



Habib Bank Zurich (Hong Kong) Limited

Regulatory Disclosures

31 December 2018

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Policies and Procedures

The Bank has established policies and procedures to identify and analyse key risks facing the Bank, to set appropriate risk limits and to devise controls, and to monitor such risks and limits continually by means of reliable and up-to-date management and information systems. The Bank continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes.

Board level committees

The Board of Directors has established two board level committees, namely the Board Risk and Credit Committee and the Board Audit and Compliance Committee.

The Board Risk and Credit Committee is responsible for, among other things, the Bank's risk profile, risk appetite and tolerance, effectiveness of the risk management framework and systems of internal control. The Committee comprises of two independent non-executive directors, two non-executive directors and one executive director.

The main purpose of the Board Audit and Compliance Committee is to represent and assist the Board of Directors in providing independent review and monitoring of the financial reporting process, internal control system, the internal and external audit process and compliance with regulatory requirements. The Committee is chaired by an independent non-executive director and comprises a further independent non-executive director and a non-executive director.

Specialized management committees

The Board of Directors has also established several specialized management committees and working groups, namely the Executive Committee, Risk and Credit Committee, Audit and Compliance Committee, Asset and Liability Committee, Operations and Technology Working Group and Human Resources Working Group.

The Executive Committee addresses issues of management, structure, organization, communication and implementation of current and future strategy. The Committee reviews the development and implementation of the strategy, operating and financial

Table OVA: Overview of risk management

performance, prioritization and allocation of resources, assessment of control risk and operational plans. The Committee comprises the Chief Executive, Alternate Chief Executives, Head of Risk, Chief Financial Officer, Head of Compliance and other executives.

The Risk and Credit Committee is entrusted with the task of putting in place systems and procedures that address the prevention of risks emerging or likely to emerge. The Committee identifies all quantifiable and material risk factors and evaluates the adequacy of organisational policies and procedures to manage the risks effectively. The Committee is responsible for monitoring and reviewing regulatory compliance within the institution. The Committee is responsible for building and maintaining an infrastructure that promotes growth of a quality loan portfolio and minimises losses within the constraints of established policies and relevant regulations. The Committee approves credit limits up to a defined threshold. It also determines and maintains adequate loan loss allowances. The Committee comprises the Chief Executive, Head of Risk, Chief Operating Officer, Chief Financial Officer, Head of Credit Risk and other executives.

The purpose of the Audit and Compliance Committee is to review and resolve audit issues and have oversight and ensure compliance with legal and regulatory requirements. The Audit and Compliance Committee consists of the Chief Executive, Alternate Chief Executives, Head of Compliance, Head of Risk and Chief Financial Officer.

The Asset and Liability Committee's principal responsibility is to maintain an effective risk control framework relating to balance sheet structure, liquidity and capital management and market risks while achieving an optimal return. The Committee recommends policy directives to the Board of Directors and provides analytical services relating to funding and investment strategies. The Committee comprises the Chief Executive, Alternate Chief Executives, Head of Risk, Chief Financial Officer and other executives.

The Operations and Technology Working Group is responsible for operational risk and technology related matters such as authorization of system changes, review of computer hardware/software security and performance, overview of data integrity of transactions and information. The committee comprises the Chief Executive, Alternate Chief Executives, Head of IT, Head of Risk, Chief Financial Officer, Head of Compliance and other executives.

Table OVA: Overview of risk management

The Human Resources Working Group is responsible for overseeing various staff management issues like capacity planning practices, succession planning, reviewing compensation and reward policies, performance management schemes, framework for staff promotion and grading, and staff training and development plan. The committee comprises the Chief Executive, Alternate Chief Executives, Head of Human Resources and other executives.

Credit risk management

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from lending, trade finance, derivatives and other activities.

The Bank has policies and procedures in place to ensure that credit risk is properly addressed and managed at the transaction and portfolio levels. The Board of Directors formulates and updates the credit policies. The Bank's credit policies define credit extension criteria, credit sanctions, review and monitoring mechanisms, and the loan classification and provisioning policy.

To avoid large financial risk, the exposure to a single borrower or group of related borrowers is limited to a percentage of the capital base. Country risk concentration is managed by setting up country exposure limits and emphasising wide geographical spread of export markets.

The Bank holds collateral against advances to customers in the form of mortgages over property and cash deposits. Collateral held as security for financial assets other than advances to customers is determined by the nature of the instrument.

To mitigate credit risk, the Bank enters into netting arrangements with counterparties. Netting arrangements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the balance sheet.

Market risk management

Market risk is the risk that movements in interest rates or foreign exchange rates will result in losses in on and off balance sheet positions.

The Bank's policy is to take no proprietary trading positions. The Bank does not engage in speculative trading activities, and hence it is not exposed to market risk arising from the trading book.

Currency risk management

Currency risk is the risk to earnings or capital emanating from the movement of foreign exchange rates. Foreign exchange exposures originate mainly from the trade finance business. The risk thereof is largely eliminated by consciously devising policies that expressly prohibit speculation in currencies and mandate that trade finance related currency transactions are covered simultaneously and aggregate net open positions are managed within limits. All exposures are monitored by the finance department on a daily basis and reviewed periodically by the Asset and Liability Management Committee.

The Bank does not trade in foreign currencies, nor takes any other exposures on account of its clients. The Bank's foreign currency transactions primarily relate to discounting of foreign currency export and import bills. The exchange positions arising from trade bills as well as customers' foreign currency deposit-related transactions are covered in the local market.

From time to time the Bank enters into foreign exchange forward transactions to mitigate currency risk.

