with reference to the HKMA's Supervisory Policy Manuals, and also historical liquidity stress scenarios. The Bank's stress test takes into account the impact of all assets, liabilities and off-balance sheet positions and estimates possible funding short-fall with historical data and plausible stress conditions. The results will be scrutinized and appropriate measures will be taken if necessary.

The Bank has set up early warning indicator system, and movement of relevant indicators is closely monitored on a regular basis. In case of liquidity crisis emerges, the Bank's Crisis Management Committee will be formed to formulate appropriate contingency funding plan to resolve the crisis. The Bank also performs regular drill in order to ensure prompt actions and feasibility of contingency funding plan under crisis.

To cope with unpredictable liquidity needs, the Bank has set up liquidity buffer to maintain sufficient highly liquid assets. The buffer portfolio contains cash, Exchange Fund Bills / Notes, unencumbered sovereign bonds and other high quality bonds, which is managed by Asset and Liability Management Department and operated by Global Markets Department on a daily basis.

Quantitative Information relating to the Bank's liquidity risk management, please refer to note 3.3 of Liquidity Risk under Financial Risk Management Section of the 2018 Annual Report.

## Liquidity (Continued)

### LIQ1: Liquidity Coverage Ratio – for category 1 institution

2018 Fourth quarter:

Number of data points used in calculating the average value of the LCR and related components set out in this template for the quarter ending on 31 December 2018 : (75)		HK\$'000	
Basis of disclosure: Hong Kong office		Unweighted value (average)	Weighted value (average)
<b>A. HQLA</b>			
1.	Total HQLA		18,344,119
<b>B. Cash Outflows</b>			
2.	Retail deposits and small business funding, of which:	142,274,303	10,216,653
3.	<i>Stable retail deposits and stable small business funding</i>	6,027,364	301,368
4.	<i>Less stable retail deposits and less stable small business funding</i>	62,058,757	6,205,876
4a.	<i>Retail term deposits and small business term funding</i>	74,188,182	3,709,409
5.	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	14,871,441	9,518,167
6.	<i>Operational deposits</i>	73,911	18,215
7.	<i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i>	14,797,530	9,499,952
8.	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	-	-
9.	Secured funding transactions (including securities swap transactions)		-
10.	Additional requirements, of which:	11,022,034	745,645
11.	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	183,804	183,804
12.	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	-	-
13.	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	10,838,230	561,841
14.	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	2,016,951	2,016,951
15.	Other contingent funding obligations (whether contractual or non-contractual)	852,824	8,278
16.	<b>Total Cash Outflows</b>		22,505,694
<b>C. Cash Inflows</b>			
17.	Secured lending transactions (including securities swap transactions)	-	-
18.	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	11,930,894	9,085,090
19.	Other cash inflows	3,073,986	3,073,986
20.	<b>Total Cash Inflows</b>	15,004,880	12,159,076
<b>D. Liquidity Coverage Ratio</b>			<b>Adjusted value</b>
21.	<b>Total HQLA</b>		18,344,119
22.	<b>Total Net Cash Outflows</b>		10,346,618
23.	<b>LCR (%)</b>		182.69%

## Liquidity (Continued)

### LIQ2: Net Stable Funding Ratio – for category 1 institution

2018 Fourth quarter end:

Basis of disclosure: Hong Kong office	Unweighted value by residual maturity				Weighted amount HK\$'000	
	No specified term to maturity	< 6 months or repayable on demand	6 months to < 12 months	12 months or more		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
<b>A.</b>	<b>Available stable funding ("ASF") item</b>					
1.	Capital:	18,861,726	14,591	-	2,000,000	20,861,726
2.	<i>Regulatory capital</i>	18,861,726	14,591	-	2,000,000	20,861,726
2a.	<i>Minority interests not covered by row 2</i>	-	-	-	-	-
3.	<i>Other capital instruments</i>	-	-	-	-	-
4.	Retail deposits and small business funding:	-	127,791,586	20,459,564	49,865	133,907,598
5.	<i>Stable deposits</i>	-	7,956,572	677,379	2,238	8,204,492
6.	<i>Less stable deposits</i>	-	119,835,014	19,782,185	47,627	125,703,106
7.	Wholesale funding:	-	33,413,632	568,679	-	6,565,262
8.	<i>Operational deposits</i>	-	67,523	-	-	33,762
9.	<i>Other wholesale funding</i>	-	33,346,109	568,679	-	6,531,500
10.	Liabilities with matching interdependent assets	-	-	-	-	-
11.	Other liabilities:	1,606,283	2,404,653	-	-	-
12.	<i>Net derivative liabilities</i>	-	-	-	-	-
13.	<i>All other funding and liabilities not included in the above categories</i>	1,606,283	2,404,653	-	-	-
14.	<b>Total ASF</b>					161,334,586
<b>B.</b>	<b>Required stable funding ("RSF") item</b>					
15.	Total HQLA for NSFR purposes	411,345	13,876,478	2,591,543	9,758,722	1,315,676
16.	Deposits held at other financial institutions for operational purposes	-	3,418,559	-	-	1,709,280
17.	Performing loans and securities:	2,213,028	23,479,208	43,271,438	106,449,778	120,370,305
18.	<i>Performing loans to financial institutions secured by Level 1 HQLA</i>	-	-	-	-	-
19.	<i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>	-	12,513,472	556,975	13,089,988	15,245,496



## Liquidity (Continued)

### LIQ2: Net Stable Funding Ratio – for category 1 institution (Continued)

2018 Fourth quarter end (Continued):

Basis of disclosure: Hong Kong office		Unweighted value by residual maturity				Weighted amount HK\$'000
		No specified term to maturity	< 6 months or repayable on demand	6 months to < 12 months	12 months or more	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	
20.	<i>Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:</i>	2,213,028	2,565,169	3,980,816	39,698,500	38,689,913
21.	<i>With a risk-weight of less than or equal to 35% under the STC approach</i>	507,850	125,277	65,626	531,540	771,055
22.	<i>Performing residential mortgages, of which:</i>	-	458,278	450,892	13,721,541	9,373,587
23.	<i>With a risk-weight of less than or equal to 35% under the STC approach</i>	-	458,278	450,892	13,721,541	9,373,587
24.	<i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	-	7,942,289	38,282,755	39,939,749	57,061,309
25.	<i>Assets with matching interdependent liabilities</i>	-	-	-	-	-
26.	<i>Other assets:</i>	1,683,518	684,700	-	-	1,339,922
27.	<i>Physical traded commodities, including gold</i>	-	-	-	-	-
28.	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>	-	-	-	-	-
29.	<i>Net derivative assets</i>	576,633	-	-	-	576,633
30.	<i>Total derivative liabilities before deduction of variation margin posted</i>	437,272	-	-	-	N/A
31.	<i>All other assets not included in the above categories</i>	669,613	684,700	-	-	763,289

