創興銀行有限公司
Chong Hing Bank Limited
(Incorporated in Hong Kong with limited liability)

REGULATORY DISCLOSURES

FOR THE YEAR ENDED
31 December 2018

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Chong Hing Bank Limited

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Part I : Key prudential ratios, overview of risk management and RWA
KM1: Key prudential ratios

		(a)	(b)	(c)	(d)	(e)
In HK$'000		As at 31 December 2018	As at 30 September 2018	As at 30 June 2018	As at 31 March 2018	As at 31 December 2017
	Regulatory capital (amount)					
1	Common Equity Tier 1 (CET1)	17,737,981	17,927,724	13,291,047	13,425,003	13,127,134
2	Tier 1	20,050,011	20,239,754	15,603,077	15,737,033	15,439,164
3	Total Capital	25,100,544	25,236,189	20,521,443	20,577,680	20,435,557
	RWA (amount)					
4	Total RWA	132,006,902	124,156,734	117,977,847	116,104,572	116,122,468
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	13.44%	14.44%	11.27%	11.56%	11.30%
6	Tier 1 ratio (%)	15.19%	16.30%	13.23%	13.55%	13.30%
7	Total capital ratio (%)	19.01%	20.33%	17.39%	17.72%	17.60%
	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 (%)	1.368%	1.398%	1.334%	1.357%	0.910%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	-	-	-	-	-
11	Total AI-specific CET1 buffer requirements (%)	3.243%	3.273%	3.209%	3.232%	2.160%
12	CET1 available after meeting the AI's minimum capital requirements (%)	8.94%	9.94%	6.77%	7.06%	6.80%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	199,848,313	185,108,090	167,735,008	167,701,624	174,405,580
14	LR (%)	10.03%	10.93%	9.30%	9.38%	8.85%
	Liquidity Maintenance Ratio (LMR)					
17a	LMR (%)	46.50%	44.31%	43.55%	43.61%	40.41%
	Core Funding Ratio (CFR)					
20a	CFR (%)	161.74%	157.68%	156.39%	148.59%	N/A

Part I : Key prudential ratios, overview of risk management and RWA
OVA: Overview of risk management

Risk management is an integral part of our business planning process. The Group has established a robust risk governance framework to ensure appropriate oversight of and accountability for effective risk management across all three lines of defence.

Under the risk governance framework, the Board of Directors has the ultimate responsibility for an effective management of risk. The Board of Directors, directly and through delegation to various committees, approves the risk appetite, oversees the establishment of robust enterprise wide risk management policies and processes, and sets risk limits to guide risk-taking within the Group.

The Risk Appetite Statement ("RAS") is a key component of risk management framework articulating the level of risk that Bank is willing to take, which should be commensurate with the Bank's strategic direction, financial capacity, business complexity and regulatory constraints. Risk appetite must take into account differing views at a strategic, tactical and operational level. The risk appetite and risk control triggers/limits are approved, monitored and reviewed by the Board and various management committees respectively and periodically.

The risk appetite framework is underpinned by the follow principles:
- Reflection of all material risks
- Sustainable long term growth
- Conservative liquidity management
- Risk diversification
- Balance of risk and return

The Group recognises that a sound risk culture is a fundamental requirement of an effective risk management framework. The foundations of our risk culture are the principles of (C) Customer, (H) Highland, (B) Best Staff Behaviour and (C) Compliance. Staffs are made aware that these principles are expected to form the basis of all day-to-day behaviours and actions. The risk culture is further reinforced by our approach to remuneration. Individual awards are based on the compliance or achievement of financial and non-financial objectives that are aligned to the Group’s risk appetite and strategy.

The Group's risk management framework consists of its structure, policies, processes and systems. In the respect of risk management, the Bank has developed a complete Risk Appetite Statement and Key Risk Indicators as the basis for monitoring, assessing and controlling the Group's risk profile. In the Risk Modifier Framework of the Corporate Scorecard for 2018, seven major areas including credit risk, market risk, interest rate risk, liquidity risk, operational risk, compliance risk and risk culture are taken into account as a Corporate Scorecard Risk Modifier.The assumption of risk is made within a controlled and effective framework that assigns clear roles and responsibilities represented by 'three lines of defence' which are independent from each other:

- The first line of defence is provided by the business units where risks are taken;
- The second line of defence is provided by the risk management and compliance functions that are responsible for overseeing the Group’s risk-taking activities and ensuring compliance with laws and regulations;
- The third line of defence is provided by the Internal Audit Division which is responsible for providing assurance on the effectiveness of the Group’s risk management framework.

The Group’s risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management reports, including exposure and position information for major risk areas prepared by relevant business and functional units, are provided to the Asset and Liability Management Committee (“ALCO”), the Risk Management Committee (“RMC”), the Executive Committee (“EXCO”) and the Risk Committee, and ultimately to the Board for oversight and monitoring of the respective types of risks on an ongoing basis. The Group, through various committees, determines the risk reporting requirements that best suit the business.

Part I : Key prudential ratios, overview of risk management and RWA
OVA: Overview of risk management

The Group supplements the analysis of various types of risks with stress-testing. Various stress testing methodologies including sensitivity tests, scenario analyses and reverse stress testing are adopted. The stress-test results are regularly reviewed by the ALCO and the RMC, approved by the EXCO and reported to the Board.

Model governance is under the oversight of the Model Governance Committee, which reports into the RMC. The Model Governance Committee oversees model development and validation process, and advises RMC on any major model related issues faced by the Group.

The Group uses derivatives to mitigate market risk caused by price fluctuation in interest rate and foreign exchange rate.

For banking book, the hedge effectiveness process is stipulated in the Treasury Accounting Booking Procedure and the Group's accounting policies which are complied with IFRS requirements. The effectiveness threshold is monitored at inception and on an on-going basis.

Part I : Key prudential ratios, overview of risk management and RWA
OV1: Overview of RWA

The following table sets out the RWA by risk types and the corresponding minimum capital requirements (i.e. 8% of RWA), as required by the HKMA.

		(a)	(b)	(c)
		RWA		Minimum capital requirements
In HK$'000		As at 31 December 2018	As at 30 September 2018	As at 31 December 2018
1	Credit risk for non-securitization exposures	119,789,917	112,911,391	9,583,193
2	*Of which STC approach*	119,789,917	112,911,391	9,583,193
2a	*Of which BSC approach*	-	-	-
3	*Of which foundation IRB approach*	-	-	-
4	*Of which supervisory slotting criteria approach*	-	-	-
5	*Of which advanced IRB approach*	-	-	-
6	Counterparty default risk and default fund contributions	1,395,297	1,195,814	111,624
7	*Of which SA-CCR**	Not applicable	Not applicable	Not applicable
7a	*Of which CEM*	1,229,778	1,060,877	98,382
8	*Of which IMM(CCR) approach*	-	-	-
9	*Of which others*	165,519	134,937	13,242
10	CVA risk	639,950	667,788	51,196
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA*	Not applicable	Not applicable	Not applicable
13	CIS exposures – MBA*	Not applicable	Not applicable	Not applicable
14	CIS exposures – FBA*	Not applicable	Not applicable	Not applicable
14a	CIS exposures – combination of approaches*	Not applicable	Not applicable	Not applicable
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	*Of which SEC-IRBA*	-	-	-
18	*Of which SEC-ERBA*	-	-	-
19	*Of which SEC-SA*	-	-	-
19a	*Of which SEC-FBA*	-	-	-
20	Market risk	4,087,900	3,448,088	327,032
21	*Of which STM approach*	4,087,900	3,448,088	327,032
22	*Of which IMM approach*	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	Not applicable	Not applicable	Not applicable
24	Operational risk	5,692,088	5,533,200	455,367
25	Amounts below the thresholds for deduction (subject to 250% RW)	535,173	535,173	42,814
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	133,423	134,720	10,674
26b	*Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital*	-	-	-
26c	*Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital*	133,423	134,720	10,674
27	Total	132,006,902	124,156,734	10,560,552

Total RWA increased by HK$7.9 billion as compared with last quarter. RWA for credit risk for non-securitization exposures was the main contributor and the key driver for the increase was the increase in loans to corporates.