As the majority of the Bank's assets and liabilities are denominated in either Hong Kong dollars ("HK\$") or United States dollars ("US\$") and the US\$ is pegged to the HK\$, management does not consider there to be any significant currency risk associated with them.

Interest rate risk management

The Bank's interest rate risk positions arise from trade finance, investments, lending and deposit taking activities. Interest rate risk primarily results from the timing difference in the repricing of interest-bearing assets and liabilities. It also relates to positions from non-interest bearing liabilities including shareholders' funds, as well as from certain fixed rate trade finance transactions and liabilities.

The Bank monitors interest rate movements by applying a weighting to assets and liabilities on the balance sheet. Management monitors the weighted average rates on deposits, lending, placements and investments to identify any mismatched exposures and alters the interest rate strategy accordingly. Interest bearing deposits from customers are for a fixed maturity mostly for a three month period and are generally utilised for a similar period. Surplus liquidity is placed in the interbank market and investments. A greater portion of the loans and trade advances is repriceable on a per-transaction basis. Hence the risk element is contained swiftly and the magnitude of the risk posed by interest rates movement is low.

Liquidity risk management

Liquidity relates to the ability of a Bank to meet its obligations as they fall due. Liquidity and funding risk is the risk that the Bank is unable to meet its payment obligations when due, or that it is unable, on an on-going basis, to borrow funds in the market on an unsecured, or even secured, basis at an acceptable price to fund actual or proposed commitments.

The Bank manages the liquidity structure of its assets, liabilities and commitments so as to ensure that liquidity sources match funding needs and that the statutory liquidity maintenance ratio is complied with.

The finance department reviews the current and prospective funding requirements for all operations through monitoring of the liquidity maintenance ratio and the maturity mismatch profile. Liquidity risk is managed by holding sufficient liquid assets (e.g. cash and short term funds) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. Customer deposits form a significant part of the Bank's overall funding and they have remained relatively diversified and

Table OVA: Overview of risk management

stable. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business. The Asset and Liability Management Committee measures the liquidity and adequacy of funds periodically and evaluates the overall risks and mitigation. The Committee also manages the funds and investments within the internal and regulatory framework.

Operational risk management

Operational risk is the risk of potential loss arising from inadequate or failure in internal processes, people and systems or from external events. It arises from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputational loss.

The Board of Directors and senior management are responsible for approving and reviewing the overall business strategies and the policies for each major area of operations. A Risk and Credit Management Committee is in place to manage operational risks.

The Bank recognises the importance of managing operational risk in a pro-active manner. Operational risk management tools and mechanisms adopted include operational risk incidents reporting, key risk indicators, operation manuals, accounting controls, business continuity planning, insurance policies etc.

The Bank attaches great importance to conducting its business in a safe and sound manner. Strict control is exercised at every level of operations. Additionally, an internal audit system plays an essential role in ensuring due adherence to policies, various internal and statutory limits, and regulatory requirements thus limiting operational risk.

Capital management

The Bank's primary objectives when managing capital are to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk being taken and by securing access to finance at a reasonable cost.

Table OVA: Overview of risk management

The Bank actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Compliance

Compliance is an integral part of the Bank's risk management function taking care of risks associated with regulatory non-compliance and financial crime risks. The Bank places high importance on the potential risks arising out of non-compliance including loss of reputation, supervisory actions or other regulatory measures including monetary penalties.

The compliance function in the Bank has been given the responsibility of supervising and mitigating compliance risk. Its mandate includes assimilation and dissemination of regulatory requirements relating to the business of the Bank, compliance advisory for implementation of relevant regulations and guidelines to various functions and conducting periodic self-assessments and other regulatory compliance reviews on a risk based approach. It also manages the framework and governance of anti-money laundering and counter-terrorist financing activities to be prevented by the Bank.

The compliance function is tasked to regularly report compliance matters to Senior Management. It also reports significant issues through the Risk and Compliance Committee to the Board of Directors.

General

In order to assess the Bank's exposures to different types of risk, information on risks is reported to Senior Management, Risk Committees and the Board of Directors periodically for their review. This includes information on asset quality, liquidity, capital adequacy etc. The information is discussed with regard to factors such as the Bank's risk profile and risk management strategies.

The Bank has established policies and procedure to define the risk tolerance limits and to identify, measure, monitor, and report on risk. These are reviewed and updated on an

Table OVA: Overview of risk management

on-going basis to cater for statutory updates and best practices in risk management processes. These policies and procedures are accessible by all staff on the Bank's internal electronic platform. For measuring and monitoring of risk, risk analysis is conducted using different concentration dimensions such as by credit rating, industry sector, country, currency etc. Risk limits and internal target ratios are set with reference to the risk appetite of the Bank. The Bank periodically performs stress-tests on the major risks such as credit risk and liquidity risk. Various stress testing methodologies and techniques including sensitivity and scenario analyses are performed to evaluate the potential impact under stressed situations.

Template OV1: Overview of RWA

(HK\$'000)

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		31-Dec-2018	30-Sep-2018	31-Dec-2018
1	Credit risk for non-securitization exposures	1,516,019	1,547,929	121,282
2	Of which STC approach			
2a	Of which BSC approach	1,516,019	1,547,929	121,282
3	Of which foundation IRB approach			
4	Of which supervisory slotting criteria approach			
5	Of which advanced IRB approach			
6	Counterparty default risk and default fund contributions	229	416	18
7	Of which SA-CCR*			
7a	Of which CEM	229	416	18
8	Of which IMM(CCR) approach			
9	Of which others			
10	CVA risk	0	0	0
11	Equity positions in banking book under the simple risk-weight method and internal models method			
12	Collective investment scheme ("CIS") exposures – LTA*			
13	CIS exposures – MBA*			
14	CIS exposures – FBA*			
14a	CIS exposures – combination of approaches*			
15	Settlement risk			
16	Securitization exposures in banking book			
17	Of which SEC-IRBA			
18	Of which SEC-ERBA			
19	Of which SEC-SA			
19a	Of which SEC-FBA			
20	Market risk			
21	Of which STM approach			
22	Of which IMM approach			
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*			
24	Operational risk	188,550	184,938	15,084
25	Amounts below the thresholds for deduction (subject to 250% RW)			
26	Capital floor adjustment			
26a	Deduction to RWA	20,065	26,698	1,605
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	13,881	20,514	1,110
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	6,184	6,184	495
27	Total	1,684,733	1,706,585	134,779