## Liquidity (Continued)

### LIQ2: Net Stable Funding Ratio – for category 1 institution (Continued)

2018 Fourth quarter end (Continued):

Basis of disclosure: Hong Kong office		Unweighted value by residual maturity				Weighted amount HK\$'000
		No specified term to maturity	< 6 months or repayable on demand	6 months to < 12 months	12 months or more	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	
32.	Off-balance sheet items		21,131	15,768	12,213,049	567,921
33.	<b>Total RSF</b>					125,303,104
34.	<b>Net Stable Funding Ratio (%)</b>					128.76%

## Liquidity (Continued)

### LIQ2: Net Stable Funding Ratio – for category 1 institution (Continued)

2018 Third quarter end:

Basis of disclosure: Hong Kong office	Unweighted value by residual maturity				Weighted amount HK\$'000	
	No specified term to maturity	< 6 months or repayable on demand	6 months to < 12 months	12 months or more		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
<b>A.</b>	<b>Available stable funding ("ASF") item</b>					
1.	Capital:	18,718,569	14,493	-	2,000,000	20,718,569
2.	<i>Regulatory capital</i>	18,718,569	14,493	-	2,000,000	20,718,569
2a.	<i>Minority interests not covered by row 2</i>	-	-	-	-	-
3.	<i>Other capital instruments</i>	-	-	-	-	-
4.	Retail deposits and small business funding:	-	122,010,494	16,327,396	74,252	125,004,904
5.	<i>Stable deposits</i>	-	7,973,671	557,330	3,447	8,107,898
6.	<i>Less stable deposits</i>	-	114,036,823	15,770,066	70,805	116,897,006
7.	Wholesale funding:	-	27,756,457	885,725	-	6,530,289
8.	<i>Operational deposits</i>	-	69,144	-	-	34,572
9.	<i>Other wholesale funding</i>	-	27,687,313	885,725	-	6,495,717
10.	Liabilities with matching interdependent assets	-	-	-	-	-
11.	Other liabilities:	2,487,909	562,936	-	-	-
12.	<i>Net derivative liabilities</i>	-	-	-	-	-
13.	<i>All other funding and liabilities not included in the above categories</i>	2,487,909	562,936	-	-	-
14.	<b>Total ASF</b>					152,253,762
<b>B.</b>	<b>Required stable funding ("RSF") item</b>					
15.	Total HQLA for NSFR purposes	409,830	6,423,510	3,091,072	7,493,411	862,268
16.	Deposits held at other financial institutions for operational purposes	-	1,517,927	-	-	758,964
17.	Performing loans and securities:	2,414,756	18,245,607	46,011,008	102,290,127	116,290,639
18.	<i>Performing loans to financial institutions secured by Level 1 HQLA</i>	-	-	-	-	-
19.	<i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>	115	12,936,031	692,430	16,982,177	19,268,912

## Liquidity (Continued)

### LIQ2: Net Stable Funding Ratio – for category 1 institution (Continued)

2018 Third quarter end (Continued):

Basis of disclosure: Hong Kong office		Unweighted value by residual maturity				Weighted amount HK\$'000
		No specified term to maturity	< 6 months or repayable on demand	6 months to < 12 months	12 months or more	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	
20.	<i>Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:</i>	2,414,641	1,911,232	4,613,977	36,173,141	35,845,020
21.	<i>With a risk-weight of less than or equal to 35% under the STC approach</i>	448,580	80,473	58,226	637,411	775,243
22.	<i>Performing residential mortgages, of which:</i>	-	431,401	413,211	13,196,770	9,000,207
23.	<i>With a risk-weight of less than or equal to 35% under the STC approach</i>	-	431,401	413,211	13,196,770	9,000,207
24.	<i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	-	2,966,943	40,291,390	35,938,039	52,176,500
25.	<i>Assets with matching interdependent liabilities</i>	-	-	-	-	-
26.	<i>Other assets:</i>	2,073,868	1,290,874	-	-	2,060,617
27.	<i>Physical traded commodities, including gold</i>	-	-	-	-	-
28.	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>	-	-	-	-	-
29.	<i>Net derivative assets</i>	988,313	-	-	-	988,313
30.	<i>Total derivative liabilities before deduction of variation margin posted</i>	415,583	-	-	-	N/A
31.	<i>All other assets not included in the above categories</i>	669,972	1,290,874	-	-	1,072,304

## Liquidity (Continued)

### LIQ2: Net Stable Funding Ratio – for category 1 institution (Continued)

2018 Third quarter end (Continued):

Basis of disclosure: Hong Kong office		Unweighted value by residual maturity				Weighted amount HK\$'000
		No specified term to maturity	< 6 months or repayable on demand	6 months to < 12 months	12 months or more	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	
32.	Off-balance sheet items		33,256	14,771	11,531,643	537,632
33.	<b>Total RSF</b>					120,510,120
34.	<b>Net Stable Funding Ratio (%)</b>					126.34%

## Credit risk for non-securitization exposures

### CRA: General information about credit risk

#### Credit Risk

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. It arises principally from lending, trade finance and treasury businesses. As a local retail bank, according to business model, customer base and market environment derived from the operation risks, has formulated a comprehensive set of credit risk management policies and procedures, and appropriate credit risk limits to manage and control credit risk that may arise. These policies, procedures and credit risk limits are regularly reviewed and updated to cope with changes in market conditions and business strategies.

#### Credit Risk Governance

The bank's organization structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits. The Chief Credit Officer, who reports directly to the Risk Committee, takes charge of credit risk management and is also responsible for the control of credit risk exposures in line with the credit risk management principles and requirements set by the Bank. Various units of the Bank have their respective credit risk management responsibilities. Business units act as the first line of defense. The Risk Management Department, which is independent from the business units, is responsible for the day-to-day management of credit risks and has the primary responsibility for providing an independent due diligence through identifying, measuring, monitoring and controlling credit risk to ensure an effective checks and balances, as well as drafting, reviewing and updating credit risk management policies and procedures.

The Board of Directors delegates credit approval authority to the Chief Executive. The Chief Executive can further delegate to the subordinates within his limit authorized by the Board of Directors. The Bank sets the limits of credit approval authority according to the credit business nature, rating, the level of transaction risk, and the extent of the credit exposure. In view of the rapidly changing market conditions, the Bank has been continuously revisiting its credit strategies and conducting rigorous reviews on the concerned portfolios. Different credit approval and control procedures are adopted according to the level of risk associated with the customer, counterparty or transaction. The Credit Committee, comprising experts from credit and other functions, is responsible for making an independent assessment of material credit applications which require the approval of Chief Executives or above. For retail exposures, more comprehensive review is required and monitored regularly on a portfolio basis.

