

# **HKCB Finance Limited**

## **Regulatory Disclosure Statements**

31 December 2017

**These disclosures are prepared under  
the Banking (Disclosure) Rules**

## Regulatory Disclosure Statements

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## Regulatory Disclosure Statements (continued)

### Part I : Overview of risk management and Risk Weighted Assets (RWAs)

#### OVA: Overview of risk management

The Company has the fundamental goal of executing our strategy while managing our risks in a comprehensive and integrated manner. A comprehensive overview of our risk management framework including the management and mitigation of key risks facing the Company is set out in the risk management section of the annual report 2017.

#### OVI: Overview of RWAs

The following table provides an overview of the Company's RWAs by various risk types and the corresponding minimum capital requirements (i.e. 8% of RWAs), as required by the HKMA.

		(a)	(b)	(c)
		RWAs		Minimum capital requirements
		At 31 December 2017	At 31 December 2016	At 31 December 2017
		HK\$'000	HK\$'000	HK\$'000
1	Credit risk for non-securitization exposures	2,679,725	2,747,849	214,378
2	Of which STC approach	2,679,725	2,747,849	214,378
2a	Of which BSC approach	-	-	-
3	Of which IRB approach	-	-	-
4	Counterparty credit risk	-	-	-
5	Of which SA-CCR (Remark)	-	-	-
16	Market risk	-	-	-
17	Of which STM approach	-	-	-
19	Operational risk	193,113	209,800	15,449
20	Of which BIA approach	193,113	209,800	15,449
24a	Deduction to RWAs	-	-	-
24b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
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	-	-	-
25	<b>Total</b>	<b>2,872,838</b>	<b>2,957,649</b>	<b>229,827</b>

The Company has adopted the “standardised approach” for calculating the risk-weighted amount for credit risk and market risk and the “basic indicator approach” for calculating operational risk.

Total RWAs increased mainly due to an increase in credit RWAs for non-securitization exposures, which was also driven mainly by an increase in loans and advances to customers.

**Remark:**

Prior to the implementation of SA-CCR, exposures corresponding to the counterparty credit risk reported here are calculated using current exposure method.

## Regulatory Disclosure Statements (continued)

## Part II : Linkage between financial statements and regulatory exposures

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

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	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 requirements or subject to deduction from capital
At 31 December 2017	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>							
Cash and balances with banks, central banks and other financial institutions	22,621	18,691	18,691	-	-	-	-
Placements with and advances to banks, central banks and other financial institutions	33,000	33,000	33,000	-	-	-	-
Trading assets	-	-	-	-	-	-	-
Loans and advances to customers and other accounts	6,084,447	6,084,450	6,084,450	-	-	-	-
<i>of which: collective impairment allowances reflected in regulatory capital</i>	-	3	3	-	-	-	-
Available-for-sale securities	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	-
- Investment properties	-	-	-	-	-	-	-
- Other premises	-	-	-	-	-	-	-
- Equipment	274	274	274	-	-	-	-
Tax recoverable	3,930	3,930	3,930	-	-	-	-
Deferred tax assets	661	661	-	-	-	-	661
<b>Total assets</b>	<b>6,144,933</b>	<b>6,141,006</b>	<b>6,140,345</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>661</b>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	5,630,000	5,630,000	-	-	-	-	5,630,000
Other liabilities	8,507	8,507	-	-	-	-	8,507
<b>Total liabilities</b>	<b>5,638,507</b>	<b>5,638,507</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,638,507</b>

**Regulatory Disclosure Statements** *(continued)*

**Part II : Linkage between financial statements and regulatory exposures**

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

		(a)	(b)	(c)	(d)	(e)
		Total	Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
At 31 December 2017		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	Asset carrying value amount under scope of regulatory consolidation (as per template LII)	6,141,006	6,140,345	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LII)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	6,141,006	6,140,345	-	-	-
4	Off-balance sheet amounts	-	-	-	-	-
5	Differences in valuations	3,927	3,927	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	-	-	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
	Exposure amounts considered for regulatory purposes	6,144,933	6,144,272	-	-	-

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

The key drivers for the differences between accounting and regulatory exposure amounts differences are the carrying amounts reported in the financial statements are after deduction of collective impairment allowances while the exposure amounts for regulatory purposes are before deducting such impairment allowances.