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

(HK\$'000)

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				not subject to capital requirements or subject to deduction from capital
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	
Assets							
Cash and balances with banks	207,081	207,151	207,151	-	-	-	-
Placements with banks	9,859	9,862	9,862	-	-	-	-
Investments	460,542	460,599	460,599	-	-	-	-
Trade Bills	594,597	599,194	599,194	-	-	-	-
Advances to customers	766,025	787,423	787,423	-	-	-	-
Tax paid in advance	2,114	2,114	2,114				
Deferred tax assets	3,133	3,133	-	-	-	-	3,133
Fixed assets	102,712	102,712	102,712	-	-	-	-
Other assets	22,400	671	671	-	-	-	-
Total assets	2,168,465	2,172,859	2,169,726	-	-	-	3,133
Liabilities							
Deposits and balances from banks	6,196	6,196	-	-	-	-	6,196
Deposits from customers	1,328,135	1,328,135	-	-	-	-	1,328,135
Other liabilities	280,317	280,317	-	-	-	-	280,317
Total liabilities	1,614,648	1,614,648	-	-	-	-	1,614,648

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

(HK\$'000)

		(a)	(b)	(c)	(d)	(e)
		Total	Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	2,169,726	2,169,726	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	2,169,726	2,169,726	-	-	-
4	Trade related contingencies	283,047	56,610	-	-	-
5	Commitments that are unconditionally cancellable without prior notice	1,419,814	-	-	-	-
6	Exposure amounts considered for regulatory purposes	3,872,587	2,226,336	-	-	-

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

Template LI1:

The main differences between carrying values as reported in the published financial statements and carrying values under scope of regulatory consolidation are due to collectively assessed impairment allowances and customer liabilities under acceptances.

Template LI2:

The main driver for the difference between accounting values and amounts considered for regulatory purposes is off-balance sheet amounts.

Fair value estimates:

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Fair values of financial instruments are determined with reference to valuation techniques based on observable input. This includes instruments valued using quoted prices for similar instruments in active markets or in markets that are considered less than active. Market prices used in the valuation process are obtained from external parties and are validated by an independent function within the Bank.

Table CRA: General information about credit risk

Credit Risk arises from the possibility that the counterparty in a transaction may default. It arises from lending, trade finance, derivatives and other activities.

The Bank has policies and procedures in place to ensure that credit risk is properly addressed and managed at the transaction and portfolio levels. The Board of Directors formulates and updates the credit policies. The Bank's credit policies define credit extension criteria, credit sanctions, review and monitoring mechanisms and the loan classification and provisioning policy. Risk, return and market situation are considered when setting all credit risk limits.

The Bank's credit risk strategy is defined as "To keep risks to a minimum through a clear policy of broad diversification in terms of geography and product mix, and by spreading the Bank's credit and trade financing activities over a wide range of customers, with the emphasis on secured, short term, self-liquidating lending." Concentration risk is addressed by limiting exposure to a single borrower or a group of related borrowers to a percentage of the Bank's Capital base. In addition, country risk concentration is managed by setting up country exposure limits and emphasizing wide geographical spread of export markets.

The Bank has an effective credit risk management oversight process involving the credit risk function, the Credit Committee, internal auditor and Board of Directors. The credit risk function appraises the senior management and Board of Directors of the credit risk exposure by means of periodic reports on portfolio health and credit quality. These reports, in turn enable effective and informed decision making by the senior management and Board of Directors. The Credit Committee monitors compliance with statutory and internal limits on credit exposures. The internal auditor carries out regular audits to ensure compliance with the stated policies.

Template CR1: Credit quality of exposures

(HK\$'000)

		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
1	Loans	838	1,385,737	25,996	1,360,579
2	Debt securities	-	460,654	111	460,543
3	Off-balance sheet exposures	1,731	281,316	78	282,969
4	Total	2,569	2,127,707	26,185	2,104,091

Template CR2: Changes in defaulted loans and debt securities

(HK\$'000)

		(a)
		Amount
1	Defaulted loans and debt securities at end of the previous reporting period	6,846
2	Loans and debt securities that have defaulted since the last reporting period	838
3	Returned to non-defaulted status	(6,846)
4	Amounts written off	-
5	Other changes	-
6	Defaulted loans and debt securities at end of the current reporting period	838

Table CRB: Additional disclosure related to credit quality of exposures

The Bank classifies the advances to customers and trade bills in accordance with the loan classification system required to be adopted for reporting to the HKMA and follows the “expected credit loss” (ECL) model for impairment. The credit quality of advances to customers and trade bills can be analysed by the net carrying amount as follows:

(HK\$'000)