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Part II: Linkages between financial statements and regulatory exposures

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

	As at 31 December 2018						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			Carrying values of items:				
In HKD'000	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
Assets							
Cash and short-term funds	26,182,402	26,158,482	26,158,482	-	-	-	-
Placements with banks maturing between one to twelve months	7,945,726	7,945,726	7,945,726	-	-	-	-
Derivative financial instruments	896,140	896,140	-	896,140	-	896,140	-
Investments in securities	46,986,126	46,928,487	46,928,487	-	-	-	-
Advances and other accounts	106,808,471	106,564,233	106,244,403	292,134	-	-	27,696
Investments in subsidiaries	-	192,569	192,569	-	-	-	-
Amounts due from subsidiaries	-	1,253	1,253	-	-	-	-
Interests in associates	347,320	20,000	20,000	-	-	-	-
Investment properties	311,942	311,942	311,942	-	-	-	-
Property and equipment	521,330	516,184	516,184	-	-	-	-
Prepaid lease payments for land	2,073	2,073	2,073	-	-	-	-
Deferred tax assets	19,907	19,907	-	-	-	-	19,907
Intangible assets	554,201	514,595	-	-	-	-	514,595
Total assets	**190,575,638**	**190,071,591**	**188,321,119**	**1,188,274**	**-**	**896,140**	**562,198**
Liabilities							
Deposits and balances of banks	5,615,953	5,615,953	-	-	-	-	5,615,953
Financial assets sold under repurchase agreements	6,571,696	6,571,696	-	-	-	-	6,571,696
Deposits from customers	143,690,294	143,768,023	-	-	-	-	143,768,023
Amounts due to subsidiaries	-	454,363	-	-	-	-	454,363
Derivative financial instruments	873,617	873,617	-	-	-	873,617	-
Other accounts and accruals	2,118,485	1,862,168	-	-	-	-	1,862,168
Current tax liabilities	240,637	240,637	-	-	-	-	240,637
Certificates of deposit	2,688,386	2,688,386	-	-	-	-	2,688,386
Debt securities issued	1,707,923	1,707,923	-	-	-	-	1,707,923
Loan capital	4,507,147	4,507,147	-	-	-	-	4,507,147
Deferred tax liabilities	19,171	17,029	-	-	-	-	17,029
Total liabilities	**168,033,309**	**168,306,942**	**-**	**-**	**-**	**873,617**	**167,433,325**

Difference between the carrying values as reported in published financial statements and carrying values under scope of regulatory consolidation was due to investments in entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation.

The amount of carrying values under scope of regulatory consolidation does not equal to the sum of values in columns (c) to (g) because derivative financial instruments is subject to both counterparty credit risk and market risk.

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Part II: Linkages between financial statements and regulatory exposures

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

		As at 31 December 2018				
		(a)	(b)	(c)	(d)	(e)
	In HKD'000	Total	Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	**Assets carrying value amount under scope of regulatory consolidation**	189,509,393	188,321,119	-	1,188,274	896,140
2	Liabilities carrying value amount under regulatory scope of consolidation	(873,617)	-	-	-	(873,617)
3	Total net amount under regulatory scope of consolidation	188,635,776	188,321,119	-	1,188,274	22,523
4	Off-balance sheet amounts	37,314,868	5,304,547	-	-	-
5	Potential future exposures	3,238,737	-	-	3,238,737	-
6	Differences due to securities financing transactions	676,964	-	-	676,964	-
7	Differences due to specific regulatory adjustments and other differences	(1,156,863)	(1,156,863)	-	-	-
8	**Exposure amounts considered for regulatory purposes**	228,709,482	192,468,803	-	5,103,975	22,523

The differences between assets carrying value amount under scope of regulatory consolidation and regulatory exposure amounts was mainly due to the off-balance sheet exposures including contingent liabilities and commitments, potential future exposures for derivatives, securities financing transactions and specific regulatory adjustments.

Part II: Linkages between financial statements and regulatory exposures
LIA :Systems and controls applied to assets valuation

The Group has established and maintains adequate systems and sufficient controls to give regulators the confidence that the valuation practices are prudent and reliable. Our valuation policy stipulates the valuation process and method in determining the fair value of all products and assessment of valuation uncertainty and adjustment if necessary.

The objective of fair value measurement is to arrive at the price at which an orderly transaction would take place between market participants at the measurement date. A forced liquidation or distressed sale at the measurement date is not an orderly transaction.

The fair values of debt securities classified as financial assets measured at Fair Value through Other Comprehensive Income ("FVOCI"), certificates of deposit and other debt securities classified as financial assets measured at amortised cost and loan capital are determined based on indicative prices provided by the dealers and brokers. In addition, the Group makes comparison of the indicative prices with the prices obtained from pricing service providers and other service providers to substantiate the indicative prices of the debt securities. The objective of valuation models is to arrive at a fair value estimation that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The fair values of foreign currency forward contracts are measured by comparing the contracted forward rates and the quoted forward exchange rates, which are observable at the end of the reporting period.

The fair values of interest rate swaps and cross-currency interest rate swaps are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, which are observable at the end of the reporting period.

Independent Price Verification

As part of the control process, all market prices or model inputs used in the valuation process are price tested independently on a monthly basis. Fair values of financial instruments are determined with reference to external quoted market prices or observable model inputs and validated against multiple pricing sources whenever appropriate.

For fixed income products such as bond and bills, we follow a strict pricing rule which use Bloomberg Valuation pricing service (BVAL), Bloomberg Generic (BGN), broker quotes and custodian price in the order of priority. In addition, BVAL score is used to determine its reliability. For vanilla OTC interest rate and FX products such as swaps and FX forwards, we also use third party quotes and its sensitivities (i.e. rho risk) to calculate the independent price verification (IPV) variance.

In general, the Group measures fair values using the following hierarchy of methods:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Valuation adjustments

Prices from active markets are most representative of fair values and are to be used generally without adjustments. The circumstances that give rise to valuation adjustments include:

- Inaccuracies identified by IPV; or
- Bid offer adjustment or liquidity adjustment; or
- Model risk adjustment.

All the debt securities are adjusted to bid side to reflect the bid offer spreads that will need to be taken into account when the position is hedged or liquidated. For all the other interest rate and FX products, they are tested against the mid-price and a bid-offer impact is calculated and adjusted if they are above the material threshold.

For illiquid bonds, we will consider price observability and liquidity in the market. This includes BVAL scoring and also comparison of size of holdings against issue size (eg, private placement).