Risk Management Department provides regular credit management information reports and ad hoc reports to the Management, Risk Committee and Board of Directors to facilitate their continuous monitoring of credit risk. In addition, the Bank identifies credit concentration risk by industry, geography, customer and counterparty. The Bank monitors changes to counterparty credit risk, quality of the credit portfolio and credit risk concentrations, and reports regularly to the Bank's Management.

### CR1: Credit quality of exposures

		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
1.	Loans	49,358	94,902,532	(238,299)	94,713,591
2.	Debt securities	-	109,305,072	-	109,305,072
3.	Off-balance sheet exposures	-	5,087,381	(10,941)	5,076,440
<b>4.</b>	<b>Total</b>	<b>49,358</b>	<b>209,294,985</b>	<b>(249,240)</b>	<b>209,095,103</b>

## Credit risk for non-securitization exposures (Continued)

### CR2: Changes in defaulted loans and debt securities

		Amount
		HK\$'000
1.	<b>Defaulted loans and debt securities at 30 June 2018</b>	20,498
2.	Loans and debt securities that have defaulted since the last reporting period	32,660
3.	Returned to non-defaulted status	(1,174)
4.	Amounts written off	(2,420)
5.	Other changes	(206)
6.	<b>Defaulted loans and debt securities at 31 December 2018</b>	49,358

### CRB: Additional disclosure related to credit quality of exposures

#### Definition of Overdue

Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously exceeded the approved limit that was advised to the borrower.

#### Definition Impairment Loss on Advances and Calculations

Advances are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred and that loss event(s) has an impact on the estimated future cash flows of the advances that can be reliably estimated. If there is objective evidence that an impairment loss on advances has been incurred, the amount of loss is measured as the difference between the carrying amount and the present value of estimated future cash flows generated by the advances. Objective evidence that advances are impaired includes observable information that comes to the attention of the Bank about the loss events.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty incurred by the borrower;
- A breach of contract, such as a default or delinquency in principal or interest payment;
- For economic or legal reasons related to the borrower's financial difficulty, the Bank has granted to the borrower a concession that it would not otherwise consider;
- Probable that the borrower will become bankrupt or undergo other financial reorganization; or
- Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such advances.

#### Definition of Rescheduled Advances

Rescheduled advances are those advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in "Advances overdue for more than three months".

## Credit risk for non-securitization exposures (Continued)

### CRB: Additional disclosure related to credit quality of exposures (Continued)

#### i) Credit quality of exposures by geographical areas

	31 Dec 2018 HK\$'000
Hong Kong	73,992,541
People's Republic of China	95,065,043
Others	40,286,759
Total	<u>209,344,343</u>

#### ii) Credit quality of exposures by industry

	31 Dec 2018 HK\$'000
Property development and investment	13,039,874
Financial concerns	132,119,327
Individuals	29,133,436
Others	35,051,706
Total	<u>209,344,343</u>

#### iii) Credit quality of exposures by residual maturity

	31 Dec 2018 HK\$'000
Less than 1 year	88,882,180
More than 1 year but not more than 5 years	83,103,473
More than 5 years	37,358,690
Total	<u>209,344,343</u>

#### iv) Impaired exposures and related allowances and write-offs by geographical areas

<u>As at 31 Dec 2018</u>	Impaired exposures HK\$'000	Stage 3 provision for ECL HK\$'000	Write-off HK\$'000
Hong Kong	62,707	21,945	6,405
People's Republic of China	1,609	1,609	-
Other countries	-	-	-
Total	<u>64,316</u>	<u>23,554</u>	<u>6,405</u>



## Credit risk for non-securitization exposures (Continued)

### CRB: Additional disclosure related to credit quality of exposures (Continued)

#### v) Impaired exposures and related allowances and write-offs by industry

	Impaired exposures HK\$'000	Stage 3 provision for ECL HK\$'000	Write-off HK\$'000
<u>As at 31 Dec 2018</u>			
Property development and investment	-	-	-
Financial concerns	-	-	-
Individuals	45,640	14,633	6,405
Others	18,676	8,921	-
Total	<u>64,316</u>	<u>23,554</u>	<u>6,405</u>

#### vi) Aging analysis of accounting past due exposures

Please refer to note 4 of additional balance sheet information.

#### vii) Breakdown of restructured exposures

	31 Dec 2018 HK\$'000
Impaired	2,185
Not impaired	415
Total	<u>2,600</u>

### CRC: Qualitative disclosures related to credit risk mitigation

#### Collateral and Other Enhancements

The valuation and management of collateral have been documented in the credit risk management policies and procedures which cover acceptance criteria, validity of collateral, loan-to-value ratio, haircut ratio, valuation and insurance, etc. The collateral is revalued on a regular basis, though the frequency and the method used varies with the type of collateral involved and the nature and the risk of the underlying credit. In the personal sector, the main types of collateral are real estate properties, cash deposits and securities. In the commercial and industrial sector, the main types of collateral are real estate properties, securities, receivables, cash deposits and machinery. For loans guaranteed by a third party, the Bank will assess the guarantor's financial condition, credit history and ability to meet obligations. Balances and placements with banks and other financial institutions, these exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these assets.

#### Credit Exposures

The maximum credit exposure is the worst case scenario of exposure to the Bank without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the maximum exposure to credit risk equals their carrying amount. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the Bank could be required to pay if the guarantees are called upon. For loan commitment and other credit related liabilities, the maximum exposure to credit risk is the full amount of the committed facilities.

## Credit risk for non-securitization exposures (Continued)

### CR3: Overview of recognized credit risk mitigation

		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1.	Loans	90,864,306	3,849,285	348,471	3,500,814	-
2.	Debt securities	109,305,072	-	-	-	-
<b>3.</b>	<b>Total</b>	<b>200,169,378</b>	<b>3,849,285</b>	<b>348,471</b>	<b>3,500,814</b>	<b>-</b>
4.	Of which defaulted	28,313	-	-	-	-

As of Dec 2018, the Bank's carrying amount for unsecured exposures amount to HK\$200,169 million, a HK\$22,100 million increase compared to Jun 2018. This is mainly due to debt securities increased by HK\$33,544 million compared to Jun 2018. In the same period, loans decreased by HK\$11,443 million to HK\$90,864 million.

### CRD: Qualitative disclosures on use of ECAI ratings under STC approach

The Bank uses the following external credit assessment institutions ("ECAIs") to calculate its capital adequacy requirements under the standardized (credit risk) approach prescribed in the Capital Rules:

- Moody's Investors Service
- S&P's Ratings Services
- Fitch Ratings

Where exposures have been rated by the above-mentioned ECAIs, they are categorized under the following class of exposures:

- Sovereign exposures
- Public sector entity exposures
- Bank exposures
- Corporate exposures

The process used to map ECAIs issuer ratings or ECAIs issue specific ratings in the Bank's banking book is consistent with those prescribed in the Capital Rules.