	<i>2018</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Advances to customers				
Pass	\$ 642,480,014	\$ 35,426,775	\$ -	\$ 677,906,789
Special Mention	-	88,813,333		88,813,333
Substandard	-	-	19,837,923	19,837,923
Doubtful	-	-	865,274	865,274
Loss	-	-	-	-
Loss allowance	(2,599,143)	(13,085,222)	(5,713,832)	(21,398,197)
Carrying amount	<u>\$ 639,880,871</u>	<u>\$ 111,154,886</u>	<u>\$ 14,989,365</u>	<u>\$ 766,025,122</u>
	<i>2018</i>			
Trade bills	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Pass	\$ 563,933,588	\$ 5,189,590	\$ -	\$ 569,123,178
Special Mention	-	17,378,082	-	17,378,082
Substandard	-	-	12,692,485	12,692,485
Doubtful	-	-	-	-
Loss	-	-	-	-
Loss allowance	(570,622)	(326,718)	(3,699,590)	(4,596,930)
Carrying amount	<u>\$ 563,362,966</u>	<u>\$ 22,240,954</u>	<u>\$ 8,992,895</u>	<u>\$ 594,596,815</u>

Table CRB: Additional disclosure related to credit quality of exposures

The ageing analysis of gross amount of advances to customers and trade bills is as follows:

	<i>2018</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Advances to customers				
Current	\$ 610,875,198	\$ 99,643,556	\$ 13,012,568	\$ 723,531,322
Overdue < 30 days	31,604,816	13,162,102	3,147,368	47,914,286
Overdue > 30 days	-	11,434,450	4,543,261	15,977,711
Total	<u>\$ 642,480,014</u>	<u>\$ 124,240,108</u>	<u>\$ 20,703,197</u>	<u>\$ 787,423,319</u>

	<i>2018</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Trade bills				
Current	\$ 530,777,520	\$ 21,668,384	\$ 4,846,863	\$ 557,292,767
Overdue < 30 days	33,156,068	650,264	3,557,729	37,364,061
Overdue > 30 days	-	249,024	4,287,893	4,536,917
Total	<u>\$ 563,933,588</u>	<u>\$ 22,567,672</u>	<u>\$ 12,692,485</u>	<u>\$ 599,193,745</u>

All impaired advances to customers and trade bills at 31 December 2018 are located in Hong Kong.

The Bank has policies and procedures for loan classification and provisioning. The ECL model requires an ongoing measurement of credit risk associated with a financial asset.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1 financial instruments".

Table CRB: Additional disclosure related to credit quality of exposures

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments".

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, are credit-impaired (referred to as "Stage 3 financial instruments"). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not

Table CRB: Additional disclosure related to credit quality of exposures

receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Table CRC: Qualitative disclosures related to credit risk mitigation

The Board of Directors formulates and updates the policies and processes governing credit risk mitigation. The Bank holds collateral against advances to customers in the form of mortgages over property and cash deposits. Collateral held as security for financial assets other than advances to customers is determined by the nature of the instrument.

To mitigate credit risk, the Bank enters into netting arrangements with counterparties. Netting arrangements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the balance sheet.

The Bank endeavours to maintain the effectiveness of the above said credit risk mitigants by way of periodic revaluation of the collaterals and close monitoring.

Template CR3: Overview of recognized credit risk mitigation

(HK\$'000)

		(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
1	Loans	204,343	1,156,236	936,166	-	-
2	Debt securities	460,654	-	-	-	-
3	Total	664,997	1,156,236	936,166	-	-
4	Of which defaulted	838	-	-	-	-

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

(HK\$'000)

Version for AIs using BSC approach ("BSC version")

	Exposure classes	(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
1	Sovereign exposures	9,842	-	9,842	-	1,968	20%
2	PSE exposures	-	-	-	-	-	N/A
3	Multilateral development bank exposures	-	-	-	-	-	N/A
4	Bank exposures	658,198	12,993	658,198	2,599	138,415	21%
5	Cash items	169,539	-	169,539	-	-	0%
6	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	N/A
7	Residential mortgage loans	-	-	-	-	-	N/A
8	Other exposures	1,332,147	1,689,868	1,332,147	54,011	1,375,865	99%
9	Significant exposures to commercial entities	-	-	-	-	-	N/A
10	Total	2,169,726	1,702,861	2,169,726	56,610	1,516,248	68%

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

(HK\$'000)

Version for AIs using BSC approach ("BSC version")

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Risk Weight	0%	10%	20%	35%	50%	100%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
Exposure class										
1	Sovereign exposures	-	-	9,842	-	-	-	-	-	9,842
2	PSE exposures	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	653,264	-	-	7,533	-	-	660,797
5	Cash items	169,539	-	-	-	-	-	-	-	169,539
6	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-
7	Residential mortgage loans	-	-	-	-	-	-	-	-	-
8	Other exposures	10,293	-	-	-	-	1,375,865	-	-	1,386,158
9	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-
10	Total	179,832	-	663,106	-	-	1,383,398	-	-	2,226,336

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

The Bank has adopted the Current Exposure Method for regulatory capital calculation of its counterparty credit risk arising from derivative contracts booked in the banking book. As a policy, the Bank does not engage in trading of derivatives. Furthermore, the Bank enters only into foreign exchange forward contracts of short tenors. Since the Bank mainly enters into USD / HKD FX forward transactions to cover its FX net open position, it is not significantly exposed to fluctuations in the market as the HKD is pegged to the USD. To minimize the counterparty risk, the Bank only deals with the prime banks or its own group Banks. Agreements with counterparties including the FX forward limits are approved by the senior management or the board of directors.

