Allied Banking Corporation (HK) Limited

Pillar 3 Regulatory Disclosures

For the year ended
31 December 2017

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Table OVA : Overview of risk management

The Board of Directors (the "Board") has the overall responsibility for the management of all types of risk exposures. In the delivery of its responsibility, the Board has established specialised committees to identify, measure, monitor and control different types of risks. The Board or the appropriate specialised committees review and approve policies and procedures for the identification, measurement, control and monitoring of both financial and non-financial risks. Such policies and procedures are reviewed by the relevant committees or senior management on a regular basis.

Credit Risk Management Committee - responsible for evaluation and monitoring of lending-related activities, reviewing existing credit limits and industry limits and managing the lending portfolio and overall credit risk of the Group. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also Head of Treasury and Head of Operation and Senior Managers of Credit.

Asset and Liability Management Committee ("ALCO") - responsible for managing the Group's assets and liabilities on a functional basis. The Committee directs the Group's overall acquisition, allocation and pricing of funds, within the established target/guidelines, while managing and monitoring the overall treasury risk exposure. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, the Senior Managers of Credit and the Head of Marketing and the Compliance Officer.

The Audit Committee is an oversight body monitoring the internal control framework, risk management systems and financial reports. The Committee consists of three non-executive directors, two of whom are independent non-executives.

The most important types of risk are credit risk, market risk, liquidity risk, reputation risk, operational risk and legal risk. Market risk includes currency risk and interest rate risk.

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. Impairment allowances are made for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for at the end of the reporting period. Management therefore carefully manages its exposure to credit risk.

The Group's lending policies have been formulated based on its own experience, the Banking Ordinance, the Hong Kong Monetary Authority guidelines and other statutory requirements.

Table OVA : Overview of risk management (continued)

The Group's primary credit approval bodies are the Credit Risk Management Committee and the Executive Committee. The Credit Risk Management Committee is responsible for evaluating and monitoring lending-related activities, reviewing existing credit limits and industry limits and managing the lending portfolio and overall credit risk of the Group. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also Head of Treasury and Head of Operation, and the Senior Managers of Credit. The Executive Committee is responsible for reviewing and confirming all credit approvals. The members of the Executive Committee include the directors of the Board of the parent bank and other directors.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are typically monitored on a revolving basis and are subject to periodic reviews. Limits on the level of credit risk by product, industry sector and by country are approved annually by the Board.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular reviews of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees

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

Market risk is managed by the Asset and Liability Management Committee ("ALCO"). ALCO directs the Group's overall acquisition, allocation and pricing of funds, within the established target/guidelines, while managing and monitoring the overall treasury risk exposure. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, the Senior Managers of Credit and the Head of Marketing and the Compliance Officer.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes transactions denominated in foreign currencies, hence exposures to

Table OVA : Overview of risk management (continued)

exchange rate fluctuations arise. Exchange rate exposures are managed within the approved policy parameters by utilising forward foreign exchange contracts.

The Group does not have any significant foreign exchange risk as foreign exchange dealing is moderate. Day-to-day foreign exchange management is performed by the Treasury Management Department within the approved limits. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO sets both overnight and intra-day positions limits and monitors the level of exposure by currencies and in total on a daily basis.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend. ALCO is responsible for monitoring the Group's liquidity position through periodic review of statutory liquidity ratio, maturity profile of assets and liabilities, loan-to-deposit ratio and inter-bank transactions. Liquidity policy is monitored by ALCO and reviewed regularly by the Board of Directors of the Company. The Group's policy is to maintain a conservative level of liquid funds on a daily basis so that the Group is prepared to meet its obligations when they fall due in the normal course of business, to satisfy statutory liquidity ratio requirements, and to deal with any funding crises that may arise. Limits are set on the minimum proportion of maturing funds to be maintained in order to meet all the calls on cash resources such as overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees, margin calls and other calls on cash-settled derivatives. Limits are also set on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at an unexpected level of demand.