## Credit risk for non-securitization exposures (Continued)

### CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach

	Exposure classes	Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1.	Sovereign exposures	16,877,624	-	17,542,327	-	811,982	5%
2.	PSE exposures	-	-	240,275	-	48,055	20%
2a.	Of which: domestic PSEs	-	-	240,275	-	48,055	20%
2b.	Of which: foreign PSEs	-	-	-	-	-	0%
3.	Multilateral development bank exposures	-	-	-	-	-	0%
4.	Bank exposures	117,332,039	-	117,332,039	-	50,084,070	43%
5.	Securities firm exposures	-	-	-	-	-	0%
6.	Corporate exposures	39,378,785	765,366	38,880,357	360,193	34,978,153	89%
7.	CIS exposures	-	-	-	-	-	0%
8.	Cash items	411,345	-	760,816	-	40,660	5%
9.	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	0%
10.	Regulatory retail exposures	10,354,110	3,362,484	9,889,238	1,311,037	8,283,925	74%
11.	Residential mortgage loans	14,630,711	-	14,372,846	-	5,030,496	35%
12.	Other exposures which are not past due exposures	5,928,887	7,993,848	5,895,603	727,620	6,615,896	100%
13.	Past due exposures	29,620	-	29,620	-	44,430	150%
14.	Significant exposures to commercial entities	-	-	-	-	-	0%
15.	<b>Total</b>	204,943,121	12,121,698	204,943,121	2,398,850	105,937,667	51%

Compared to Jun 2018, the Bank's RWA in Dec 2018 increased by HK\$52,680 million to HK\$105,938 million. This is a 98.9% increase. The increase is mainly attributed to the sharp increase in corporate loans, causing corporate exposures RWA to increase significantly from HK\$6,782 million to HK\$34,978 million. RWA for bank exposure also increased from HK\$26,728 million to HK\$50,084 million.

## Credit risk for non-securitization exposures (Continued)

### CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

Risk Weight	Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1.	Sovereign exposures	13,482,416	-	4,059,911	-	-	-	-	-	-	-	17,542,327
2.	PSE exposures	-	-	240,275	-	-	-	-	-	-	-	240,275
2a.	Of which: domestic PSEs	-	-	240,275	-	-	-	-	-	-	-	240,275
2b.	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3.	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4.	Bank exposures	-	-	28,606,503	-	88,725,536	-	-	-	-	-	117,332,039
5.	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6.	Corporate exposures	37,789	-	22,031	-	8,413,967	-	30,766,763	-	-	-	39,240,550
7.	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8.	Cash items	557,515	-	203,301	-	-	-	-	-	-	-	760,816
9.	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10.	Regulatory retail exposures	18,845	-	185,722	-	-	10,995,708	-	-	-	-	11,200,275
11.	Residential mortgage loans	-	-	-	14,372,846	-	-	-	-	-	-	14,372,846
12.	Other exposures which are not past due exposures	2,291	-	6,295	-	-	-	6,614,637	-	-	-	6,623,223
13.	Past due exposures	-	-	-	-	-	-	-	29,620	-	-	29,620
14.	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15.	<b>Total</b>	14,098,856	-	33,324,038	14,372,846	97,139,503	10,995,708	37,381,400	29,620	-	-	207,341,971

Compared to Jun 2018, the Bank's post-CCF and post-CRM on balance exposure increased by 13.7% to HK\$207,342 million in Dec 2018. This is mainly attributed to the sharp increase in corporate loan, which increased corporate exposures from HK\$6,909 million to HK\$39,241 million. Bank exposures also increased from HK\$88,833 million to HK\$117,332 million during the period. Due to the sale of some Hong Kong government bonds, sovereign exposures decreased from HK\$53,250 million to HK\$17,542 million.

## Counterparty credit risk

### CCRA: Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)

The Bank's organisation structure establishes a clear set of counterparty risk management framework, authority and responsibility for monitoring compliance with policies, procedures and limits that are in line with the credit risk management principles and requirements set by the Bank. Various units of the Bank have their respective credit risk management responsibilities. Business units act as the first line of defence. The Risk Management Department, which is independent from the business units, is responsible for the day-to-day management of credit risks and has the primary responsibility for providing an independent due diligence through identifying, measuring, monitoring and controlling credit risk to ensure an effective checks and balances, as well as drafting, reviewing and updating credit risk management policies and procedures. For investments in debt securities, assessment of the underlying assets and credit limits setting on customer / security issuer basis are used for managing credit risk associated with the investment. For derivatives, the Bank sets customer limits to manage the credit risk involved and follows the same approval. For financial assets at fair value through profit or loss and investment in securities collateral is generally not sought on debt securities. For derivative financial instruments, the Master Agreement published by the International Swaps and Derivatives Association, Inc. ("ISDA Master Agreement") is the preferred agreement for documenting derivatives activities of the Bank. It provides the contractual framework under which dealing activities of over-the-counter ("OTC") transactions are conducted, and sets out close-out netting provisions upon termination following the occurrence of an event of default or a termination event. In addition, if deemed necessary, Credit Support Annex ("CSA") will be included to form part of the Schedule to the ISDA Master Agreement. Under a CSA, collateral is passed from one counterparty to another, as appropriate, to mitigate the exposures.

### CCR1: Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

		Replacement cost (RC)	PFE	Effective EPE	Alpha ( $\alpha$ ) used for computing default risk exposure	Default risk exposure after CRM	RWA
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1.	SA-CCR (for derivative contracts)	-	-		1.4	-	-
1a.	CEM	1,290,050	2,083,339		-	3,373,389	1,565,639
2.	IMM(CCR) approach			-	-	-	-
3.	Simple Approach (for SFTs)					250,842	-
4.	Comprehensive Approach (for SFTs)					-	-
5.	VaR (for SFTs)					-	-
<b>6.</b>	<b>Total</b>						<b>1,565,639</b>

The CCR RWA amounted to HK\$1,566 million as of Dec 2018, increased noticeably compared to HK\$439 million as of Jun 2018. The increment was mainly due to the size of OTC derivatives boomed as the Bank increased its capital in the mid of 2018. The notional amount of FX products with remaining maturity less than 1 year increased by approximately 3 times compared to that in Jun 2018, resulting in a significant increase in the CCR RWA in Dec 2018.

## Counterparty credit risk (Continued)

### CCR2: CVA capital charge

		EAD post CRM	RWA
		HK\$'000	HK\$'000
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-
1.	(i) VaR (after application of multiplication factor if applicable)		-
2.	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3.	Netting sets for which CVA capital charge is calculated by the standardized CVA method	3,373,389	673,175
4.	Total	3,373,389	673,175

The CVA RWA amounted to HK\$673 million as of Dec 2018, increased noticeably compared to HK\$110 million as of Jun 2018. The increment was mainly due to the size of OTC derivatives boomed as the Bank increased its capital in the mid of 2018. The notional amount of FX products with remaining maturity less than 1 year increased by approximately 3 times compared to that in Jun 2018, while the remaining tenor of the IR products was slightly longer. These resulted in a larger input of exposure of default and duration in the standardized CVA method. Therefore, the CVA RWA increased nonlinearly to about 5 times compared to that in Jun 2018.