There is no model risk adjustment as all products are vanilla structure.

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Part II: Linkages between financial statements and regulatory exposures

PV1: Prudent valuation adjustments

		As at 31 December 2018							
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	In HKD'000	Equity	Interest rates	FX	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
1	Close-out uncertainty, of which:	-	199	2,076	-	-	2,275	1,316	959
2	*Mid-market value*	-	199	2,076	-	-	2,275	1,316	959
3	*Close-out costs*	-	-	-	-	-	-	-	-
4	*Concentration*	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risks	-	-	-	-	-	-	-	-
8	Investing and funding costs	-	-	-	-	-	-	-	-
9	Unearned credit spreads	-	-	-	-	-	-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other adjustments	-	-	-	-	-	-	-	-
12	**Total adjustments**	-	199	2,076	-	-	2,275	1,316	959

Factors other than Mid-market value are not considered in the valuation process in the view that the impact is considered insignificant.

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Part IIA : Composition of regulatory capital
CC1: Composition of regulatory capital

As at 31 December 2018

In HK$'000		(a) Amount	(b) 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	9,977,060	(7)
2	Retained earnings	7,118,069	(9)
3	Disclosed reserves	2,357,490	(11)
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	**CET1 capital before regulatory adjustments**	19,452,619	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	2,275	
8	Goodwill (net of associated deferred tax liability)	-	
9	Other intangible assets (net of associated deferred tax liability)	514,595	(4)
10	Deferred tax assets (net of associated deferred tax liabilities)	19,907	(3)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	23,273	(2) - (6)
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liability)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	1,154,588	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	242,588	(10) + (12)
26b	Regulatory reserve for general banking risks	912,000	(13)
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	**Total regulatory deductions to CET1 capital**	1,714,638	
29	**CET1 capital**	17,737,981	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	2,312,030	(8)
31	of which: classified as equity under applicable accounting standards	2,312,030	
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Capital instruments subject to phase-out arrangements from AT1 capital*	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
36	**AT1 capital before regulatory deductions**	2,312,030	
	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	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	**Total regulatory deductions to AT1 capital**	-	
44	**AT1 capital**	2,312,030	
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	20,050,011	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	2,983,175	
47	*Capital instruments subject to phase-out arrangements from Tier 2 capital*	*624,737*	(5)
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)	-	

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Part IIA : Composition of regulatory capital
CC1: Composition of regulatory capital

As at 31 December 2018 **In HK$'000**		(a) **Amount**	(b) **Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
49	*of which: capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,333,456	-(1) + (13)
51	**Tier 2 capital before regulatory deductions**	4,941,368	
	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 (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	(109,165)	
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	(109,165)	- [(10) + (12)] x 45%
57	**Total regulatory adjustments to Tier 2 capital**	(109,165)	
58	**Tier 2 capital (T2)**	5,050,533	
59	**Total regulatory capital (TC = T1 + T2)**	25,100,544	
60	**Total RWA**	132,006,902	
	Capital ratios (as a percentage of RWA)		
61	CET1 capital ratio	13.44%	
62	Tier 1 capital ratio	15.19%	
63	Total capital ratio	19.01%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	3.243%	
65	of which: capital conservation buffer requirement	1.875%	
66	of which: bank specific countercyclical capital buffer requirement	1.368%	
67	of which: higher loss absorbency requirement	0.000%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	8.94%	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
	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	143,496	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	214,069	
74	Mortgage servicing rights (net of associated deferred tax liability)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liability)	Not applicable	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)	1,333,456	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	1,521,362	
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	Not applicable
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	Not applicable	Not applicable
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	Not applicable
82	*Current cap on AT1 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	Not applicable	Not applicable
84	*Current cap on Tier 2 capital instruments subject to phase-out arrangements*	624,737	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	899,235	

Part IIA : Composition of regulatory capital

CC1: Composition of regulatory capital

As at 31 December 2018

Notes to the template:

In HK$'000

Row No.	Description	Hong Kong basis	Basel III basis
9	**Other intangible assets (net of associated deferred tax liability)**	514,595	514,595
	Explanation 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.		
10	**Deferred tax assets (net of associated deferred tax liabilities)**	19,907	-
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
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)**	-	-
	Explanation For the purpose of determining the total amount of insignificant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
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)**	-	-
	Explanation For the purpose of determining the total amount of significant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
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)**	-	-
	Explanation 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.		
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)**	-	-
	Explanation 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.		

Remarks:

The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.

Part IIA : Composition of regulatory capital

CC2: Reconciliation of regulatory capital to balance sheet

	(a)	(b)	(c)
	Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	**Reference**
In HK$'000	**As as 31 December 2018**	**As as 31 December 2018**	
Assets			
Cash and short-term funds	26,182,402	26,158,482	
Placements with banks maturing between one to twelve months	7,945,726	7,945,726	
Derivative financial instruments	896,140	896,140	
Investments in securities	46,986,126	46,928,487	
Advances and other accounts	106,808,471	106,564,233	
of which: Impairment allowances eligible for inclusion in Tier 2 capital	-	(421,456)	(1)
Defined benefit pension fund net assets	-	27,696	(2)
Investments in subsidiaries	-	192,569	
Amounts due from subsidiaries	-	1,253	
Interests in associates	347,320	20,000	
Investment properties	311,942	311,942	
Property and equipment	521,330	516,184	
Prepaid lease payments for land	2,073	2,073	
Deferred tax assets	19,907	19,907	(3)
Intangible assets	554,201	514,595	(4)
of which: Internally developed software	-	500,505	
Total assets	**190,575,638**	**190,071,591**	
Liabilities			
Deposits and balances of banks	5,615,953	5,615,953	
Financial assets sold under repurchase agreements	6,571,696	6,571,696	
Deposits from customers	143,690,294	143,768,023	
Amounts due to subsidiaries	-	454,363	
Derivative financial instruments	873,617	873,617	
Other accounts and accruals	2,118,485	1,862,168	
Current tax liabilities	240,637	240,637	
Certificates of deposit	2,688,386	2,688,386	
Debt securities issued	1,707,923	1,707,923	
Loan capital	4,507,147	4,507,147	
of which: Portion eligible for Tier 2 capital subject to phase out arrangement	-	624,737	(5)
Deferred tax liabilities	19,171	17,029	
of which: Deferred tax liabilities related to defined benefit pension fund	-	4,423	(6)
Total liabilities	**168,033,309**	**168,306,942**	
Equity attributable to owners of the Bank			
Share capital	9,977,060	9,977,060	(7)
Additional equity instruments	2,312,030	2,312,030	(8)
Reserves	10,253,239	9,475,559	
of which: Retained profits	-	7,118,069	(9)
of which: Cumulative fair value gains arising from revaluation of investment properties	-	62,955	(10)
of which: Disclosed reserves	-	2,357,490	(11)
of which: Land and building revaluation reserve	-	179,633	(12)
of which: Regulatory reserve	-	912,000	(13)
Total equity	**22,542,329**	**21,764,649**	
Total liabilities and equity	**190,575,638**	**190,071,591**	

Part IIA : Composition of regulatory capital
CCA: Main features of regulatory capital instruments