The Group has an established capital planning process to assess the adequacy of its capital to support current and future activities. The process states the Group's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan. The Group has adopted a policy of maintaining a strong capital base to support its business growth. Capital adequacy ratio, computed as a ratio of total regulatory

Table OVA : Overview of risk management (continued)

capital to the risk-weighted asset, of the Group was maintained at a level above the required minimum ratio. It can be referred to note 11 of the supplementary financial information.

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud, or inadequate internal controls and procedures. Executive directors, department heads, external legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed. A comprehensive contingency plan is available to ensure that key business functions continue and normal operations are restored effectively and efficiently in the event of business interruption.

Reputation risk is the risk to earnings or capital arising from negative public opinion. Reputation risk is managed by ensuring proper and adequate communications and public relation efforts to foster the reputation of the Group. A risk management mechanism guided by the senior management including executive directors and senior managers has been established to manage the media exposure, handle customers' and other relevant parties' complaints and suggestions, and to ensure that new business activities and agents acting on the Group's behalf do not jeopardise the Group's reputation.

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REGULATORY DISCLOSURES

The following Pillar 3 disclosures are prepared on a solo basis of calculating the capital adequacy ratios.

Template OV1: Overview of Risk-Weighted Assets (RWA)

The table below provides an overview of capital requirements in terms of a detailed breakdown of RWAs for various risks as at 31 December 2017 and 30 September 2017 respectively:

		(HK$ '000)		
		(a)	(b)	(c)
		RWA		Minimum capital requirements
		December 2017	September 2017	December 2017
1	**Credit risk for non-securitization exposures**	**1,232,322**	**1,218,806**	**154,040**
2	Of which STC approach	0	0	0
2a	Of which BSC approach	1,232,322	1,218,806	154,040
3	Of which IRB approach	0	0	0
4	**Counterparty credit risk**	**1,188**	**1,016**	**149**
5	Of which SA-CCR	0	0	0
5a	Of which CEM	1,188	1,016	149
6	Of which IMM(CCR) approach	0	0	0
7	Equity exposures in banking book under the market-based approach	0	0	0
8	CIS exposures - LTA	0	0	0
9	CIS exposures - MBA	0	0	0
10	CIS exposures - FBA	0	0	0
11	Settlement risk	0	0	0
12	**Securitization exposures in banking book**	**0**	**0**	**0**
13	Of which IRB(S) approach - ratings-based method	0	0	0
14	Of which IRB(S) approach - supervisory formula method	0	0	0
15	Of which STC(S) approach	0	0	0
16	**Market risk**	**29,788**	**13,750**	**3,724**
17	Of which STM approach	29,788	13,750	3,724
18	Of which IMM approach	0	0	0
19	**Operational risk**	**121,175**	**115,150**	**15,147**
20	Of which BIA approach	121,175	115,150	15,147
23	Amounts below the thresholds for deduction (subject to 250% RW)	0	0	0
24	Capital floor adjustment	0	0	0
24a	**Deduction to RWA**	**23,955**	**17,355**	**2,994**
24b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	0	0	0
24c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	23,955	17,355	2,994
25	**Total**	**1,360,518**	**1,331,367**	**170,066**

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

The following table shows the differences between the carrying values as reported in the Group's financial statements following the scope of accounting consolidation and the carrying values under the scope of regulatory consolidation, with a breakdown into regulatory risk categories of every item of the assets and liabilities reported in financial statements based on the scope of accounting consolidation.

	31 December 2017						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	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 requirement or subject to deduction from capital
	HK$ '000	HK$ '000	HK$ '000	HK$ '000	HK$ '000	HK$ '000	HK$ '000
Assets							
Cash and cash equivalents	310,772	309,471	309,471				
Placements with banks and other financial institutions maturing between one and twelve months	142,201	124,795	124,795				
Derivative financial instruments	515	515	515				
Advances and other accounts	1,124,593	1,123,527	1,123,527				
Investment in a subsidiary	0	1,000	1,000				
Investment property	70,000	70,000	70,000				
Property and equipment	29,276	29,276	29,276				
Total assets	**1,677,357**	**1,658,584**	**1,658,584**	**0**	**0**	**0**	**0**
Liabilities							
Deposits and balances of banks and other financial institutions	33,284	33,284					33,284
Deposits from customers	1,156,888	1,156,888					1,156,888
Derivative financial instruments	17	17					17
Other accounts and payables	12,073	8,482					8,482
Current tax liabilities	1,778	1,926					1,926
Deferred tax liabilities	1,137	1,137					1,137
Total liabilities	**1,205,177**	**1,201,734**	**0**	**0**	**0**	**0**	**1,201,734**