Regulatory Disclosure Statements (continued)

Part III : Capital and other disclosures

Transition Disclosures Template

		At 31 December 2017	Amounts subject to pre-Basel III treatment*
		HK\$'000	HK\$'000
<b>CET1 capital: instruments and reserves</b>			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	200,000	
2	Retained earnings	306,426	
3	Disclosed reserves	-	
4	Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	Not applicable	
	Public sector capital injections grandfathered until 1 January 2018	Not applicable	
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	<b>CET1 capital before regulatory deductions</b>	<b>506,426</b>	
<b>CET1 capital: regulatory deductions</b>			
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liability)	-	
9	Other intangible assets (net of associated deferred tax liability)	-	-
10	Deferred tax assets net of deferred tax liabilities	661	
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	-
13	Gain-on-sale arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	-
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in CET1 capital instruments	-	-
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the common stock of financial sector entities	Not applicable	
24	of which: mortgage servicing rights	Not applicable	
25	of which: deferred tax assets arising from temporary differences	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	-	
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	-	
26c	Securitization exposures specified in a notice given by the Monetary Authority	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	-
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	-
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	<b>Total regulatory deductions to CET1 capital</b>	<b>661</b>	
29	<b>CET1 capital</b>	<b>505,765</b>	

**Regulatory Disclosure Statements (continued)**
**Part III : Capital and other disclosures**
**Transition Disclosures Template**

AT1 capital: instruments		
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>	-
AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	-
38	Reciprocal cross-holdings in AT1 capital instruments	-
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-
41	National specific regulatory adjustments applied to AT1 capital	-
41a	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 1 capital	-
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	-
ii	of which: Capital shortfall of regulated non-bank subsidiaries	-
iii	of which: Investments in own CET1 capital instruments	-
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	-
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-
vi	of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-
vii	of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-
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 (Tier 1 = CET1 + AT1)</b>	505,765
Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	-
47	<i>Capital instruments subject to phase out arrangements from Tier 2 capital</i>	-
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-
49	<i>of which: capital instruments issued by subsidiaries subject to phase out arrangements</i>	-
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	3
51	<b>Tier 2 capital before regulatory deductions</b>	3
Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-
53	Reciprocal cross-holdings in Tier 2 capital instruments	-
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-
56	National specific regulatory adjustments applied to Tier 2 capital	-
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-

**Regulatory Disclosure Statements (continued)**

**Part III : Capital and other disclosures**

**Transition Disclosures Template**

56b	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital	-
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	-
ii	of which: Capital shortfall of regulated non-bank subsidiaries	-
iii	of which: Investments in own CET1 capital instruments	-
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	-
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-
vi	of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-
vii	of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-
57	<b>Total regulatory deductions to Tier 2 capital</b>	-
58	<b>Tier 2 capital</b>	<b>3</b>
59	<b>Total capital (Total capital = Tier 1 + Tier 2)</b>	<b>505,768</b>
59a	Deduction items under Basel III which during transitional period remain subject to risk-weighting, based on pre-Basel III treatment	-
i	of which: Mortgage servicing rights	-
ii	of which: Defined benefit pension fund net assets	-
iii	of which: Investments in own CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments	-
iv	of which: Capital investment in a connected company which is a commercial entity	-
v	of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-
vi	of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-
60	<b>Total risk weighted assets</b>	<b>2,872,838</b>
<b>Capital ratios (as a percentage of risk weighted assets)</b>		
61	CET1 capital ratio	17.61%
62	Tier 1 capital ratio	17.61%
63	Total capital ratio	17.61%
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3A, or s.3B, as the case requires, of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	7.00%
65	of which: capital conservation buffer requirement	1.25%
66	of which: bank specific countercyclical buffer requirement	1.25%
67	of which: G-SIB or D-SIB buffer requirement	0.00%
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3A, or s.3B, as the case requires, of the BCR	10.61%
<b>National minima (if different from Basel 3 minimum)</b>		
69	National CET1 minimum ratio	Not applicable
70	National Tier 1 minimum ratio	Not applicable
71	National Total capital minimum ratio	Not applicable
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	91,701
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	15
74	Mortgage servicing rights (net of related tax liability)	Not applicable
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable



Regulatory Disclosure Statements (continued)

Part III : Capital and other disclosures

Transition Disclosures Template

Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardized (credit risk) approach (prior to application of cap)	3,203,894
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	2,732,777
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	-
Capital instruments subject to phase-out arrangements		
80	Current cap on CET1 capital instruments subject to phase out arrangements	Not applicable
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	Not applicable
82	Current cap on AT1 capital instruments subject to phase out arrangements	-
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on Tier 2 capital instruments subject to phase out arrangements	2,343,140
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	(3,126,050)

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

Notes to the template:

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

Row No.	Description	Hong Kong basis	Basel III basis
	<b>Other intangible assets (net of associated deferred tax liability)</b>	-	-
9	<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>		
	<b>Deferred tax assets net of deferred tax liabilities</b>	661	-
10	<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 that rely on future profitability of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III.</p> <p>The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.</p>		
	<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>	-	-
18	<p><u>Explanation</u></p> <p>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 Monetary Authority 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.</p> <p>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>		

**Regulatory Disclosure Statements** *(continued)*

**Part III : Capital and other disclosures**

**Transition Disclosures Template**

	<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>	-	-
19	<p><u>Explanation</u></p> <p>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 Monetary Authority 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.</p> <p>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>		
39	<p><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> <p><u>Explanation</u></p> <p>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	<p><b>Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation</b></p> <p><u>Explanation</u></p> <p>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:</p> <p>The amount of the 10% / 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the Banking (Capital) Rules.</p>			

**Abbreviations:**

CET1: Common Equity Tier 1

AT1: Additional Tier 1

**Regulatory Disclosure Statements** *(continued)*

**Part III : Capital and other disclosures**

**Illustration for the Balance Sheet Reconciliation**

	At 31 December 2017		
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross reference to Definition of Capital Components
	HK\$'000	HK\$'000	
<b>Assets</b>			
Cash and balances with banks, central banks and other financial institutions	22,621	22,621	
Placements with and advances to banks, central banks and other financial institutions	33,000	33,000	
Loans and advances to customers and other accounts	6,084,447	6,084,447	
<i>of which : collective impairment allowances reflected in regulatory capital</i>	-	3	(1)
Property and equipment	274	274	
Tax Recoverable	3,930	3,930	
Deferred tax assets	661	661	(2)
<b>Total Assets</b>	<b>6,144,933</b>	<b>6,144,933</b>	
<b>Liabilities</b>			
Deposits and balances of banks and other financial institutions	5,630,000	5,630,000	
Other liabilities	8,507	8,507	
Current taxation	-	-	
<b>Total Liabilities</b>	<b>5,638,507</b>	<b>5,638,507</b>	
<b>Equity</b>			
Total equity attributable to equity shareholders of the Bank	506,426	506,426	
of which: Paid-in share capital	200,000	200,000	(3)
Retained earnings	306,426	306,426	(4)
<b>Total Equity and Liabilities</b>	<b>6,144,933</b>	<b>6,144,933</b>	

Regulatory Disclosure Statements (continued)