As at 31 December 2018

		Ordinary shares	USD300 million Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities	USD204.024 million 6% Subordinated Notes due 2020	USD382.903 million 3.876% Tier 2 Subordinated Notes due 2027
1	Issuer	Chong Hing Bank Limited	Chong Hing Bank Limited	Chong Hing Bank Limited	Chong Hing Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	The Stock Exchange of Hong Kong Limited's Stock Code : 01111	ISIN : XS1107229582	ISIN : XS0556302163	ISIN : XS1649885974
3	Governing law(s) of the instrument	Hong Kong law	English law / Hong Kong law	English law / Hong Kong law	English law / Hong Kong law
	Regulatory treatment				
4	Transitional Basel III rules[#]	Common Equity Tier 1	NA	Tier 2	NA
5	Post-transitional Basel III rules[+]	Common Equity Tier 1	Additional Tier 1	Ineligible	Tier 2
6	Eligible at solo*/group/group & solo	Solo and Group	Solo and Group	Solo and Group	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Undated Non-Cumulative Subordinated Capital Securities	Other Tier 2 instruments	Other Tier 2 instruments
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	(HKD million) 9,977.1	(HKD million) 2,312.0	(HKD million) 624.7	(HKD million) 2,983.2
9	Par value of instrument	NA	USD300 million	The subordinated notes with total face value of USD 204.024 million issued in registered form in denominations of USD100,000 each and integral multiples of USD1,000 in excess thereof	The subordinated notes with total face value of USD 382.903 million issued in registered form in denominations of USD200,000 each and integral multiples of USD1,000 in excess thereof
10	Accounting classification	Shareholders' equity	Equity	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	Various	25 September 2014	4 November 2010	26 July 2017
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	No maturity	No maturity	4 November 2020	26 July 2027
14	Issuer call subject to prior supervisory approval	No	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	NA	The First Call Date is on 25 September 2019. The Capital Securities have no fixed redemption date. Optional Redemption (on a designated date in 2019 or on any Distribution Payment Date thereafter), Tax Redemption and Regulatory Redemption are all subject to prior written consent of the Hong Kong Monetary Authority. Redemption amount will be the then prevailing principal amount.	The notes will be redeemable at the option of the Bank in whole but not in part, at a redemption price equal to their principal amount together with accrued and unpaid interest to the date fixed for redemption, upon the occurrence of certain changes in taxation in Hong Kong requiring the payment of additional amounts. The Bank may at its option, having given not less than 30 nor more than 60 days' notice to the noteholders, redeem all the notes.	The bank may redeem all, but not some only, of the Notes then outstanding on 26 July 2022, at their outstanding principal amount together with interest accrued to (but excluding) the date of redemption, subject to adjustments following the occurrence of a Non-Viability Event and prior written consent of the Hong Kong Monetary Authority. The notes will be redeemable at the option of the Bank in whole but not in part, at a redemption price equal to their principal amount together with interest accrued to (but excluding) the date fixed for redemption, upon the occurrence of a Capital Event (Regulatory Redemption), a Tax Deduction Event (Tax Deduction Redemption) or upon the occurrence of certain changes in taxation in Hong Kong requiring the payment of additional amounts (Tax Redemption). Tax Redemption, Tax Deduction Redemption and Regulatory Redemption are all subject to prior written consent of the Hong Kong Monetary Authority.
16	Subsequent call dates, if applicable	NA	NA	NA	NA
	Coupons / dividends				
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Fixed
18	Coupon rate and any related index	The final dividend is proposed by the board of directors of the Bank and is subject to approval by the shareholders of the Bank in the annual general meeting. The interim dividend is declared by the board of directors of the Bank.	At a fixed rate of 6.5% per annum until 25 September 2019. Thereafter reset at: five years U.S. Treasury Rate + 4.628%	6%	At a fixed rate of 3.876% per annum until 25 July 2022. At a Reset Interest Rate from 26 July 2022 to (but excluding) 26 July 2027 (the "Maturity Date")
19	Existence of a dividend stopper	No	Yes	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Convertible	Convertible
24	If convertible, conversion trigger (s)	NA	NA	If at any time (on or) after 1 January 2013, the note no longer fully qualifies as term subordinated debt for inclusion in Category III - Tier 2 capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the note by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the note shall thereafter constitute unsubordinated obligations and the rate of interest on the note shall be reduced from 6% per annum to 5.5% per annum. As the "Change in Status Notice" has not been served, the rate of interest on the note remains at 6% per annum.	Each Noteholder shall be subject to having the Notes being written off, cancelled, converted or modified, or to having the form of the Notes changed, in the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority without prior notice which may include (without limitation) the conversion of all or a part of the principal amount of, or interest on, the Notes into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Notes.
25	If convertible, fully or partially	NA	NA	Fully	Full or partial
26	If convertible, conversion rate	NA	NA	1 : 1	NA
27	If convertible, mandatory or optional conversion	NA	NA	Optional	Mandatory
28	If convertible, specify instrument type convertible into	NA	NA	Other : Senior note	Shares or other securities or other obligations
29	If convertible, specify issuer of instrument it converts into	NA	NA	Chong Hing Bank Limited	Chong Hing Bank Limited or another person
30	Write-down feature	No	Yes	No	Yes
31	If write-down, write-down trigger(s)	NA	If a Non-Viability Event occurs and is continuing, the Bank shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Capital Security (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Capital Security. "Non-Viability Event" means the earlier of: (i) the Hong Kong Monetary Authority notifying the Bank in writing that the Hong Kong Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Bank would become non-viable; and (ii) the Hong Kong Monetary Authority notifying the Bank in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.	NA	If a Non-Viability Event occurs and is continuing, the Bank shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then principal amount of, and cancel any accrued but unpaid interest in respect of, each Note (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Note. "Non-Viability Event" means the earlier of: (i) the Hong Kong Monetary Authority notifying the Bank in writing that the Hong Kong Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Bank would become non-viable; and (ii) the Hong Kong Monetary Authority notifying the Bank in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.
32	If write-down, full or partial	NA	Full or partial	NA	Full or partial
33	If write-down, permanent or temporary	NA	Permanent	NA	Permanent
34	If temporary write-down, description of write-up mechanism	NA	NA	NA	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).	Subordinated to additional tier 1 capital securities	Subordinated to all claims of: (i) all unsubordinated creditors of the Bank (including depositors), (ii) creditors in respect of Tier 2 Capital Securities of the Bank, and (iii) all other Subordinated Creditors of the Bank whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operations of law or contract.	Certificates of deposit	In the event of a winding-up, the rights of the Noteholders to payment of principal and interest, and any other obligations in respect of the Notes, shall rank : (a) Subordinate and junior in right of payment to, and of all claims of, (i) all unsubordinated creditors of the Bank (including depositors), and (ii) all other Subordinated Creditors of the Bank whose claims are stated to rank senior to the Notes or rank senior to the Notes by operations of law or contract (b) Pari passu in right of payment to and of all claims of the holders of Tier 2 Capital Instruments (or its equivalent) under applicable Capital Regulations or any instrument or other obligation issued, entered into, or guaranteed by the Bank that ranks or is expressed to rank pari passu with the Notes by operation of law or contract, excludes any Junior Obligations of the Bank. (c) Senior in right of payment to and of all claims of, (i) the holders of Junior Obligations, and (ii) the holders of Tier 1 Capital Instruments of the Bank, in each case in the manner provided in the Trust Deed.
36	Non-compliant transitioned features	No	No	Yes	No
37	If yes, specify non-compliant features	NA	NA	No loss absorption provision at the point of non-viability	NA

Footnote:

[#] *Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules*

[+] *Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules*

* *Include solo-consolidated*

The full terms and conditions of all capital instruments are available on the Bank's website: www.chbank.com/en/regulatory-disclosures/capital-instrument/terms-and-conditions-of/index.shtml

創興銀行有限公司
Chong Hing Bank Limited

Part IIB : Macroprudential supervisory measures
CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer

Geographical breakdown of risk-weighted amounts (RWA) in relation to private sector credit exposures with a non-zero applicable JCCyB ratio

	In HK$'000	As at 31 December 2018			
		(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%	78,507,790		
2	United Kingdom	1.000%	322,964		
	Sum		78,830,754		
	Total		107,824,520	1.368%	1,805,854

The jurisdiction in which the Group has private sector credit exposure is determined on an "ultimate risk basis". Exposures are allocated to the jurisdiction where the risk ultimately lies, defined as the location where the "ultimate obligor" resides.