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Template LI2: Main sources of differences between regulortory exposure amounts and carrying values in financial statements

The following table shows the main sources of differences between the carrying values in financial statements and the exposure amounts used for the calculation of regulatory capital in respect of the assets and liabilities based on the scope of regulatory consolidation :

		31 December 2017				
		(a)	(b)	(c)	(d)	(e)
			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	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	**1,658,584**	**1,658,584**	**0**	**0**	**0**
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	0	0	0	0	0
3	Total net amount under regulatory scope of consolidation	1,658,584	1,658,584	0	0	0
4	Off-balance sheet amounts	533,817	7,061			
5	Differences due to consideration of provisions		1,896			
6	Exposure amounts considered for regulatory purpose	**1,667,541**	**1,667,541**	**0**	**0**	**0**

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

The basis of consolidation for regulatory purposes is different from that for accounting purposes. In accordance with the Banking (Capital) Rules, the computation on a solo basis of total capital ratio and other regulatory capital ratios of the Group is only for purpose of regulatory reporting to the Hong Kong Monetary Authority ("HKMA"). The subsidiary not included in the computation of the total capital ratio, other capital adequacy ratios and corresponding capital base, Tier 1 Capital, other capital related components and risk weighted amounts of the Group is ACR Nominees Limited.

The key drivers for the differences between accounting and regulatory exposure amounts differences are as follows:

- The carrying amounts reported in the financial statements are after deduction of collective and individual impairment allowances while the exposure amounts for regulatory purposes are before deducting collective impairment allowances;
- Counterparty credit risk exposures for regulatory purposes consist of both the current exposures and the potential exposures derived from applying credit conversion factors (CCFs) to the notional principal of foreign exchange contracts.

The Group measures its investment properties and derivative financial instruments at fair value using the fair value hierarchy described as follows:

Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Level 2 derivative financial instruments include open foreign exchange spot contracts, foreign exchange forward and swap contracts. These instruments are valued by either observable foreign exchange rates, and observable or calculated forward points.

Level 3 fair value measurements - the fair value of the Group's investment property is determined by adoption of direct comparison approach by Century 21 Surveyors Limited, an independent professional qualified valuer. Valuations were derived on the basis of assuming sale of the property in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market. In

Table LIA: Explanations of differences between accounting and regulatory exposure Amounts (continued)

the course of valuation, reference has been made to comparable market transactions of properties in the same development as well as other similar developments and taking into account the general market trends and other economic factors which may reasonably affect the open market value of the investment property as at 31 December 2017.

Table CRA : General information about credit risk

The Board of Directors (the "Board") has the overall responsibility for the management of all types of risk exposures. In the delivery of its responsibility, the Board has established specialised committees to identify, measure, monitor and control different types of risks. The Board or the appropriate specialised committees review and approve policies and procedures for the identification, measurement, control and monitoring of both financial and non-financial risks. Such policies and procedures are reviewed by the relevant committees or senior management on a regular basis.

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The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. Impairment allowances are made for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for at the end of the reporting period. Management therefore carefully manages its exposure to credit risk.

The Group's lending policies have been formulated based on its own experience, the Banking Ordinance, the Hong Kong Monetary Authority guidelines and other statutory requirements.