Part III : Capital and other disclosures

Detailed reconciliation of balance sheets to transition disclosures template

		At 31 December 2017		
		Component of regulatory capital	Amounts subject to pre-Basel III treatment*	Cross reference to Regulatory Scope of Consolidation
		HKS'000	HKS'000	
<b>CET1 capital: instruments and reserves</b>				
1	Directly issued qualifying CET1 capital instruments plus any related share premium	200,000		(3)
2	Retained earnings	306,426		(4)
3	Disclosed reserves	0		
4	Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	Not applicable		
	Public sector capital injections grandfathered until 1 January 2018	Not applicable		
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	0		
6	<b>CET1 capital before regulatory deductions</b>	506,426		
<b>CET1 capital: regulatory deductions</b>				
7	Valuation adjustments	0		
8	Goodwill (net of associated deferred tax liability)	0		
9	Other intangible assets (net of associated deferred tax liability)	0	0	
10	Deferred tax assets net of deferred tax liabilities	661		(2)
11	Cash flow hedge reserve	0		
12	Excess of total EL amount over total eligible provisions under the IRB approach	0	0	
13	Gain-on-sale arising from securitization transactions	0		
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	0	0	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	0	0	
17	Reciprocal cross-holdings in CET1 capital instruments	0	0	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	0	
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	0	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable		
22	Amount exceeding the 15% threshold	Not applicable		
23	of which: significant investments in the common stock of financial sector entities	Not applicable		
24	of which: mortgage servicing rights	Not applicable		
25	of which: deferred tax assets arising from temporary differences	Not applicable		
26	National specific regulatory adjustments applied to CET1 capital	0		
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	0		
26b	Regulatory reserve for general banking risks	0		
26c	Securitization exposures specified in a notice given by the Monetary Authority	0		
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	0		
26e	Capital shortfall of regulated non-bank subsidiaries	0	0	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0	0	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	0		
28	<b>Total regulatory deductions to CET1 capital</b>	661		
29	<b>CET1 capital</b>	505,765		
<b>AT1 capital: instruments</b>				
30	Qualifying AT1 capital instruments plus any related share premium	0		
31	of which: classified as equity under applicable accounting standards	0		
32	of which: classified as liabilities under applicable accounting standards	0		
33	Capital instruments subject to phase out arrangements from AT1 capital	0		
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	0		
35	of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements	0		
36	<b>AT1 capital before regulatory deductions</b>	0		

Abbreviations:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

**Regulatory Disclosure Statements** *(continued)*

**Part III : Capital and other disclosures**

**Detailed reconciliation of balance sheets to transition disclosures template**

		At 31 December 2017		
		Component of regulatory capital	Amounts subject to pre-Basel III treatment*	Cross reference to Regulatory Scope of Consolidation
		HKS'000	HKS'000	
<b>AT1 capital: regulatory deductions</b>				
37	Investments in own AT1 capital instruments	-	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	-	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	-	
41	National specific regulatory adjustments applied to AT1 capital	-		
41a	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 1 capital	-		
	i of which: Excess of total EL amount over total eligible provisions under the IRB approach	-		
	ii of which: Capital shortfall of regulated non-bank subsidiaries	-		
	iii of which: Investments in own CET1 capital instruments	-		
	iv of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	-		
	v of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-		
	vi of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
	vii of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
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 (Tier 1 = CET1 + AT1)</b>	505,765		

**Abbreviations:**

CET1: Common Equity Tier 1

AT1: Additional Tier 1

Regulatory Disclosure Statements (continued)