The CCyB ratio of United Kingdom has increased from 0.5% to 1% since 28 November 2018.

創興銀行有限公司 Chong Hing Bank Limited

Part IIC : Leverage ratio

LR1: Summary comparison of accounting assets against leverage ratio exposure measure

In HK$'000

	Item	(a) **As at 31 December 2018** **Value under the LR framework**
1	Total consolidated assets as per published financial statements	190,575,638
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(504,047)
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	3,238,737
5	Adjustment for SFTs (i.e. repos and similar secured lending)	676,964
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	7,590,608
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(10,788)
7	Other adjustments	(1,718,799)
8	**Leverage ratio exposure measure**	199,848,313

Difference between the total balance sheet assets (net of on-balance sheet derivative exposures and securities financing transaction exposures) as reported in published financial statements and on-balance sheets exposures as stated in LR2 was due to investments in entities that are consolidated for accounting purpose but outside the scope of regulatory consolidation.

創興銀行有限公司 Chong Hing Bank Limited

Part IIC : Leverage ratio
LR2: Leverage ratio

In HK$'000		(a) As at 31 December 2018	(b) As at 30 September 2018
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	182,087,976	173,183,899
2	Less: Asset amounts deducted in determining Tier 1 capital	(1,719,061)	(1,554,698)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	180,368,915	171,629,201
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)	896,403	1,295,619
5	Add-on amounts for PFE associated with all derivative contracts	3,238,737	2,209,617
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**	4,135,140	3,505,236
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	7,652,584	2,559,435
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	676,964	19,067
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	8,329,548	2,578,502
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	37,314,868	39,787,279
18	Less: Adjustments for conversion to credit equivalent amounts	(29,724,260)	(31,706,988)
19	**Off-balance sheet items**	7,590,608	8,080,291
Capital and total exposures			
20	**Tier 1 capital**	20,050,011	20,239,754
20a	**Total exposures before adjustments for specific and collective provisions**	200,424,211	185,793,230
20b	**Adjustments for specific and collective provisions**	(575,898)	(685,140)
21	**Total exposures after adjustments for specific and collective provisions**	199,848,313	185,108,090
Leverage ratio			
22	**Leverage ratio**	10.03%	10.93%

創興銀行有限公司 Chong Hing Bank Limited

Part IID : Liquidity

LIQA: Liquidity risk management

Governance of liquidity risk management

The Group adopts a robust liquidity risk appetite/tolerance to reasonably balance the levels of risk and earnings based on the Bank's own strategies, financial strength and market position, to ensure its ability to provide stable, reliable and sufficient sources of funds under normal or stressed scenarios, so as to satisfy liquidity requirements.

The Group establishes quantitative liquidity metrics to reflect its liquidity risk appetite/tolerance in order to facilitate all subsidiaries, departments and staff to understand and observe and implement its liquidity risk appetite. The Group sets the quantitative indicators and early warning signals to monitor the common casual factors and/or developments that may jeopardize the liquidity objectives to the extent of their breach of the Group's liquidity alert, trigger and/ or tolerance limits. The status of indicators and the limits are regularly reported to the senior management, ALCO, EXCO, RC and the Board. If these liquidity indicators turn bad and/ or early warning signals flash, CFO, ALCO and other escalated level will have to know about them and consider remedial actions.

The Group adopts a liquidity risk management model that incorporates both centralised and decentralised elements based on thorough consideration of the organisational structure and major business characteristics of the Group as well as regulatory policies. The Head Office is ultimately responsible for managing the Group's overall liquidity risk, while the branches outside Hong Kong in Macau and Mainland China manage their own liquidity risk pursuant to the Head Office's policies within authorised scope through submission of monthly management accounts and daily cash flow positions to Head Office.

The management of the Group's liquidity risk is governed by the Liquidity Risk Management Policy which is reviewed by the ALCO and approved by the EXCO. Key features of liquidity position, appropriate limits and triggers are set in the Liquidity Risk Management Policy. The ALCO is delegated by the EXCO to oversee the Group's day-to-day liquidity risk management, responsible for monitoring and controlling of the Group's liquidity position through ongoing and periodic review of different liquidity metrics, including but not limited to the statutory liquidity maintenance and core funding ratios, the maturity mismatch of assets and liabilities, loan-to-deposit ratios, normal and stressed cash flow projections and inter-bank transactions. The Group uses various management information systems developed in-house to prepare and compile regular management reports to facilitate the liquidity risk management duties.

Treasury Department is responsible for the Group's intraday and day- to-day management of cash flow and liquidity positions while Finance and Capital Management Division is responsible for the identification, measurement and monitoring of liquidity risk exposures, conducting liquidity cost analysis and stress-testing, handling regulatory reporting in relation to liquidity risk and coordinating the regular forecast of loans and deposits, liquidity maintenance ratio, liquidity and funding statements. Depending on the level of severity, any breach in policies will be reported by these units to the ALCO and/or the EXCO, whilst seeking their advices or instructions on mitigating measures.

Funding strategies

The Group has strong capital base and stable customer deposits which form its main funding sources. Funding diversification is achieved internally through surveillance on large depositors and externally by maintaining its access to the interbank market, issuance of certificates of deposit and through financial assets sold under repurchase agreements and swap markets. All of these are parts of the Group's funding strategy.

The Group's branches outside Hong Kong are mainly self-funded through acquiring customer deposits and maintaining its access to the local interbank market. Nevertheless, it is the Group's policy that the Head Office is to support their liquidity needs when necessary. The funding to branches outside Hong Kong is subject to preset limits so as to encourage them to source their own funding in the local markets.

Liquidity risk mitigation techniques

In order to address and mitigate market liquidity risk, the Group maintains a sufficient portfolio of liquidity cushion which can be sold or used as collateral to provide liquidity even under periods of stress. The Group deploys funds in good credit quality debt securities with deep and liquid markets to ensure short term funding requirements can be covered within prudent limits. The Group periodically obtains liquidity from a proportion of the liquidity cushion through secured borrowing to test the usability of these assets. Liquidity sources and contingency funding plan are maintained to identify early warning indicators of stress conditions, provide strategic liquidity to meet unexpected and material cash outflows and to describe remedial actions to be taken under crisis scenarios.