## Counterparty credit risk (Continued)

### CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

	Risk Weight Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
1.	Sovereign exposures	250,842	-	-	-	-	-	-	-	-	-	250,842
2.	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a.	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b.	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3.	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4.	Bank exposures	-	-	679,546	-	2,392,757	-	-	-	-	-	3,072,303
5.	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6.	Corporate exposures	-	-	-	-	-	-	15,398	-	-	-	15,398
7.	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8.	Regulatory retail exposures	-	-	-	-	-	270,938	-	-	-	-	270,938
9.	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10.	Other exposures which are not past due exposures	-	-	-	-	-	-	14,750	-	-	-	14,750
11.	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12.	<b>Total</b>	250,842	-	679,546	-	2,392,757	270,938	30,148	-	-	-	3,624,231

The EAD amounted to HK\$3,624 million as of Dec 2018, increased noticeably compared to HK\$724 million as of Jun 2018. The increment was mainly due to the size of OTC derivatives boomed as the Bank increased its capital in the mid of 2018. The notional amount of FX products done with other banks remarkably grew in Dec 2018. Additionally, these FX products had significantly larger positive MTM than those in Jun 2018. The EAD, which equals to the sum of notional multiply by CCFs and the positive MTM, increased nearly 4 times in Dec 2018 compared with in Jun 2018.

## Counterparty credit risk (Continued)

### CCR5: Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash - domestic currency	-	-	-	-	250,000	-
Cash - other currencies	-	221,574	-	940	-	-
Domestic sovereign debt	-	-	-	-	-	250,842
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	-	221,574	-	940	250,000	250,842

The increased collateral posted and received resulted from increased derivatives transaction with counterparties via CSA and repo transaction.

### CCR6: Credit-related derivatives contracts

	Protection bought	Protection sold
	HK\$'000	HK\$'000
<b>Notional amounts</b>		
Single-name credit default swaps	-	-
Index credit default swaps	-	-
Total return swaps	-	-
Credit-related options	-	-
Other credit-related derivative contracts	-	-
<b>Total notional amounts</b>	-	-
<b>Fair values</b>		
Positive fair value (asset)	-	-
Negative fair value (liability)	-	-



## Counterparty credit risk (Continued)

### CCR8: Exposures to CCPs

		Exposure after CRM	RWA
		HK\$'000	HK\$'000
<b>1.</b>	<b>Exposures of the AI as clearing member or client to qualifying CCPs (total)</b>		-
2.	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	-	-
3.	(i) OTC derivative transactions	-	-
4.	(ii) Exchange-traded derivative contracts	-	-
5.	(iii) Securities financing transactions	-	-
6.	(iv) Netting sets subject to valid cross-product netting agreements	-	-
7.	Segregated initial margin	-	
8.	Unsegregated initial margin	-	-
9.	Funded default fund contributions	-	-
10.	Unfunded default fund contributions	-	-
<b>11.</b>	<b>Exposures of the AI as clearing member or client to non-qualifying CCPs (total)</b>		-
12.	Default risk exposures to non-qualifying CCPs (excluding items disclosed in rows 17 to 20), of which:	-	-
13.	(i) OTC derivative transactions	-	-
14.	(ii) Exchange-traded derivative contracts	-	-
15.	(iii) Securities financing transactions	-	-
16.	(iv) Netting sets subject to valid cross-product netting agreements	-	-
17.	Segregated initial margin	-	
18.	Unsegregated initial margin	-	-
19.	Funded default fund contributions	-	-
20.	Unfunded default fund contributions	-	-

## Securitization exposures

### SECA: Qualitative disclosures related to securitization exposures

There were no securitisation exposures as at 31 December 2018.

### SEC1: Securitization exposures in banking book

		Acting as originator (excluding sponsor)			Acting as sponsor			Acting as investor		
		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1.	Retail (total) – of which:	-	-	-	-	-	-	-	-	-
2.	residential mortgage	-	-	-	-	-	-	-	-	-
3.	credit card	-	-	-	-	-	-	-	-	-
4.	other retail exposures	-	-	-	-	-	-	-	-	-
5.	re-securitization exposures	-	-	-	-	-	-	-	-	-
6.	Wholesale (total) – of which:	-	-	-	-	-	-	-	-	-
7.	loans to corporates	-	-	-	-	-	-	-	-	-
8.	commercial mortgage	-	-	-	-	-	-	-	-	-
9.	lease and receivables	-	-	-	-	-	-	-	-	-
10.	other wholesale	-	-	-	-	-	-	-	-	-
11.	re-securitization exposures	-	-	-	-	-	-	-	-	-

## Securitization exposures (Continued)

### SEC2: Securitization exposures in trading book

		Acting as originator (excluding sponsor)			Acting as sponsor			Acting as investor		
		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1.	Retail (total) – of which:	-	-	-	-	-	-	-	-	-
2.	residential mortgage	-	-	-	-	-	-	-	-	-
3.	credit card	-	-	-	-	-	-	-	-	-
4.	other retail exposures	-	-	-	-	-	-	-	-	-
5.	re-securitization exposures	-	-	-	-	-	-	-	-	-
6.	Wholesale (total) – of which:	-	-	-	-	-	-	-	-	-
7.	loans to corporates	-	-	-	-	-	-	-	-	-
8.	commercial mortgage	-	-	-	-	-	-	-	-	-
9.	lease and receivables	-	-	-	-	-	-	-	-	-
10.	other wholesale	-	-	-	-	-	-	-	-	-
11.	re-securitization exposures	-	-	-	-	-	-	-	-	-

Securitization exposures (Continued)

SEC3: Securitization exposures in banking book and associated capital requirements – where AI acts as originator

		Exposure values (by RW bands)					Exposure values (by regulatory approach)				RWAs (by regulatory approach)				Capital charges after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	SEC-IRBA	SEC-ERBA	SEC-SA	SEC-FBA	SEC-IRBA	SEC-ERBA	SEC-SA	SEC-FBA	SEC-IRBA	SEC-ERBA	SEC-SA	SEC-FBA
		HK\$'000					HK\$'000				HK\$'000				HK\$'000			
1.	<b>Total exposures</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.	Traditional securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.	Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.	Of which retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5.	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7.	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8.	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9.	Synthetic securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10.	Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.	Of which retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13.	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15.	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Securitization exposures (Continued)

SEC4: Securitization exposures in banking book and associated capital requirements – where AI acts as investor

		Exposure values (by RW bands)					Exposure values (by regulatory approach)				RWAs (by regulatory approach)				Capital charges after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	SEC-IRBA	SEC-ERBA	SEC-SA	SEC-FBA	SEC-IRBA	SEC-ERBA	SEC-SA	SEC-FBA	SEC-IRBA	SEC-ERBA	SEC-SA	SEC-FBA
		HK\$'000					HK\$'000				HK\$'000				HK\$'000			
1.	<b>Total exposures</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.	Traditional securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.	Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.	Of which retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5.	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7.	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8.	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9.	Synthetic securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10.	Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.	Of which retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13.	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15.	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

## Market risk

### MRA: Qualitative disclosures related to market risk

#### Market Risk

The Bank sets indicators and limits to identify, measure, monitor and control market risks. To hold market risk positions, any department must obtain market risk limits approval in advance.