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

(HK\$'000)

		(a)	(b)	(c)	(d)	(e)	(f)
		Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR (for derivative contracts)	-	-		-	-	-
1a	CEM	-	1,144		-	1,144	229
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	Total						229

Template CCR2: CVA capital charge

		(a)	(b)
		EAD post CRM	RWA
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	0	0
1	(i) VaR (after application of multiplication factor if applicable)		0
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		0
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	0	0
4	Total	0	0

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

(HK\$'000)

Version for AIs using the BSC approach ("BSC version")

		(a)	(b)	(c)	(ca)	(d)	(f)	(ga)	(h)	(i)
	Risk Weight	0%	10%	20%	35%	50%	100%	250%	Others	Total default risk exposure after CRM
	Exposure class									
1	Sovereign exposures	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	1,144	-	-	-	-	-	1,144
5	CIS exposures	-	-	-	-	-	-	-	-	-
6	Other exposures	-	-	-	-	-	-	-	-	-
7	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-
8	Total	-	-	1,144	-	-	-	-	-	1,144

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

	(a)	(b)	(c)	(d)	(e)	(f)
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	-	-

Template CCR6: Credit-related derivatives contracts

	(a)	(b)
	Protection bought	Protection sold
Notional amounts		
Single-name credit default swaps	-	-
Index credit default swaps	-	-
Total return swaps	-	-
Credit-related options	-	-
Other credit-related derivative contracts	-	-
Total notional amounts	-	-
Fair values		
Positive fair value (asset)	-	-
Negative fair value (liability)	-	-

Template CCR8: Exposures to CCPs

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

Table SECA: Qualitative disclosures related to securitization exposures

The Bank does not engage in securitization activities.

Template KM1: Key prudential ratios

(HK\$'000)

		(a)	(b)	(c)	(d)	(e)
		31-Dec-2018	30-Sep-2018	30-Jun-2018	31-Mar-2018	31-Dec-2017
	Regulatory capital (amount)					
1	Common Equity Tier 1 (CET1)	523,440	510,661	512,591	506,999	523,396
2	Tier 1	523,440	510,661	512,591	506,999	523,396
3	Total capital	547,453	535,075	536,869	530,427	546,675
	RWA (amount)					
4	Total RWA	1,684,733	1,706,585	1,699,308	1,629,669	1,621,940
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	31.07%	29.92%	30.16%	31.11%	32.27%
6	Tier 1 ratio (%)	31.07%	29.92%	30.16%	31.11%	32.27%
7	Total capital ratio (%)	32.50%	31.35%	31.59%	32.55%	33.71%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	1.875%	1.875%	1.875%	1.875%	1.250%
9	Countercyclical capital buffer requirement (%)	1.639%	1.593%	1.589%	1.603%	1.063%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	N/A	N/A	N/A	N/A	N/A
11	Total AI-specific CET1 buffer requirements (%)	3.514%	3.468%	3.464%	3.478%	2.313%
12	CET1 available after meeting the AI's minimum capital requirements (%)	19.245%	18.104%	18.343%	19.298%	20.455%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	2,372,016	2,442,567	2,398,161	2,376,684	2,401,991
14	LR (%)	22.07%	20.91%	21.37%	21.33%	21.79%
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	N/A
16	Total net cash outflows	N/A	N/A	N/A	N/A	N/A
17	LCR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2 institution only:					
17a	LMR (%)	93.90%	82.15%	87.76%	79.89%	88.75%
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	N/A	N/A	N/A	N/A	N/A
19	Total required stable funding	N/A	N/A	N/A	N/A	N/A
20	NSFR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2A institution only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

Template CC1: Composition of regulatory capital

(HK\$'000)

		(a)	(b)
		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	300,000	(4)
2	Retained earnings	226,867	(9)
3	Disclosed reserves	26,950	(5)+(6)+(7)+(8)
4	<i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	Not applicable	
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	0	
6	CET1 capital before regulatory adjustments	553,817	
CET1 capital: regulatory deductions			
7	Valuation adjustments	0	
8	Goodwill (net of associated deferred tax liabilities)	0	
9	Other intangible assets (net of associated deferred tax liabilities)	0	
10	Deferred tax assets (net of associated deferred tax liabilities)	3,133	(3)
11	Cash flow hedge reserve	0	
12	Excess of total EL amount over total eligible provisions under the IRB approach	0	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	0	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	0	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	0	
17	Reciprocal cross-holdings in CET1 capital instruments	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	
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	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	

		(a)	(b)
		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
23	of which: significant investments in the ordinary share 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	27,244	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	11,244	(5)
26b	Regulatory reserve for general banking risks	16,000	(6)+(7)
26c	Securitization exposures specified in a notice given by the MA	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	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	0	
28	Total regulatory deductions to CET1 capital	30,377	
29	CET1 capital	523,440	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	<i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	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	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i>	0	
36	AT1 capital before regulatory deductions	0	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	0	
38	Reciprocal cross-holdings in AT1 capital instruments	0	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
41	National specific regulatory adjustments applied to AT1 capital	0	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	0	
43	Total regulatory deductions to AT1 capital	0	

		(a)	(b)
		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
44	AT1 capital	0	
45	Tier 1 capital (T1 = CET1 + AT1)	523,440	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	0	
47	<i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	0	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	0	
49	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	0	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	18,953	(1)+(2)+(7)
51	Tier 2 capital before regulatory deductions	18,953	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	0	
53	Reciprocal cross-holdings in Tier 2 capital instruments	0	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	
56	National specific regulatory adjustments applied to Tier 2 capital	(5,060)	
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	(5,060)	(5) x 45%
57	Total regulatory adjustments to Tier 2 capital	(5,060)	
58	Tier 2 capital (T2)	24,013	
59	Total regulatory capital (TC = T1 + T2)	547,453	
60	Total RWA	1,684,733	
	Capital ratios (as a percentage of RWA)		
61	CET1 capital ratio	31.07%	
62	Tier 1 capital ratio	31.07%	
63	Total capital ratio	32.50%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	3.514%	
65	of which: capital conservation buffer requirement	1.875%	
66	of which: bank specific countercyclical capital buffer requirement	1.639%	
67	of which: higher loss absorbency requirement	0.00%	