Part III : Capital and other disclosures

Detailed reconciliation of balance sheets to transition disclosures template

		At 31 December 2017		
		Component of regulatory capital	Amounts subject to pre-Basel III treatment*	Cross reference to Regulatory Scope of Consolidation
		HK\$'000	HK\$'000	
<b>Tier 2 capital: instruments and provisions</b>				
46	Qualifying Tier 2 capital instruments plus any related share premium	-		
47	Capital instruments subject to phase out arrangements from Tier 2 capital	-		
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	of which: capital instruments issued by subsidiaries subject to phase out arrangements	-		
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	3		(1)
51	<b>Tier 2 capital before regulatory deductions</b>	3		
<b>Tier 2 capital: regulatory deductions</b>				
52	Investments in own Tier 2 capital instruments	-	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	-	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-		
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-		
56b	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital	-		
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	-		
ii	of which: Capital shortfall of regulated non-bank subsidiaries	-		
iii	of which: Investments in own CET1 capital instruments	-		
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	-		
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-		
vi	of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
vii	of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
57	<b>Total regulatory deductions to Tier 2 capital</b>	-		
58	<b>Tier 2 capital</b>	3		
59	<b>Total capital (Total capital = Tier 1 + Tier 2)</b>	505,768		

**Abbreviations:**

CET1: Common Equity Tier 1

AT1: Additional Tier 1

## Regulatory Disclosure Statements (continued)

### Part III : Capital and other disclosures

#### Main Features Template

		Share Capital
(1)	Issuer	HKCB Finance Limited
(2)	Unique identifier	N/A
(3)	Governing law(s) of the instrument	Hong Kong laws
<i>Regulatory treatment</i>		
(4)	- Transitional Basel III rules (#)	N/A
(5)	- Post-transitional Basel III rules (+)	Common Equity Tier 1
(6)	- Eligible at solo(*)/ group/ group and solo	Solo
(7)	-Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
(8)	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK\$200 million
(9)	Par value of instrument	N/A
(10)	Accounting classification	Shareholders' equity
(11)	Original date of issuance	26/6/1979 (Date of incorporation)
(12)	Perpetual or dated	Perpetual
(13)	- Original maturity date	No maturity
(14)	Issuer call subject to prior supervisory approval	No
(15)	- Optional call date, contingent call dates and redemption amount	N/A
(16)	- Subsequent call dates, if applicable	N/A
<i>Coupons/ dividends</i>		
(17)	- Fixed or floating dividend/ coupon	N/A
(18)	- Coupon rate and any related index	N/A
(19)	- Existence of a dividend stopper	No
(20)	- Fully discretionary, partially discretionary or mandatory	Fully discretionary
(21)	- Existence of step up or other incentive to redeem	No
(22)	- Non-cumulative or cumulative	Non-cumulative
(23)	<i>Convertible or non-convertible</i>	Non-convertible
(24)	- If convertible, conversion trigger(s)	N/A
(25)	- If convertible, fully or partially	N/A
(26)	- If convertible, conversion rates	N/A
(27)	- If convertible, mandatory or optional conversion	N/A
(28)	- If convertible, specify instrument type convertible into	N/A
(29)	- If convertible, specify issuer of instrument if converts into	N/A
(30)	Write-down feature	No
(31)	- If write-down, write-down trigger(s)	N/A
(32)	- If write-down, full or partial	N/A
(33)	- If write-down, permanent or temporary	N/A
(34)	- If temporary write-down, description of write-up mechanism	N/A
(35)	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
(36)	Non-compliant transitioned features	No
(37)	If yes, specify non-compliant features	N/A

#### Footnotes:

- # Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules
- + Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules
- \* Include solo-consolidated

## Regulatory Disclosure Statements *(continued)*

### Part III : Capital and other disclosures

#### 1 Capital Adequacy Ratios

The capital adequacy ratios as at 31 December 2017 was compiled in accordance with the Banking (Capital) Rules issued by the HKMA.

		At 31 December 2017
		HK\$'000
<b>Capital</b>		
	Common Equity Tier 1 ("CET1") capital	505,765
	Tier 1 capital	505,765
	Total capital	505,768
<b>Total RWAs</b>		2,872,838
<b>Capital Adequacy Ratios</b>		
	CET1 capital ratio	17.6%
	Tier 1 capital ratio	17.6%
	Total capital ratio	17.6%

#### 2 Leverage Ratio

The leverage ratio as at 31 December 2017 was compiled in accordance with the leverage ratio standard template issued by the HKMA.