Under guidance from the Board of Directors, the Bank has established and authorized the Risk Management Committee to manage market risks. The Risk Management Committee is responsible for approving market risk management regulations, and, in accordance with market risk management regulations, reviewing the Bank's market risk tolerance levels and limits, and monitoring management of market risks. The Risk Management Committee promptly reports to the Board of Directors about the current or potential major changes in any market risk affecting the Bank's financial position.

#### Market Risk Governance

Market risk management of the Bank is led by the Board of Directors and the Risk Management Committee. Their main task is to set a high level market risk limit, including value at risk (VaR), net open position, basis point value and the market risk management policy. They are also tasked with assigning the Comprehensive Risk Management Committee and the Risk Management Department to determine the suitability of market risk exposure and to further breakdown the risk limit for market risk bearing departments respectively.

Other than determining the suitability of market risk exposure, the Comprehensive Risk Management Committee is also in charge of checking the market risk regulations and regularly overseeing both the day to day and long term market risk management of the Bank.

As a function independent of business and operational areas, the Risk Management Department is in charge of breaking down the risk limit for market risk bearing departments, overseeing market risk management regularly, and to respond and report to related business units, Chief Executive and the Board of Directors. When either market risk indicators are breached or market risk events occurred. Finally, Risk Management Department also needs to review and draft changes to the market risk management policy annually for the Comprehensive Risk Management Committee, Risk Management Committee and Board of Directors to approve.

Global Markets Department is currently the only department authorized with market risk limit, they should control market risk to be within a suitable range. Each financial trade should also be clearly classified into the trading book, investing book or banking book. Any reclassification of financial instruments would require from permission from risk management and finance department.

Internal Audit Department is in charge of regularly reviewing the Bank's market risk management procedures and policies to ensure those procedures and policies are reasonable, accurate and remain stable.

#### Value at Risk

Value at risk (VaR) refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Bank adopted the historical simulation method to calculate daily VaR (250 days historical market data, 99% confidence interval, the holding period of 1 day).

## Market risk (Continued)

### MR1: Market risk under STM approach

		RWA
		HK\$'000
	Outright product exposures	
1.	Interest rate exposures (general and specific risk)	527,150
2.	Equity exposures (general and specific risk)	-
3.	Foreign exchange (including gold) exposures	291,813
4.	Commodity exposures	-
	Option exposures	
5.	Simplified approach	-
6.	Delta-plus approach	-
7.	Other approach	-
8.	Securitization exposures	-
9.	<b>Total</b>	<b>818,963</b>

The market risk RWA amounted to HK\$819 million as of Dec 2018, increasing 41.7% compared to HK\$578 million as of Jun 2018. The increment was mainly due to the increase in the investment of FX related products as the Bank increased its capital in the mid of 2018. The larger exposure to CNY and USD FX products resulted in a higher general and specific risk, thus a higher market risk RWA.

## Operational risk

### Basic Indicator Approach

The Bank has adopted the basic indicator (operational risk) ("BIA") approach to calculate the operational risk capital charge, the formula for operational risk capital charge is shown below:

$$K_{BIA} = [\sum(GI_{1...n} \times \alpha)] / n$$

Where:

$K_{BIA}$  = capital charge for operational risk calculated under the BIA approach;

$GI$  = gross income, where positive, of the last 3 years;

$\alpha$  = 15%; and

$n$  = number of the last 3 years for which gross income is positive.

As the Bank is not in operation for 3 years, the Hong Kong Monetary Authority has approved the following special treatments for the Bank's application of BIA:

1. Historical data from Bank of Communications Co., Ltd. Hong Kong Branch's ("the Branch") retail business is used in replacement for the Bank's retail business gross income;
2. The Bank's non-retail business gross income is estimated using the following equation:  
The Bank's non-retail assets  $\times$  the Branch's historical non-retail loan yields;
3. Above calculations will be gradually replaced by newly available data from the Bank;
4. As the Bank commenced operations on 29 January 2018, gross income from 2018 Q1 will be annualized and divided by 4;
5. When the Bank commenced operations for 18 months, it will adopt the transitional agreements as stipulated in the Banking (Capital) Rules.

## Interest rate risk in banking book

### IRRBB: Interest rate exposures in banking book

#### Banking Book Interest Rate Risk Management

Interest rate risk in the banking book (“IRRBB”) means the risk to the Bank’s financial condition resulting from adverse movements in interest rates that affect the Bank’s banking book positions. The interest rate risk exposure in the banking book arises from its normal course of banking activities, such as lending, deposit taking, securities investment and debt issuance. The governing objective in interest rate risk management is to control potential significant loss as a result of interest rate changes within risk appetite.

The Bank is exposed to two major sources of IRRBB, namely, repricing risk and basis risk.

Repricing risk arises from the timing differences in rate changes and cash flows that occur in the repricing and maturity of fixed and floating rate assets, liabilities or off-balance sheet items.

Basis risk arises from imperfect correlation between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics. For example, loan assets are being tied to the prime rate, and deposit liabilities tied to the HIBOR. Basis risk primarily occurs in the Bank’s Hong Kong dollar books.

The Bank’s has a robust banking book interest rate risk management framework in accordance with the “The Policy of Interest Rate Risk Management in Banking Book”, which is approved by the Board. Risk Management Committee is responsible for overseeing and reviewing the Bank’s risk management strategies including IRRBB. Asset and Liability Management Committee (“ALCO”) exercises its oversight of IRRBB. Asset and Liability Management Department (“ALMD”) assists ALCO to perform day-to-day monitoring on IRRBB. Global Markets Department is responsible for managing the IRRBB within the limits approved by the Board and related Committees.