Table CRA : General information about credit risk (continued)

The Group's primary credit approval bodies are the Credit Risk Management Committee and the Executive Committee. The Credit Risk Management Committee is responsible for evaluating and monitoring lending-related activities, reviewing existing credit limits and industry limits and managing the lending portfolio and overall credit risk of the Group. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also Head of Treasury and Head of Operation, and the Senior Managers of Credit. The Executive Committee is responsible for reviewing and confirming all credit approvals. The members of the Executive Committee include the directors of the Board of the parent bank and other directors.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are typically monitored on a revolving basis and are subject to periodic reviews. Limits on the level of credit risk by product, industry sector and by country are approved annually by the Board.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular reviews of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees

Template CR1: Credit quality of exposures

The table below provides an overview of the credit quality of on- and off-balance sheet exposures as at 31 December 2017

		(a)	(b)	(c)	(d)
(HK$ '000)		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
1	Loans	0	1,117,840	1,914	1,115,926
2	Debt securities	0	0	0	0
3	Off-balance sheet exposures	0	533,817	0	533,817
4	**Total**	**0**	**1,651,657**	**1,914**	**1,649,743**

Template CR2: Changes in defaulted loans and debt securities

The table below provides information on the changes in defaulted loans and debt securities, including any changes in the amount of defaulted exposures, movements between non-defaulted and defaulted exposures, and reductions in the defaulted exposures due to write-offs as at 31 December 2017 and 30 June 2017 respectively:

		(a)
(HK$ '000)		Amount
1	**Defaulted loans and debt securities at end of the previous reporting period (30 June 2017)**	**2,081**
2	Loans and debt securities that have defaulted since the last reporting period	0
3	Returned to non-defaulted status	(2,081)
4	Amounts written off	0
5	Other changes	0
6	**Defaulted loans and debt securities at end of the current reporting period (31 December 2017)**	**0**

Table CRB: Additional disclosure related to credit quality of exposures

The Group classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.

The credit quality of loans and advances to customers can be analysed as follows:

It includes analysis on the exposures that are “neither past due nor impaired”, “past due but not impaired” and “impaired”.

Gross loans and advances to customers	31 December 2017 (HK$ ‘000)
- neither past due nor impaired	1,102,657
- past due but not impaired	15,049
- impaired but not overdue or rescheduled	134
Total	1,117,840

Of which,

Gross loans and advances to customers that are neither past due nor impaired	31 December 2017 (HK$ ‘000)
- pass	1,102,657
- special mention	0
Total	1,102,657

Also, the ageing analysis of loans and advances to customers that are past due but not impaired.

Gross loans and advances to customers that are past due but not impared	31 December 2017 (HK$ ‘000)
- overdue 3 months or less	15,049
- overdue more than 3 months	0
Total	15,049

There are no renegotiated loans that would otherwise be past due or impaired as at 31 December 2017.

Loans and advances that are past due for more than 90 days but are not impaired amounted to HK$0 as at 31st December, 2017.

Table CRB: Additional disclosure related to credit quality of exposures (continued)

Impairment allowances are recognised for losses that have been incurred at the end of the reporting period based on objective evidence of impairment. The impairment allowances shown in the consolidated statement of financial position at year end is derived from the 5-grade loan classification (Pass, Special Mention, Substandard, Doubtful and Loss) adopted by the Hong Kong Monetary Authority.

Impairment and provisioning policies

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level

The Group's policy requires review to be performed on individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the end of the reporting period on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account. Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

Table CRC: Qualitative disclosures related to credit risk mitigation

Credit risk mitigation policies

Some specific control and mitigation measures are outlined below.

Collateral

The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

In addition, in order to minimise credit losses, the Group will seek additional collaterals from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

The value and type of collateral or credit enhancement required depends on an assessment of the credit risk of the counterparty. Policies and guidelines are in place to determine the eligibility of collateral for credit risk mitigation.

The Group takes collateral as a secondary recourse to the borrower. The collateral and credit enhancements include but not limited to residential properties, income-producing real estate properties, guarantees and cash deposits.

Periodic valuations of collateral are required. Loans and advances are typically collateralized to a substantial extent with top-up clauses incorporated in the underlying agreement. The current market value of the collateral is considered during the review of the adequacy of the allowance for credit losses, among others.