		(a)	(b)
		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	19.245%	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant capital investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	32,834	Sum of (A)+(6)+(7)
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	18,953	(1)+(2)+(7)
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	Not applicable	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	Not applicable	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	<i>Current cap on CET1 capital instruments subject to phase-out arrangements</i>	Not applicable	
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	Not applicable	
82	<i>Current cap on AT1 capital instruments subject to phase-out arrangements</i>	0	
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	0	
84	<i>Current cap on Tier 2 capital instruments subject to phase-out arrangements</i>	0	
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	0	

Template CC2: Reconciliation of regulatory capital to balance sheet

(HK\$'000)

	(a)	(b)	(c)
	Balance sheet as in published financial statements (as at 31-Dec-2018)	Under regulatory scope of consolidation (as at 31-Dec-2018)	Reference
Assets			
Cash and balances with banks	207,081	207,081	
Of which: stages 1 and 2 expected credit loss	(71)	(71)	(A)
Placements with banks	9,859	9,859	
Of which: stages 1 and 2 expected credit loss	(3)	(3)	(A)
Investments	460,543	460,543	
Of which: stages 1 and 2 expected credit loss	(111)	(111)	(A)
Trade bills	594,597	594,597	
Of which: stage 3 expected credit loss	(3,700)	(3,700)	
Of which: stages 1 and 2 expected credit loss	(897)	(897)	(A)
Of which: collective impairment allowances reflected in regulatory capital		(526)	(1)
Advances to customers	766,025	766,025	
Of which: stage 3 expected credit loss	(5,714)	(5,714)	
Of which: stages 1 and 2 expected credit loss	(15,684)	(15,684)	(A)
Of which: collective impairment allowances reflected in regulatory capital		(9,191)	(2)
Tax paid in advance	2,114	2,114	
Deferred tax assets	3,133	3,133	(3)
Fixed assets	102,713	102,713	
Other assets	22,400	22,400	
Of which: stages 1 and 2 expected credit loss	(34)	(34)	(A)
Total assets	2,168,465	2,168,465	
Liabilities			
Deposits and balance from banks	6,196	6,196	
Deposits from customers	1,328,135	1,328,135	
Other liabilities	280,317	280,317	
Of which: stage 3 expected credit loss	39	39	
Of which: stages 1 and 2 expected credit loss	34	34	(A)
Total liabilities	1,614,648	1,614,648	
Shareholders' equity			
Share capital	300,000	300,000	(4)
Reserves	253,817	253,817	
Of which: Property revaluation reserve		11,244	(5)
Of which: Regulatory reserve not eligible for inclusion in regulatory capital		6,764	(6)
Of which: Regulatory reserve reflected in regulatory capital		9,236	(7)
Of which: Fair value reserve		(294)	(8)
Of which: Retained profits		226,867	(9)
Total shareholders' equity	553,817	553,817	
Total equity and liabilities	2,168,465	2,168,465	

Table CCA: Main features of regulatory capital instruments

		(a)
		Quantitative / qualitative information
1	Issuer	Habib Bank Zurich (Hong Kong) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	LEI: 54930066NPX3B5OSR148
3	Governing law(s) of the instrument	Hong Kong
<i>Regulatory treatment</i>		
4	Transitional Basel III rules	NA
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo / group / solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HK\$300
9	Par value of instrument	NA
10	Accounting classification	Shareholders' equity
11	Original date of issuance	22 May 1979
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	NA
16	Subsequent call dates, if applicable	NA
<i>Coupons / dividends</i>		
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

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

(HK\$'000)

		(a)	(c)	(d)	(e)
	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect (%)	RWA used in computation of CCyB ratio	AI-specific CCyB ratio (%)	CCyB amount
1	Hong Kong SAR	1.875%	921,930		
2	Mainland China	0.000%	45,306		
3	British Virgin Islands	0.000%	66		
4	India	0.000%	8,156		
5	Japan	0.000%	5,979		
6	Malaysia	0.000%	8,040		
7	Seychelles	0.000%	25,964		
8	Singapore	0.000%	6,033		
9	South Korea	0.000%	23,544		
10	United Arab Emirates	0.000%	9,631		
11	Total		1,054,649	1.639%	17,286

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

		(a)
	Item	Value under the LR framework (HK\$'000 equivalent)
1	Total consolidated assets as per published financial statements	2,168,465
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4	Adjustments for derivative contracts	1,144
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	198,590
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	-
7	Other adjustments	3,817
8	Leverage ratio exposure measure	2,372,016

Template LR2: Leverage ratio ("LR")

		(a)	(b)
		HK\$'000 equivalent	
		31-Dec-2018	30-Sep-2018
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	2,175,415	2,239,771
2	Less: Asset amounts deducted in determining Tier 1 capital	(3,133)	(4,005)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	2,172,282	2,235,766
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	48	363
5	Add-on amounts for PFE associated with all derivative contracts	1,096	1,718
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	Total exposures arising from derivative contracts	1,144	2,081
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	1,702,861	1,777,846
18	Less: Adjustments for conversion to credit equivalent amounts	(1,504,271)	(1,573,126)
19	Off-balance sheet items	198,590	204,720
Capital and total exposures			
20	Tier 1 capital	523,440	510,661
20a	Total exposures before adjustments for specific and collective provisions	2,372,016	2,442,567
20b	Adjustments for specific and collective provisions	-	-
21	Total exposures after adjustments for specific and collective provisions	2,372,016	2,442,567
Leverage ratio			
22	Leverage ratio	22.07%	20.91%

Table LIQA: Liquidity risk management

Liquidity relates to the ability of a Bank to meet its obligations as they fall due. Liquidity and funding risk is the risk that the Bank is unable to meet its payment obligations when due, or that it is unable, on an on-going basis, to borrow funds in the market on an unsecured, or even secured, basis at an acceptable price to fund actual or proposed commitments.