The Bank sets out interest rate risk limits, which are approved by the Board for implementation. The limits include, but not limited to, earnings perspective (“EP”) and economic value perspective (“EV”). Sensitivity analysis in relation to the impact of changes in interest rate on earnings and economic value is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on the Bank’s actual repricing profile on assets, liabilities and off-balance sheet items on a routine basis. Apart from daily risk monitoring, the Bank’s has established a monthly stress testing to assess potential erosion of earnings and economic value that the Bank may incur from repricing risk, basis risk, yield curve risk and option risk. The results are reported to senior management and related Committees on a regular basis.

#### Sensitivity Analysis on IRRBB

The Bank adopts sensitivity analysis to measure the impact of interest rate changes on earnings and economic value.

	HKD	USD	RMB
Equivalent in millions of HK\$			
<u>As at 31 Dec 2018</u>			
Positive values correspond to positive impact			
Impact on Earnings over next 12 months			
- if interest rates rise by 200 basis points	560	(6)	(412)
- if interest rates drop by 200 basis points	(560)	6	412
Impact on Economic Value			
- if interest rates rise by 200 basis points	(142)	(64)	(976)
- if interest rates drop by 200 basis points	142	64	976



## IRRBB: Interest rate exposures in banking book (Continued)

Sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. They are based on several assumptions, including but not limited to, parallel movement of interest rates, run to maturity positions, no loan prepayment, non-maturing deposits repriced on the next day, etc.

## Remuneration

### REMA: Remuneration policy

In accordance with the disclosure requirement of Banking (Disclosure) Rules and the Supervisory Policy Manual “CG-5 Guideline on a Sound Remuneration System” issued by the Hong Kong Monetary Authority, the following disclosures are made:

#### Governance Structure of the Remuneration System

The Bank has established the Remuneration Committee. It is mainly responsible for making recommendations to the Board on the remuneration packages for the Directors, Chief Executive Officer and senior management; making recommendations to the Board on the remuneration policies and the implementation of such policies; and reviewing the policies regularly. The Remuneration Committee has held meetings during the year, discussed and formulated remuneration policies of the Bank.

To ensure the suitability of the remuneration system, the Bank will seek advice from external consultants if necessary.

“Senior Management” refers to the executives, “Key Personnel” refers to the individual staff whose duties or activities in the course of their employment involve the assumption of material risk which may have significant impact on risk exposure, or whose individual responsibilities are directly and materially linked to the risk management, or those who have direct influence to the profit.

#### Remuneration Policy

The remuneration policy supports the Bank’s overall approach to risk management so as to ensure it is not undermined and to encourage staff to support the Bank’s overall risk management, including but not limited to credit risk, market risk, interest rate risk, liquidity risk, operational risk, reputation risk, legal and compliance risk and strategic risk.

Staff remuneration is composed of “fixed remuneration” and “variable remuneration”. Both are paid by cash. The proportion of fixed and variable remuneration is determined by the factors such as staff seniority, job responsibilities and the need to encourage staff to support the Bank’s overall risk management and long-term financial soundness. For risk control personnel, their remuneration is determined independent of the performance of the business units they oversee.

The award of variable remuneration to the staff is determined by individual fulfilment of both financial and non-financial factors (including but not limited to the adherence to the risk management policies, compliance with legal, regulatory and ethical standards, etc.). Under such arrangement, staff performance shall be assessed comprehensively and appropriately reflected in their variable remuneration after taken into account of other factors such as the Bank’s financial performance and future development. To improve and enhance the remuneration system and to strive a balance between staff current earnings and the delayed risk that might bring to the Bank as well as to support the Bank’s stability and sustainable development, the Bank has implemented a deferral mechanism on performance bonus with a vesting period of three years.

## Remuneration (Continued)

### REMA: Remuneration Policy (Continued)

The Bank conducts regular internal monitoring to ensure compliance in the implementation of its remuneration policy. Such monitoring is conducted by relevant independent departments responsible for compliance monitoring in accordance with the Bank's organization structure. The remuneration policy is subject to review periodically and when necessary.

### REM1: Remuneration awarded during financial year

	31 Dec 2018	
	(No. of Senior Management : 7 No. of Key Personnel : - ) <sup>Note 1 - 4</sup>	
	Non-deferred HK\$'000	Deferred HK\$'000
Fixed Remuneration		
- Cash	10,416	-
- Shares and share-linked instruments	-	-
Variable Remuneration		
- Cash	852	-
- Shares and share-linked instruments	-	-

Note:

1. Given the sensitive nature of related information, aggregate figures instead of separate figures will be disclosed in this part.
2. The remuneration of Chief Executive and Key Personnel were paid by the Branch and disclosed in the Disclosure of Remuneration Policy of the Branch.
3. The variable remuneration of Senior Management, which was paid based on 2017 performance, were paid by the Branch and disclosed in the Disclosure of Remuneration Policy of the Branch.
4. Included staff newly joined or left the Bank during the financial year.

### REM2: Special payments

No guaranteed minimum bonuses without regard to an employee's performance, sign-on or severance payments were awarded and made to senior management and key personnel during the financial year 2018.

## Remuneration (Continued)

### REM3: Deferred remuneration

	31 Dec 2018 HK\$'000
Vested	
- Cash	-
- Shares and share-linked instruments	-
Unvested	
- Cash	-
- Shares and share-linked instruments	-
Total	<u>-</u>
Awarded	-
Paid out	-
Reduced through performance adjustments	-
Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit / implicit adjustments	-
Total amount of reductions during the financial year due to:	
- Ex post explicit adjustment	-
- Ex post implicit adjustment	-

## Additional balance sheet information

### 1. International claims

The information on international claims are prepared in according to the location and types of the counterparties as defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. Geographical segments, constituting 10% or more of the Bank's total international claims after taking into account any recognized risk transfer, are disclosed below.

Equivalent in millions of HK\$	Bank	Official Sector	Non-bank financial institutions	Non-financial private sector	Total
<u>As at 31 Dec 2018</u>					
Developing Asia-Pacific	74,737	4,544	-	6,060	85,341
of which attributed to People's Republic of China	67,392	4,544	-	5,969	77,905
Developed countries	28,260	3,925	-	30	32,215

### 2. Impaired loans and advances to customers by geographical areas

	Gross amount of loans to customers HK\$'000	Gross amount of trade bills HK\$'000	Total amount of loans and advances HK\$'000	Identified Impaired loans and advances HK\$'000	% of total loans and advances	Stage 1 & 2 provision for ECL HK\$'000	Stage 3 provision for ECL HK\$'000
<u>As at 31 Dec 2018</u>							
Hong Kong	54,904,958	8,480	54,913,438	62,707	0.09	174,285	21,945
People's Republic of China	11,546,357	1,246,868	12,793,225	1,609	-	33,817	1,609
Other countries	213,861	409	214,270	-	-	558	-
	<u>66,665,176</u>	<u>1,255,757</u>	<u>67,920,933</u>	<u>64,316</u>	<u>0.09</u>	<u>208,660</u>	<u>23,554</u>

The gross amount of loans and advances to customers by geographical segment is in accordance with the location of the counterparties after taking into account the transfer of risk. In general, a transfer of risk arises if the loans or advances of a customer are guaranteed by a party in a country which is different from that of the customer. Geographical segment, constituting 10% or more of the Bank's total amount of loans and advances to customers after taking into account any recognized risk transfer, are disclosed above.