Template CR3: Overview of recognized credit risk mitigation

The following table presents the extent of credit risk exposures covered by different types of recognized CRM as at 31 December 2017:

		(a)	(b1)	(b)	(d)	(f)
(HK$ '000)		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
1	Loans	1,099,768	16,158	8,958	7,200	0
2	Debt securities	0	0	0	0	0
3	**Total**	**1,099,768**	**16,158**	**8,958**	**7,200**	**0**
4	of which defaulted	0	0	0	0	0

Template CR4: Credit risk exposures and effects of recognized credit risk mitigation - for BSC approach

The following table illustrates the effect of any recognized credit risk mitigation (including recognized collateral based on the comprehensive approach or the simple approach or both) on the calculation of credit risk capital requirements under BSC approach as at 31 December 2017:

		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure Classes	On-balance sheet amount (HK$ '000)	Off-balance sheet amount (HK$ '000)	On-balance sheet amount (HK$ '000)	Off-balance sheet amount (HK$ '000)	RWA (HK$ '000)	RWA density %
1	Sovereign exposures	0	0	7,237	0	0	0.00%
2	PSE exposures	0	0	0	0	0	0.00%
3	Multilateral development bank exposures	0	0	0	0	0	0.00%
4	Bank exposures	434,834	0	434,834	0	86,967	20.00%
5	Cash items	76	0	9,034	0	0	0.00%
6	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	0	0	0	0	0	0.00%
7	Residential mortgage loans	189,562	0	189,562	0	125,057	65.97%
8	Other exposures	1,035,493	91,361	1,019,298	1,120	1,020,298	99.99%
9	Significant exposures to commercial entities	0	0	0	0	0	0.00%
10	**Total**	**1,659,965**	**91,361**	**1,659,965**	**1,120**	**1,232,322**	**74.19%**

Template CR5 : Credit risk exposures by asset classes and by risk weights - for BSC approach

The following table presents a breakdown of credit risk exposures under BSC approach by asset classes and by risk weights as at 31 December 2017 :

	(HK$ '000)	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Risk Weight Exposure class	0%	10%	20%	35%	50%	100%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	7,237	0	0	0	0	0	0	0	7,237
2	PSE exposures	0	0	0	0	0	0	0	0	0
3	Multilateral development bank exposures	0	0	0	0	0	0	0	0	0
4	Bank exposures	0	0	434,834	0	0	0	0	0	434,834
5	Cash items	9,034	0	0	0	0	0	0	0	9,034
6	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	0	0	0	0	0	0	0	0	0
7	Residential mortgage loans	0	0	0	0	129,011	60,551	0	0	189,562
8	Other exposures	120	0	0	0	0	1,020,298	0	0	1,020,418
9	Significant exposures to commercial entities	0	0	0	0	0	0	0	0	0
10	**Total**	**16,391**	**0**	**434,834**	**0**	**129,011**	**1,080,849**	**0**	**0**	**1,661,085**

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

The Group's relevant counterparty credit risk exposures are applicable to interbank placements and nostro balances; commercial exposures (i.e. trade finance lines); and over-the-counter derivative financial instruments (i.e. foreign exchange contracts). Counterparty credit risk management policy is in place to set the scope for the management of all on and off-balance sheet credit risk exposures with sovereigns and financial institutions undertaken by the Bank and ensure counterparty credit risk management is consistently applied across all entities within the Group.

The Group has adopted the Current Exposure Method for regulatory capital calculation of its counterparty credit risk arising from derivative contracts booked in the banking book.

The Group does not carry interest and foreign exchange rate positions on its trading book. The derivatives are used to manage the Group's own exposures to market risks as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are over-the-counter derivatives. Most of the Group's foreign exchange rate and interest rate contracts have been entered into to meet customer demand and manage the Group's own risk.

The Group maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), in terms of amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair values are positive), which is generally only a small fraction of the nominal value of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

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

The following table presents a comprehensive breakdown of counterparty default risk exposures (other than those to CCPs), RWAs, and , where applicable, main parameters under the approaches used to calculate default risk exposures in respect of derivative contracts and SFTs as at 31 December 2017