Part IID : Liquidity
LIQA: Liquidity risk management

Liquidity risk mitigation techniques (continued)

The eligible assets as liquidity cushion are mainly debt securities which are unencumbered, low risk, simple structure and traded in active and sizable market with low volatility. Structured products and concentrated positions are not allowed in order to ensure the ease and certainty of valuation. For the liquidity cushion as a whole, there is an appropriate mix of eligible assets to ensure a high degree of diversification by limiting the exposure to each single credit. The liquidity cushion also contains a significant proportion of government issued debt securities with 0% risk-weight for credit risk to minimise risks.

The size of the liquidity cushion should be sufficient for the Group to meet its intraday payment obligations and to cover the day-to-day liquidity needs under both normal and stress market conditions. The Group is not subject to particular collateral arrangements or requirements in contracts if there is a credit rating downgrade of entities within the Group.

Stress testing

The Group supplements the analysis of various types of risks with stress-testing. Stress-testing is a risk management tool for estimating risk exposures under stress conditions arising from extreme but plausible market or macroeconomic movements. Finance and Capital Management Division performs stress-testing on a monthly basis in accordance with the principles stated in the supervisory policy manual LM-2 and IC-5, and when necessary, may carry out special stress-testing in accordance with regulatory requirements and changes in the external operating environment. The stress-test results are regularly reviewed by the ALCO and the RMC, approved by the EXCO and reported to the Board.

In performing the stress-testing on liquidity risk, the Group adopts the cash flow analysis which has taken into consideration of various macroscopic and microscopic factors in line with the characteristics and complexity of the Group's businesses. Both on- and off-balance sheet items with applicable hypothetical, historical and behavioral assumptions are considered to address both funding and market liquidity risks. Four stress scenarios, namely the institution-specific crisis, the general market crisis and the combined crisis are adopted with minimum survival periods defined according to SPM LM-2. With reference to the stress-testing results, the Group identifies potential vulnerabilities on its liquidity position under stress market conditions and formulates the contingency funding plan that sets out remedial actions for dealing with liquidity problems (e.g. conducting repo transactions or liquidation of assets held for liquidity risk management purpose).

The Group also performs reverse stress-testing in accordance with SPM IC-5. Reverse stress-testing is an iterative process assisting the Group to identify and assess extreme stress scenarios that can cause business failures (e.g. breaches of regulatory capital ratios, illiquidity and severe negative profitability). It is a process of working backwards from the event causing business failures and involves a mix of qualitative and quantitative analyses. The Group uses results of reverse stress-testing to strengthen resilience to liquidity stress and serve as early-warning triggers for the formulation of management actions and contingency funding plan to mitigate potential stresses and vulnerabilities which the Group might face.

Contingency funding plan

The Group distinguishes between different stages of a liquidity crisis that the Group may face, namely: Funding Stress, Liquidity Drain, Bank Run and recovery zone. The escalation is to reflect the worsening liquidity conditions. This includes the liquidity shortfalls estimated from stress- testing performed.

The Group's contingency funding plan, as stipulated in the Liquidity Risk Management Policy and the Procedures Manual for Contingency Funding Plan, details the Group's immediate action in order to react to emergency. It covers three major components: (1) Predefined conditions to activate the plan; (2) The Group's strategy and potential funding options to deal with different crisis scenarios; and (3) Practical action plans and procedures with clear responsibilities of management and its supporting teams. The ALCO would be called during liquidity crisis to ensure business continuity of the Group.

The Liquidity Risk Management Policy and the Procedures Manual for Contingency Funding Plan are reviewed and updated at least annually to cope with required changes and improvements.

To ensure the contingency funding plan remains practical and effective, drill test is conducted by the Group on an annual basis.

Part IID : Liquidity

LIQA: Liquidity risk management

Liquidity metrics

The Group uses a range of liquidity control tools and metrics for the measurement, analysis, control and monitoring of liquidity risk, taking into account all assets and liabilities, including its on- and off-balance sheet activities, arising from different business lines.

These liquidity control tools and metrics perform the functions of:

- evaluating potential liquidity risks inherent in the Group's balance sheet structure and business activities, including emerging risks that are distant in nature;
- projecting cash flows and assessing funding mismatches under both normal and stress conditions over different time horizons;
- assessing the Group's capability to generate funds as well as its vulnerability to, or concentration on, any major source of funds; and
- identifying and assessing the Group's vulnerability to foreign currency movements.

Below are the triggers and limits set up by the Group for liquidity maintenance ratio, core funding ratio, adjusted loan to deposit ratio and cumulative net maturity mismatch under normal condition.

Statutory Liquidity Indicators	**Trigger**	**Limit**
Liquidity Maintenance Ratio	40%	32%
Core Funding Ratio	100%	90%

Internal Risk Control Indicators	**Trigger**	**Limit**
Adjusted Loan to Deposit Ratio		
All Currencies	80%	85%
HKD	90%	95%
USD	90%	95%
RMB	65%	70%
Cumulative net maturity mismatch under normal condition		
Next day	(Tier 1 liquidity cushion – intraday repo facilities) x 75%	(Tier 1 liquidity cushion – intraday repo facilities) x 85%
7 days	(Tier 1 liquidity cushion – intraday repo facilities) x 75%	(Tier 1 liquidity cushion – intraday repo facilities) x 85%
1 month	(Total liquidity cushion – intraday repo facilities) x 80%	(Total liquidity cushion – intraday repo facilities) x 100%

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Part IID : Liquidity

LIQA: Liquidity risk management

Concentration limits on collateral pools and sources of funding (both products and counterparties)

Concentration limits on collateral pools

The Group holds a banking book of debt securities, part of which is considered as the liquidity cushion as required under the LM-2. Such a liquidity cushion is made up of highly liquid assets which can be readily and sufficiently repo-ed or sold under normal and stress conditions to meet intraday and day-to-day liquidity needs.

The stock of the liquidity cushion consists of an appropriate mix of eligible Tier 1 and 2 assets with concentration limits to ensure sufficient diversity in the types of liquid assets held by the Bank, which include:

Liquidity cushion	Limit	As at 31 December 2018
Tier1 liquidity cushion	>= 50% of total cushion	57%
Tier2 liquidity cushion of the same underlying issuer	<= 25% of total cushion	max: 5.3%
Tier2 liquidity cushion to mature within one year	<= 55% of total cushion	max: 21.7%

Concentration limits on sources of funding

The Group recognizes the risks arising from a high concentration on specific types of depositors and that the short term structure of deposits may jeopardize the Group's overall liquidity positions. Similarly, the Group considers the extent of reliance on the wholesale funding markets and the mix of secured and unsecured wholesale funding. To facilitate monitoring, a set of EWI and internal risk control indicators has been in place, including:

Funding sources	Limit	As at 31 December 2018
Medium-term funding ratio	>= 18%	26.3%
Wholesale funding concentration ratio	<= 30%	12.5%
Largest depositor ratio	<= 5%	4.6%
Top 10 depositors ratio	<= 20%	16.4%

As at 31 December 2018, the Group's Liquidity Maintenance Ratio and Core Funding Ratio were 46.5% and 161.74% respectively. The branches' and subsidiaries' fundings are supported by Hong Kong head office, the funding needs arising from respective branches and subsidiaries are shown as follows:

In HK$'000	As at 31 December 2018
China branches	6,964,580
Macau branch	3,527,744
Card Alliance Company Limited	17,675
Chong Hing (Management) Ltd	100
Chong Hing (Nominees) Limited	100
Chong Hing Commodities and Futures Limited	5,000
Chong Hing Finance Limited	25,000
Chong Hing Information Technology Limited	210
Chong Hing Insurance Company Limited	177,369
Chong Hing Securities Limited	10,000
Gallbraith Limited	16,557
Hero Marker Limited	13,724
Right Way Investments Limited	93
Top Benefit Enterprise Limited	191,528

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Chong Hing Bank Limited

Part IID : Liquidity

LIQA: Liquidity risk management

The maturity analysis of financial assets and liabilities shown on the statements of financial position, based on the remaining period at the end of the reporting period to the contractual maturity date is shown below:

	Repayable on demand	Repayable within 1 month	Repayable after 1 month but within 3 months	Repayable after 3 months but within 1 year	Repayable after 1 year but within 5 years	Repayable after 5 years	Undated	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2018								
Assets								
Cash and short-term funds	57,517	23,292,051	2,145,014	687,820	-	-	-	26,182,402
Placements with banks	216,465	-	5,598,618	2,130,643	-	-	-	7,945,726
Derivative financial instruments	-	165,157	102,930	196,844	151,485	279,724	-	896,140
Financial assets at fair value through profit or loss	-	-	-	-	-	115,813	215	116,028
Financial assets measured at FVOCI	-	6,552,675	2,266,230	5,762,937	16,094,769	15,616,367	85,578	46,378,556
Financial assets measured at amortised cost	-	43,689	29,126	97,092	21,347	300,288	-	491,542
Advances to customers	1,397,750	7,182,043	8,985,614	19,930,337	45,649,316	18,615,641	64,526	101,825,227
Advances to banks	-	334,895	-	-	-	-	-	334,895
Other financial assets	2,528,730	358,616	941,728	806,461	9,813	3,001	-	4,648,349
Total financial assets	4,200,462	37,929,126	20,069,260	29,612,134	61,926,730	34,930,834	150,319	188,818,865
Liabilities								
Deposits and balances of banks	28,874	2,892,104	1,695,540	999,435	-	-	-	5,615,953
Financial assets sold under repurchase agreements	-	2,944,714	3,626,982	-	-	-	-	6,571,696
Deposits from customers	51,538,924	33,540,597	35,180,685	16,632,282	6,797,806	-	-	143,690,294
Derivative financial instruments	-	195,212	104,467	185,091	249,819	139,028	-	873,617
Certificates of deposit	-	600,079	1,716,574	293,494	78,239	-	-	2,688,386
Debt securities issued	-	-	-	1,707,923	-	-	-	1,707,923
Loan capital	-	-	-	-	1,592,297	2,914,850	-	4,507,147
Other financial liabilities	679,295	281,600	521,515	370,177	9,979	-	255,919	2,118,485
Total financial liabilities	52,247,093	40,454,306	42,845,763	20,188,402	8,728,140	3,053,878	255,919	167,773,501
Net position – total financial assets and liabilities	(48,046,631)	(2,525,180)	(22,776,503)	9,423,732	53,198,590	31,876,956	(105,600)	21,045,364
Total off-balance sheet obligations	23,230,847	347,266	314,151	420,072	1,860,890	-	-	26,173,226
Of which debt securities included in :								
FVOCI	-	6,438,907	2,266,230	5,762,937	16,094,769	15,730,135	-	46,292,978
Amortised cost	-	43,601	29,126	97,092	21,347	300,376	-	491,542
	-	6,482,508	2,295,356	5,860,029	16,116,116	16,030,511	-	46,784,520

Part III : Credit risk for non-securitization exposures
CRA: General information about credit risk

Credit risk is the risk that a borrower or counterparty failing to meet its contractual obligations. Credit risk exists not only in trading book and banking book, but also from on- and off-balance sheet transactions. It includes the risk of Loan or Loan Equivalent, as well as the pre-settlement and settlement risk which arises principally from lending, trade finance and treasury businesses.

The Group has established policies, procedures, credit & risk appetites profile and modeling to identify, measure, assess, monitor, control, and report on credit risk. The development of above guidelines is based on significant level of review of business activities and strategies of the Group and covers identified material risks, both financial and non-financial and in line with the requirement from regulatory guidelines and statutory requirements. These guidelines are reviewed and enhanced regularly in response to market changes, statutory requirements and effectiveness of risk management processes.

The Group has established the following process and mechanism for managing credit risk:
- Risk appetite to commensurate with the Group's strategic direction, financial capacity, business complexity and regulatory requirements. Risk appetite must take into account differing views at a strategic, tactical and operational level;
- Credit appetite indicates the target market segment that business units should focus on;
- Credit authorities structure sets out the level of credit authority required for approval, disbursement, credit control as well as requirement of exceptional approval;
- Credit risk related committees, different aspects of credit risk issues which including but not limited to portfolio management, business strategy, modeling and new product are reported and discussed in various committees including Board of Directors, Risk committee and Executive committee.

The Credit Risk Management Division is responsible for implementing the credit risk strategy approved by the Executive Committee and developing policies and procedure for identifying, measuring, monitoring and controlling credit risk in all the Group's credit activities and at both the individual credit and portfolio levels. All extensions of credit must be made on an arm's-length basis, in particular, to connected parties.

Part III : Credit risk for non-securitization exposures
CR1: Credit quality of exposures

		As at 31 December 2018			
		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
	In HK$'000	Defaulted exposures	Non-defaulted exposures		
1	Loans	321,174	136,493,256	565,109	136,249,321
2	Debt securities	-	46,879,074	66,038	46,813,036
3	Off-balance sheet exposures	-	14,454,261	9,041	14,445,220
4	Total	321,174	197,826,591	640,188	197,507,577

The Group identifies the exposures as "default" if the exposure is past due for more than 90 days or has been rescheduled.

Loans included balances with banks, loans and advances to customers and balances with central banks.

Debt securities included financial assets measured at Fair Value through Other Comprehensive Income ("FVOCI"), financial assets measured at amortised cost, exchange fund bills, retail bonds and loan and receivable securities.

Off-balance sheet exposures included direct credit substitutes, trade-related contingencies, forward asset purchases and irrecoverable loans commitment.

Part III : Credit risk for non-securitization exposures
CR2: Changes in defaulted loans and debt securities

	In HK$'000	As at 31 December 2018 (a) Amount
1	Defaulted loans and debt securities at end of the previous reporting period (30 Jun 2018)	293,386
2	Loans and debt securities that have defaulted since the last reporting period	303,523
3	Returned to non-defaulted status	(40,245)
4	Amounts written off	(155,014)
5	Other changes	(80,476)
6	Defaulted loans and debt securities at end of the current reporting period (31 Dec 2018)	321,174

Part III : Credit risk for non-securitization exposures
CRB: Additional disclosure related to credit quality of exposures

Impaired loans and advances are those loans and advances that are required to have impairment allowances under Stage 3. All loans and advances which are past due for more than 90 days are classified as impaired.

Loans and advances that are overdue for over 3 months are defined as past due. Non-performing loans represent advances which are either classified as “substandard”, “doubtful” or “loss” under the Group’s classification of loan quality.

Impairment allowances under HKFRS 9 Stage 3 are determined by an evaluation of the lifetime ECL at the end of the reporting period on a case-by-case basis. The assessment normally encompasses the fair value of collateral held and the anticipated receipts for that individual account.