## Additional balance sheet information (Continued)

### 3. The risk concentration analysis for loans and advances to customers by industry sectors (gross)

	31 Dec 2018 HK\$'000	% of secured loans and advances
Loans and advances for use in Hong Kong		
Industrial, commercial and financial		
- Property development	7,729,576	5.74
- Property investment	5,016,298	98.81
- Financial concerns	7,960,932	1.21
- Stockbrokers	-	-
- Wholesale and retail trade	660,661	55.37
- Manufacturing	3,015,173	6.70
- Transport and transport equipment	4,823,214	77.95
- Recreational activities	15,799	25.20
- Information technology	1,268,224	0.40
- Others	7,083,935	23.51
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchases Scheme	181,467	100.00
- Loans for the purchase of other residential properties	14,104,552	100.00
- Credit card advances	169,858	-
- Others	10,493,985	77.90
Sub-total	<hr/> 62,523,674	54.31
Trade finance	220,692	72.17
Loans and advances for use outside Hong Kong	3,920,810	0.59
Total	<hr/> <hr/> 66,665,176	51.21

## Additional balance sheet information (Continued)

### 3. The risk concentration analysis for loans and advances to customers by industry sectors (gross) (Continued)

Gross loans, impaired loans, overdue loans, provision for Expected Credit Loss ("ECL") in respect of industry sectors which constitute not less than 10% of total amount of loans and advances to customers are analysed as follows:

	Gross amount of loans to customers HK\$'000	Impaired loans HK\$'000	Overdue loans HK\$'000	Stage 1 & 2 provision for ECL HK\$'000	Stage 3 provision for ECL HK\$'000	New impairment allowances HK\$'000	Impaired loans written off during the year HK\$'000
<u>As at 31 Dec 2018</u>							
Loans and advances for use in Hong Kong industrial, commercial and financial	37,573,812	6,283	1,198	104,494	1,198	83,923	-
Individuals	24,949,862	45,640	37,865	89,761	14,633	40,158	6,405
Trade finance	220,692	4,730	2,730	565	150	413	-
Loans and advances for use outside Hong Kong	3,920,810	152	54	10,238	62	10,379	-
	<u>66,665,176</u>	<u>56,805</u>	<u>41,847</u>	<u>205,058</u>	<u>16,043</u>	<u>134,873</u>	<u>6,405</u>

### 4. Gross amount of overdue loans and advances to customers

	31 Dec 2018 HK\$'000	% of total loans and advances to customers
Gross loans and advances to customers which have been overdue for periods of:		
More than 3 months but not more than 6 months	3,392	-
More than 6 months but not more than 1 year	30,646	0.05
More than 1 year	7,809	0.01
	<u>41,847</u>	<u>0.06</u>
Gross trade bills to customers which have been overdue for periods of:		
More than 3 months but not more than 6 months	-	-
More than 6 months but not more than 1 year	-	-
More than 1 year	7,511	0.01
	<u>7,511</u>	<u>0.01</u>
Total gross amount of overdue loans and advances to customers	<u>49,358</u>	<u>0.07</u>

## Additional balance sheet information (Continued)

### 5. Overdue loans and advances to customers by geographical areas

	Overdue loans and advances to customers HK\$'000	Stage 3 provision for ECL HK\$'000
<u>As at 31 Dec 2018</u>		
Hong Kong	48,952	20,590
People's Republic of China	406	406
	<hr/>	<hr/>
	49,358	20,996
	<hr/>	<hr/>
Fair value of collateral	27,520	
	<hr/>	

### 6. Overdue and restructured loans and advances to customers

	31 Dec 2018 HK\$'000
Total restructured loans and advances to customers	2,600
Excluding: Rescheduled loans and advances to customers overdue above 3 months	1,077
	<hr/>
Net amounts of restructured loans and advances to customers	1,523
	<hr/>
Percentage of net amounts of restructured loans and advances to customers in total loans (%)	-

### 7. Overdue assets

There were no other overdue assets as at 31 Dec 2018.

### 8. Repossessed assets

There were no repossessed assets held as at 31 Dec 2018.

## Additional balance sheet information (Continued)

### 9. Non-bank mainland exposures

The analysis of non-bank Mainland exposures 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's Return of Mainland Activities.

	On-balance sheet exposures HK\$'000	Off-balance sheet exposures HK\$'000	Total exposures HK\$'000
<u>As at 31 Dec 2018</u>			
1. Central government, central government-owned entities and their subsidiaries and joint ventures ('JVs')	20,717,106	269	20,717,375
2. Local governments, local government-owned entities and their subsidiaries and JVs	2,134,182	-	2,134,182
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	7,410,784	16,597	7,427,381
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	24,140	470	24,610
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
Total	<u>30,286,212</u>	<u>17,336</u>	<u>30,303,548</u>
Total assets after provisions	208,430,583		
On-balance sheet exposures as percentage of total assets	14.53%		



## Additional balance sheet information (Continued)

### 10. Currency concentration

The information concerning the foreign currency exposures of the Bank arising from trading and non-trading positions are disclosed below:

	USD	RMB	Total
Equivalent in millions of HK\$			
<u>As at 31 Dec 2018</u>			
Spot assets	51,209	56,360	107,569
Spot liabilities	(44,216)	(34,636)	(78,852)
Forward purchases	91,430	46,213	137,643
Forward sales	(98,096)	(68,175)	(166,271)
Net options position*	-	-	-
	<hr/>	<hr/>	<hr/>
Net long (short) position	327	(238)	89
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net structural position	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

\* Delta equivalent approach is adopted.

Except for the above foreign currencies, we do not disclose other foreign currency exposures arising from trading and non-trading positions, which constitutes less than 10% of the total net position in all foreign currencies as above. There is no net structural position in any foreign currencies.

### 11. Off-balance sheet exposures (other than derivative transactions)

The off-balance sheet exposures is based on nominal contract amounts and risk-weighted amounts of contingent liabilities and commitments defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA's Return of Capital Adequacy Ratio.

	31 Dec 2018 HK\$'000
Contract amounts	
Direct credit substitutes	66,874
Trade-related contingencies	115,007
Commitments that are unconditionally cancellable without prior notice	7,034,317
Commitments which have an original maturity of not more than 1 year	479,253
Commitments which have an original maturity of more than 1 year	4,426,247
	<hr/>
Total	12,121,698
	<hr/> <hr/>
Risk-weighted amount	1,892,068
	<hr/> <hr/>