		(a)	(b)	(c)	(d)	(e)	(f)
		Replacement cost (RC) (HK$ '000)	PFE (HK$ '000)	Effective EPE (HK$ '000)	Alpha used for computing default risk exposure	Default risk exposure after CRM (HK$ '000)	RWA (HK$ '000)
1	SA-CCR (for derivative contracts)	0	0		1.4	0	0
1a	CEM	1,516	4,425		N/A	5,941	1,188
2	IMM (CCR) Approach			0	N/A	0	0
3	Simple Approach (for SFTs)					0	0
4	Comprehensive Approach (for SFTs)					0	0
5	VaR (for SFTs)					0	0
6	**Total**						**1,188**

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Template CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights - for BSC approach

The following table presents a breakdown of default risk exposures as at 31 December 2017, other than those to CCPs, in respect of derivative contracts and SFTs that are subject to the BSC approach, by asset classes and risk-weights, irrespective of the approach used to determine the amount of default risk exposures:

	(HK$ '000)	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Risk Weight / Exposure class	0%	10%	20%	35%	50%	100%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	0	0	0	0	0	0	0	0	0
2	PSE exposures	0	0	0	0	0	0	0	0	0
3	Multilateral development bank exposures	0	0	0	0	0	0	0	0	0
4	Bank exposures	0	0	5,941	0	0	0	0	0	5,941
5	CIS exposures	0	0	0	0	0	0	0	0	0
6	Other exposures	0	0	0	0	0	0	0	0	0
7	Significant exposures to commercial entities	0	0	0	0	0	0	0	0	0
8	**Total**	**0**	**0**	**5,941**	**0**	**0**	**0**	**0**	**0**	**5,941**

Table MRA: Qualitative disclosures related to market risk

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

Market risk is managed by the Asset and Liability Management Committee ("ALCO"). ALCO directs the Group's overall acquisition, allocation and pricing of funds, within the established target/guidelines, while managing and monitoring the overall treasury risk exposure. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, the Senior Managers of Credit and the Head of Marketing and the Compliance Officer.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within the approved policy parameters by utilising forward foreign exchange contracts. The Group does not have any significant foreign exchange risk as foreign exchange dealing is moderate. Day-to-day foreign exchange management is performed by the Treasury Management Department within the approved limits. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO sets both overnight and intra-day positions limits and monitors the level of exposure by currencies and in total on a daily basis.

Template MR1: Market risk under Standardized (market risk) approach (STM approach)

The table below provides the components of the market risk capital requirements calculated using the STM approach exposures as at 31 December 2017:

	(HK$ '000)	(a) RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	28,875
2	Equity exposures (general and specific risk)	0
3	Foreign exchange (including gold) exposures	913
4	Commodity exposures	0
	Option exposures	
5	Simplified approach	0
6	Delta-plus approach	0
7	Other approach	0
8	Securitization exposures	0
9	**Total**	**29,788**

Key capital ratios disclosures

1. Capital Adequacy Ratio

	At 31 December 2017 HK$ '000	At 30 September 2017 HK$ '000
Common Equity Tier 1 capital	383,494	377,903
Total Tier 1 capital	393,844	388,253
Total capital	424,441	413,450
Total risk weighted assets	1,360,518	1,331,367

	%	%
Common Equity Tier 1 capital ratio	28.19	28.38
Tier 1 capital ratio	29.95	29.16
Total capital ratio	31.20	31.05

2. Leverage ratio

	At 31 December 2017 HK$ '000	At 30 September 2017 HK$ '000
Total Tier 1 capital	393,844	388,253
Exposure measure	1,705,331	1,731,358

	%	%
Leverage ratio	23.09	22.42

Glossary

Abbreviations	Descriptions
AT1	Additional Tier 1
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CEM	Current Exposure Method
CET1	Common Equity Tier 1
CIS	Collective Investment Scheme
CRM	Credit Risk Mitigation
CVA	Credit Valuation Adjustment
EAD	Exposure At Default
EPE	Expected Positive Exposure
IMM	Internal Models Method
PFE	Potential Future Exposure
PSE `	Public Sector Entity
RWA	Risk Weighted Asset
SA-CCR	Standardized Approach (Counterparty Credit Risk)
SFT	Securities Financing Transaction
STC	Standardized (Credit Risk)
STM	Standardized (Market Risk)
STO	Standardized (Operational Risk)
VaR	Value-At-Risk