The Bank manages the liquidity structure of its assets, liabilities and commitments so as to ensure that liquidity sources match funding needs and that the statutory liquidity maintenance ratio is complied with.

The finance department reviews the current and prospective funding requirements for all operations through monitoring of the liquidity maintenance ratio and the maturity mismatch profile. Liquidity risk is managed by holding sufficient liquid assets (e.g. cash and short term funds) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. Customer deposits form a significant part of the Bank's overall funding and they have remained relatively diversified and stable. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business. The Asset and Liability Management Committee measures the liquidity and adequacy of funds periodically and evaluates the overall risks and mitigation. The Committee also manages the funds and investments within the internal and regulatory framework.

The Bank's average liquidity maintenance ratio in 2018 of 85.29% (2017: 90.28%) was well above the statutory minimum ratio of 25%. Liquidity maintenance ratio compares short-term obligations with the short-term resources available to meet these obligations. This ratio is calculated in accordance with the provisions of the Banking (Liquidity) Rules.

The liquidity risk tolerance is defined in terms of a target liquidity maintenance ratio. To maintain a sufficient buffer to prevent any breach of the minimum liquidity maintenance ratio, a target liquidity maintenance ratio of 37.5% (50% over the statutory ratio) is always maintained.

The following maturity profile is based on the remaining period at the end of reporting period to the contractual maturity date.

Table LIQA: Liquidity risk management

		2018													
				Over	Over	Over									
				1 month	3 months	1 year									
		Repayable	Within	but within	but within	but within	Over								
		on demand	1 month	3 months	1 year	5 years	5 years	Indefinite							
Total															
<i>In thousands of HKD equivalents</i>															
Assets															
Cash and balances with															
banks	\$	207,081	\$	207,081	\$	-	\$	-	\$	-	\$	-	\$	-	
Placements with banks		9,859		-		3,241		6,618		-		-		-	
Investments		460,543		-		15,668		18,810		152,672		273,393		-	
Trade bills		594,597		50,726		167,349		295,512		81,010		-		-	
Advances to customers		766,025		62,353		144,494		330,282		89,924		138,972		-	
Tax paid in advance		2,114		-		-		-		-		-		2,114	
Deferred tax assets		3,133		-		-		-		-		-		3,133	
Fixed assets		102,713		-		-		-		-		-		102,713	
Other assets		22,400		2,315		15,130		4,955		-		-		-	
Total assets		\$ 2,168,465		\$ 322,475		\$ 345,882		\$ 656,177		\$ 323,606		\$ 412,365		\$ -	\$ 107,960
Liabilities															
Deposits and balances															
of banks	\$	6,196	\$	6,196	\$	-	\$	-	\$	-	\$	-	\$	-	
Deposits from customers		1,328,135		5,555		425,369		445,036		437,725		14,450		-	
Current taxation		-		-		-		-		-		-		-	
Other liabilities		280,317		263,387		11,972		4,958		-		-		-	
Total liabilities		\$ 1,614,648		\$ 275,138		\$ 437,341		\$ 449,994		\$ 437,725		\$ 14,450		\$ -	\$ -
Net liability gap		\$ 553,817		\$ 47,337		\$ (91,459)		\$ 206,183		\$ (114,119)		\$ 397,915		\$ -	\$ 107,960

Table LIQA: Liquidity risk management

The prime objective of designing a funding strategy is to ensure diversification of asset and funding sources. The Bank's core business activity is to provide trade finance services which are of a short term nature. These are funded by deposits which are generally for a 3 month period. As a result, there is a minimal maturity mismatch. Interbank borrowings are not considered as an alternative to deposits in funding assets. A material portion of the Bank's funding sources is from corporate and retail market in the form of time deposits (excluding under lien), time deposits under lien and amounts kept in margin accounts against trade facilities. The Bank also has credit facilities from financial institutions. Another source of funding available is to rediscount trade bills with other banks (either local or abroad). The Bank continually evaluates the possibility of obtaining overdraft facilities and other borrowing lines (unsecured) from financial institutions which can be utilized during unforeseen situations. Due to various funding sources available, especially the retail market, this does not lead to high concentration of funding.

The Bank conducts stress testing regularly to analyse liquidity risk. Both on and off-balance sheet items and their impact on cash flow are considered, together with applicable hypothetical and historical assumptions. The Asset and Liability Committee reviews the results of the liquidity stress tests.

Three stress scenarios – namely an institution-specific crisis, a general market crisis, and a crisis involving a combination of the first two scenarios– are adopted according to the HKMA's Supervisory Policy Manual LM-2, "Sound Systems and Controls for Liquidity Risk Management".

The contingency funding policy is designed to be pro-active and the Bank utilises early warning indicators, which cover both qualitative and quantitative measures, and monitors both internal and external factors. Should there be any early signs of significant impact on the Bank's liquidity position, the Asset and Liability Management Committee is informed. The Asset and Liability Management Committee will consider appropriate remedial actions and will consider employing crisis management if the situation warrants. A Crisis Management Committee, which is headed by the Chief Executive, is formed to handle the crisis. Strategy and procedures for obtaining contingency funding, as well as roles and responsibilities of the parties concerned, are clearly stated. Any significant changes to the contingency funding policy are approved by the Board.