		At 31 December 2017
		HK\$'000
<b>Capital and Total exposures</b>		
	Tier 1 capital	505,765
	Total exposures	6,144,275
<b>Leverage Ratio</b>		8.2%



**Regulatory Disclosure Statements** *(continued)*

**Part III : Captial and other disclosures**

**Leverage Ratio**

**Summary comparison table**

		<b>Leverage ratio framework 31 December 2017</b>
	<b>Item</b>	
		<b>HK\$'000</b>
1	Total consolidated assets as per published financial statements	6,144,936
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
7	Other adjustments	(661)
8	<b>Leverage ratio exposure</b>	<b>6,144,275</b>

## Part III : Capital and other disclosures

## Leverage Ratio

## Leverage Ratio Common Disclosure Template

	Item	Leverage ratio framework 31 December 2017 HK\$'000
	<b>On-balance sheet exposures</b>	
1	On-balance sheet items (excluding derivatives and securities financing transactions ("SFTs"), but including	6,144,936
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(661)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	6,144,275
	<b>Derivative exposures</b>	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for potential future exposure ("PFE") associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	-
8	Less: Exempted central counterparty ("CCP") leg of client-cleared trade exposures (reported as negative amounts)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative	-
11	Total derivative exposures (sum of lines 4 to 10)	-
	<b>Securities financing transaction exposures</b>	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	-
14	Counterparty credit risk ("CCR") exposure for SFT assets	-
15	Agent transactions exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
	<b>Other off-balance sheet exposures</b>	
17	Off-balance sheet exposure at gross notional amount	-
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	-
19	Off-balance sheet items (sum of lines 17 and 18)	-
	<b>Capital and total exposures</b>	
20	Tier 1 capital	505,765
21	Total exposures (sum of lines 3, 11, 16 and 19)	6,144,275
	<b>Leverage ratio</b>	
22	<b>Basel III leverage ratio</b>	<b>8.2%</b>

Regulatory Disclosure Statements (continued)

Part III : Captial and other disclosures

Countercyclical Capital Buffer (CCyB) Ratio

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

		At 31 December 2017			
		a	b	c	d
	Jurisdiction (J)	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio	CCyB ratio	CCyB amount
		(%)	(Amount) in HKD'000		
1	China	0.0000%	791		
2	Hong Kong SAR	1.2500%	2,664,547		
	Total		2,665,338	1.2496%	33,307

## **Regulatory Disclosure Statements** *(continued)*

### **Part IV : Credit risk for non-securitisation exposures**

#### **CRA: General information about credit risk**

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending and other activities undertaken by the Company.

Specific credit policies are formulated, implemented and maintained at company level. The credit risk management function of the Company is centralised and is overseen by the Credit & Risk Management Committee appointed by China CITIC Bank International Limited (“the immediate parent”)’s Board of Directors (the “Committee”). The Committee defines and delegates the approval authority to various credit-related functional committees in respect of the approval of credit applications, policy exceptions, loan classifications, specific provisions, management of criticised credits and the control of interbank counterparty risks. The Committee comprises mainly the Chief Executive Officer, Chief Risk Officer and other members of senior management of the immediate parent.

The Company maintains robust management information and reporting systems to identify, measure, monitor and mitigate all relevant quantifiable and material risks and to provide our management with timely and accurate reports on our risk exposure, including provisions, total exposures and RWAs, as well as early alert accounts.