Table IRRBB: Interest rate exposures in banking book

The Bank's interest rate risk positions arise from trade finance, investments, lending and deposit taking activities. Interest rate risk primarily results from the timing difference in the repricing of interest-bearing assets and liabilities. It also relates to positions from non-interest bearing liabilities including shareholders' funds, as well as from certain fixed rate trade finance transactions and liabilities.

The Bank monitors interest rate movements by applying a weighting to assets and liabilities on the balance sheet. Management monitors the weighted average rates on deposits, lending, placements and investments to identify any mismatched exposures and alters the interest rate strategy accordingly. Interest bearing deposits from customers are for a fixed maturity mostly for a three month period and are generally utilised for a similar period. Surplus liquidity is placed in the interbank market and investments. A greater portion of the loans and trade advances is repriceable on a per-transaction basis. Hence the risk element is contained swiftly and the magnitude of the risk posed by interest rates movement is low.

The Bank performs interest rate sensitivity analysis to measure the potential effect of changes in interest rates on earnings and economic value change on quarterly basis. Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed through a hypothetical interest rate increase of 200 basis points on the Bank's assets and liabilities. The analysis is based on the assumptions that there is a parallel shift in interest rates and that there are no other changes to the portfolio.

Interest rate sensitivity analysis, for major currencies utilized by the Bank, in equivalent HK\$ millions is as follows:

	2018		2017	
	HKD	USD	HKD	USD
Impact on earnings over the next 12 months if interest rates rise by 200 basis points	3	0	5	2
Impact on economic value if interest rates rise by 200 basis points	5	5	3	7

Table REMA: Remuneration policy

The Bank has adopted and is committed to promoting a sound and prudent remuneration system in accordance with the guideline in Part 3 of the Supervisory Policy Manual Module CG-5 "Guideline on a Sound Remuneration System" issued by the HKMA.

The Bank recognises that achievement of its mission, vision and strategic objectives depends on the quality and commitment of its staff. The principles of the HBZ Remuneration Policy reflect its goal to attract, retain, motivate and reward quality staff. The guiding principles used to determine the institution-wide remuneration policy are based on sound governance, internal equality, competitiveness, sustainability and conservative approach to risk-taking. The remuneration policy is reviewed annually by the Board of Directors.

To establish the relative merit and worth of each position and ensure equity in remuneration, a performance appraisal system is in place and is consistently applied across all areas of work and responsibilities. Performance of individual employees is based on a set of pre-defined criteria which are determined according to the individual's designation as well as relevant qualitative and quantitative factors. Promotions and increments are linked to performance appraisals.

The parameters used for allocating cash versus other forms of remuneration depend on the organizational status of the employee. The remuneration package across the organization is structured with a fixed compensation component only. The remuneration package comprises of basic salary, allowances, retirement scheme contributions, bonuses and benefits. A provident fund under the Occupational Retirement Scheme Ordinance and a Mandatory Provident Fund Scheme under the Mandatory Provident Fund Scheme Ordinance are also in place.

The senior management comprises of the Chief Executive, the Chief Executive Designate and two Alternate Chief Executives while key personnel include certain senior executives of the Bank.

The Human Resources Working Group is responsible for overseeing various staff management issues like capacity planning practices, succession planning, reviewing compensation and reward policies, performance management schemes, framework for staff promotion and grading, and staff training and development plan. The committee comprises the Chief Executive, Alternate Chief Executives, Head of Human Resources and other executives.

Template REM1: Remuneration awarded during financial year

(HK\$'000)

Remuneration amount and quantitative information			2018		2017	
			(a)	(b)	(a)	(b)
			Senior management	Key personnel	Senior management	Key personnel
1	Fixed remuneration	Number of employees	4	2	4	3
2		Total fixed remuneration	10,423	1,701	7,856	2,028
3		Of which: cash-based	10,423	1,701	7,856	2,028
4		Of which: deferred	490	-	-	-
5		Of which: shares or other share-linked instruments	-	-	-	-
6		Of which: deferred	-	-	-	-
7		Of which: other forms	-	-	-	-
8		Of which: deferred	-	-	-	-
9	Variable remuneration	Number of employees	-	-	-	-
10		Total variable remuneration	-	-	-	-
11		Of which: cash-based	-	-	-	-
12		Of which: deferred	-	-	-	-
13		Of which: shares or other share-linked instruments	-	-	-	-
14		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	Total remuneration	10,423	1,701	7,856	2,028	

Template REM2: Special payments

(HK\$'000)

		2018					
		(a)	(b)	(c)	(d)	(e)	(f)
Special payments		Guaranteed bonuses		Sign-on awards		Severance payments	
		Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
1	Senior management	-	-	1	390	-	-
2	Key personnel	-	-	-	-	-	-

(HK\$'000)

		2017					
		(a)	(b)	(c)	(d)	(e)	(f)
Special payments		Guaranteed bonuses		Sign-on awards		Severance payments	
		Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
1	Senior management	-	-	-	-	-	-
2	Key personnel	-	-	-	-	-	-

Template REM3: Deferred remuneration

(HK\$'000)

		2018				
		(a)	(b)	(c)	(d)	(e)
Deferred and retained remuneration		Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Senior management	490	490	-	-	-
2	Cash	490	490	-	-	-
3	Shares	-	-	-	-	-
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel	-	-	-	-	-
7	Cash	-	-	-	-	-
8	Shares	-	-	-	-	-
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	Total	490	490	-	-	-

(HK\$'000)

		2017				
		(a)	(b)	(c)	(d)	(e)
Deferred and retained remuneration		Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Senior management	-	-	-	-	-
2	Cash	-	-	-	-	-
3	Shares	-	-	-	-	-
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel	-	-	-	-	-
7	Cash	-	-	-	-	-
8	Shares	-	-	-	-	-
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	Total	-	-	-	-	-