**Regulatory Disclosure Statements** *(continued)*

**Part IV : Credit risk for non-securitisation exposures**

**CR1: Credit quality of exposures**

	(a)	(b)	(c)	(d)
	<b>Gross carrying amounts of</b>		<b>Allowances / impairments</b>	<b>Net values</b>
	<b>Defaulted exposures</b>	<b>Non-defaulted exposures</b>		
<b>At 31 December 2017</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
1 Loans	-	6,072,730	(3)	6,072,727
2 Debt securities	-	-	-	-
3 Off-balance sheet exposures	-	-	-	-
4 <b>Total</b>	-	<b>6,072,730</b>	<b>(3)</b>	<b>6,072,727</b>

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

	(a)
	<b>Amount</b>
<b>At 31 December 2017</b>	<b>HK\$'000</b>
1 Defaulted loans and debt securities at end of the previous reporting period	-
2 Loans and debt securities that have defaulted since the last reporting period	-
3 Returned to non-defaulted status	-
4 Amounts written off	-
5 Other changes	-
6 <b>Defaulted loans and debt securities at end of the current reporting period</b>	<b>-</b>

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

Loans and advances past due up to 90 days and not otherwise classified as impaired are separately classified as “past due but not impaired”, irrespective of their credit rating. “Past due but not impaired” gross financial instruments are those loans where, although customers have failed to make payments in accordance with the contractual terms of their facilities, they do not exhibit any objective evidence of impairment. Impaired loans and advances are loans which exhibit objective evidence of impairment, and the borrower is either unlikely to pay their credit obligations in full without recourse to security, or is more than 90 days past due on any material credit obligation. Objective evidence for impairment is described in the accounting policy Note 2 of the Annual Report 2017. The accounting definition of past due and the regulatory definition of default are generally aligned.

Effective from 1st January 2018, the new Hong Kong Financial Reporting Standard 9 (“HKFRS 9”) shall replace the Hong Kong Accounting Standard (“HKAS 39”). HKFRS 9 introduces new accounting concepts and measures such as significant credit deterioration and lifetime loss measurement. HKFRS 9 also introduces expanded disclosure requirements and changes in presentation on credit risks and “expected credit losses” (“ECLs”).

HKFRS 9 replaces the ‘incurred loss’ model in HKAS 39 with a forward-looking ‘ECL’ model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The Group has an effective credit risk rating process in place which captures the varying level, nature and drivers of credit risk of all in-scope assets in order to reasonably ensure that the corresponding ECL are appropriately measured. ECL must be updated on a timely basis to reflect changes in credit risk quality for all in-scope assets. The models used in the ECL computation process shall be validated on at least an annual basis. Our approach for determining impairment allowances is set out in Note 3 Changes in Accounting Policies Section of the Annual Report 2017.

**Regulatory Disclosure Statements** *(continued)*

**Part IV : Credit risk for non-securitisation exposures**

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

**(a) Breakdown of exposures by geographical areas**

	31 December 2017
	HK\$'000
Hong Kong	6,072,730

**(b) Breakdown of exposures by industry**

	31 December 2017
	HK\$'000
Industrial, commercial and financial	
- Property investment	1,001,992
- Wholesale and retail trade	18
- Transport and transport equipment	1,014
- Others	1,599
Individuals	5,068,107
<b>Total</b>	<b>6,072,730</b>

**(c) Breakdown of exposures by residual maturity**

	31 December 2017
	HK\$'000
Less than 1 year	6,072,730

**(d) Impaired exposures, related allowances and write-offs by geographical areas**

	31 December 2017		
	Impaired exposures	Related allowances	Write-offs
	HK\$'000	HK\$'000	HK\$'000
Hong Kong	80	-	-

**Regulatory Disclosure Statements** *(continued)*

**Part IV : Credit risk for non-securitisation exposures**

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

**(e) Impaired exposures, related allowances and write-offs by industry**

	31 December 2017		
	Impaired exposures	Related allowances	Write-offs
	HK\$'000	HK\$'000	HK\$'000
Individuals	80	-	19,184

**(f) Aging analysis of accounting past due exposures**

		31 December 2017
		HK\$'000
Loans overdue for :		
-	6 months or less but over 3 months	-
-	1 year or less but over 6 months	-
-	over 1 year	-
	<b>Total</b>	-

**(g) Rescheduled loans**

		31 December 2017
		HK\$'000
1	Impaired exposures	-
2	Not impaired exposures	-
	<b>Total</b>	-

## Regulatory Disclosure Statements (continued)

### Part IV : Credit risk for non-securitisation exposures

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

The Company focuses on assessing the repayment ability of individual customers or counterparties rather than just solely relying on securities. Mitigation of credit risk is a key aspect of effective risk management to mitigate credit risk and takes many forms. The Company has guidelines on the acceptability of specific classes of collateral or credit risk enhancements accompanied by the determination of valuation parameters. Such parameters are expected to be conservative and reviewed regularly. Security structures and covenants (financial and non-financial) are subject to regular review to ensure they comply with the stipulated conditions.

The Company follows its immediate parent to guidelines and procedures to govern the credit risk mitigations including acceptability and management of collateral, valuation practices and valuer's competency. Collateral should be revalued on a regular basis, though the frequency may vary with the type of collateral involved and the nature and the internal credit rating of the underlying credit.

The most common form of mitigating credit risk is to take collateral. The principal collateral received to secure loans and advances includes mortgages, other registered securities over assets and guarantees. The creditworthiness of guarantee providers is thoroughly assessed and ideally independent of the financial position of the borrower.

#### CR3: Overview of recognized credit risk mitigation

	(a)	(b1)	(b)	(d)	(f)
	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
At 31 December 2017	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1 Loans	6,072,727	-	-	-	-
2 Total	6,072,727	-	-	-	-
3 Of which defaulted	-	-	-	-	-

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

The Company follows the immediate parent to adopt a new and more granular 24-grade internal risk rating system (Grades G1-G21 for performing loans and Grades G22-G24 for non-performing loans) that maps to ECAIs' master scales (including), providing calibrated internal

The Company also adopts standardized approach for credit risk. The risk weights are assigned to exposures according to Banking Capital Rule. When calculating risk weighted-amount, risk systems look up the available issue and issuer ratings to derive relevant risk weights.



## Part IV : Credit risk for non-securitisation exposures

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

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	
		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	%
	Exposure classes						
1	Sovereign exposures	-	-	-	-	-	0%
2	PSE exposures	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	55,621	-	55,621	-	11,124	20%
5	Securities firm exposures	-	-	-	-	-	-
6	Corporate exposures	411,537	-	411,537	-	411,537	100%
7	CIS exposures	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-
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	462,413	-	462,413	-	346,810	75%
11	Residential mortgage loans	5,130,079	-	5,130,079	-	1,829,559	36%
12	Other exposures which are not past due exposures	80,695	-	80,695	-	80,695	100%
13	Past due exposures	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	<b>Total</b>	<b>6,140,345</b>	<b>-</b>	<b>6,140,345</b>	<b>-</b>	<b>2,679,725</b>	<b>44%</b>

## Part IV : Credit risk for non-securitisation exposures

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

At 31 December 2017		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
Exposure class	Risk Weight	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	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	55,621	-	-	-	-	-	-	-	55,621
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	411,537	-	-	-	411,537
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	462,413	-	-	-	-	462,413
11	Residential mortgage loans	-	-	-	5,076,284	-	3,741	50,054	-	-	-	5,130,079
12	Other exposures which are not past due exposures	-	-	-	-	-	-	80,695	-	-	-	80,695
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	Total	-	-	55,621	5,076,284	-	466,154	542,286	-	-	-	6,140,345

**Regulatory Disclosure Statements** *(continued)*

**Part V : Counterparty credit risk**

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

The Company has no counterparty default risk exposures by asset classes and by risk weights under STC approach as at 31 December 2017.

**Market risk**

The Company has followed the immediate parent to establish market risk policies, including limits, reporting lines and control procedures, which are reviewed regularly by management and monitored by the Asset and Liability Committee (“ALCO”) of the immediate parent. The Company does not expect there is any significant market risk exposure as the major assets and liabilities are denominated in Hong Kong dollars, and the interest rate risk is controlled by monitoring on the maturities of these assets and liabilities.