Rescheduled assets are loans where concessions have been made to a customer on interest or principal such that the loans are rendered on "non-commercial" terms to the Group.

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Part III : Credit risk for non-securitization exposures
CRB : Additional disclosure related to credit quality of exposures
Credit risk exposure by geographical area, industry and residual maturity

Geographical area	As at 31 December 2018 In HK$'000
Hong Kong SAR	112,991,019
Mainland China	57,125,220
United States	6,354,480
Macau SAR	5,484,217
Canada	3,936,693
Others	12,256,136
Total	198,147,765

Industry	As at 31 December 2018 In HK$'000
Bank	43,175,074
Official sector	17,012,839
Non-bank private sector	
Property development	18,398,557
Property investment	9,337,406
Financial concerns	30,921,955
Individuals	15,013,320
Others	64,288,614
Total	198,147,765

Residual Maturity	As at 31 December 2018 In HK$'000
Less than 1 year	98,552,276
1 to 2 Years	10,743,732
More than 2 Year	88,851,757
Total	198,147,765

Part III : Credit risk for non-securitization exposures
CRB : Additional disclosure related to credit quality of exposures
Impaired exposures and related allowances and write-offs by geographical area and industry

	As at 31 December 2018 In HK$'000
Gross impaired loans	353,230
Less: Impairment allowances under Stage 3 (2017: individual assessment)	(154,435)
Net impaired loans	198,795

Geographical area	As at 31 December 2018 In HK$'000
Hong Kong	246,847
Mainland China	102,519
Macau	3,864
	353,230

Industry	As at 31 December 2018 In HK$'000
Loans for use in Hong Kong	
Industrial, commercial and financial	
Wholesale and retail trade	17,193
Manufacturing	2,726
Others *(Note 1)*	124,845
Individuals	
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	498
Loans for the purchase of other residential properties	16,473
Credit card advances	586
Others *(Note 2)*	3,714
	166,035
Trade finance	16,904
Loans for use outside Hong Kong	170,291
	353,230

Note: 1. Major items mainly included loans to businesses in electricity and gas, hotels, catering, margin lending and other business purposes.

2. Major items mainly included loans to professionals and other individuals for various private purposes.

Part III : Credit risk for non-securitization exposures
CRB : Additional disclosure related to credit quality of exposures
Aging analysis of accounting past due exposures

	As at 31 December 2018 Gross amount of advances In HK$'000
Advances overdue for	
- 6 months or less but over 3 months	146,838
- 1 year or less but over 6 months	34,208
- Over 1 year	16,141
Total overdue advances	197,187
Rescheduled advances	124,443
Stage 3 impairment allowances made in respect of overdue loans and advances	139,619

Part III : Credit risk for non-securitization exposures
CRB : Additional disclosure related to credit quality of exposures
Breakdown of restructured exposures

	As at 31 December 2018
Restructured exposures	In HK$'000
Impaired	124,443
Not impaired	-
Total	124,443

Part III : Credit risk for non-securitization exposures
CRC: Qualitative disclosures related to credit risk mitigation

Collateral and guarantee

For credit risk mitigation, obtaining collateral and guarantee is one of the ways to mitigate risk in loan agreement, however, the Group only considers collateral and guarantee as secondary source of repayment at borrower's default, the primary consideration of credit risk assessment is customers' financial strength and repayment capability, this has been re-emphasized in the Group's collateral policy that credit assessment will not only rely on the types and value of collateral obtained from customers. The policy also provides the criteria of accepting a collateral type so that the Group's collateral should be marketable, tradable, enforceable, controllable and manageable. Regular valuation of collateral is required to ensure the value assigned to the collateral at the time of initial valuation remains current. Except specific retail facilities which should be under portfolio review, all collateral should be revalued at least once a year. The frequency of revaluation depends on the extent to which the Group is relying on the collateral for repayment as well as type of collateral or market condition. To avoid concentration risk, except deposit, each individual collateral type is monitored to avoid relying on single collateral issuer or type.

Guarantee from personal or corporate guarantors can also be accepted in order to mitigate risk, however guarantees is not regarded as collateral and the facilities covered by them should be regarded as unsecured, unless the guarantees are issued by the Government related party or the central bank of a country without repayment difficulties, an AI or an overseas incorporated bank which is under adequate supervision, whether to accept such guarantee subject to approvers' judgment and regulatory compliance. The guarantee should be legally enforceable and able to directly claim on guarantor unconditionally and irrevocably.

For customers with exposure in derivatives, they are required to sign market-standard documents in which in the event of a default, its credit exposure is reduced by master-netting arrangements where the Group is allowed to offset what the Group owes to a counterparty against what is due from that counterparty in a jurisdiction where the netting is eligible.

Forced-sales value

The forced-sales value is the estimated value of collateral that to be repossessed in short period of time. It may put the Group in an unfavorable selling position to repossess the collateral with an unfavorable price. Forced-sales value is used for estimating impairment allowance under HKFRS 9 Stage 3.

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Part III : Credit risk for non-securitization exposures
CR3: Overview of recognized credit risk mitigation

		As at 31 December 2018				
		(a)	(b1)	(b)	(d)	(f)
	In HK$'000	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	127,898,507	8,350,814	7,067,506	1,283,308	-
2	Debt securities	46,813,036	-	-	-	-
3	Total	174,711,543	8,350,814	7,067,506	1,283,308	-
4	Of which defaulted	248,213	72,961	72,961	-	-

Part III : Credit risk for non-securitization exposures
CRD: Qualitative disclosures on use of ECAI ratings under STC approach

The Group uses credit rating from Moody's Investors Service to determine the risk-weight of the following exposure classes for credit risk under STC approach according to application of ECAI ratings of Part 4 of the Banking (Capital) Rules:

(i) Sovereign exposures
(ii) Public sector entity exposures
(iii) Bank exposures
(iv) Securities firm exposures
(v) Corporate exposures
(vi) Collective investment scheme exposures

Where an exposure under exposure classes (i) to (v) does not have an ECAI issue specific rating and the person to whom the Group has the exposure has an ECAI issuer rating but does not have a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the person:

The Group uses the ECAI issuer rating if (i) the use of the ECAI issuer rating would result in the allocation of a risk-weight to the exposure that would be equal to, or higher than, the risk-weight allocated to the exposure on the basis that the person has neither an ECAI issuer rating nor an ECAI issue specific rating assigned to a debt obligation issued or undertaken by the person; (ii) the ECAI issuer rating is only applicable to unsecured exposures to the person as an issuer that are not subordinated to other exposures to that person; and (iii) the exposure to the person ranks equally with, or is subordinated to, the unsecured exposures referred to (ii) above; and

The Group uses the ECAI issuer rating if (i) the use of the ECAI issuer rating would result in the allocation of a risk-weight to the exposure that would be lower than the risk-weight allocated to the exposure on the basis that the person has neither an ECAI issuer rating nor an ECAI issue specific rating assigned to a debt obligation issued or undertaken by the person; (ii) the ECAI issuer rating is only applicable to unsecured exposures to the person as an issuer that are not subordinated to other exposures to that person; and (iii) the exposure to the person is not subordinated to other exposures to the person as an issuer.

Part III : Credit risk for non-securitization exposures

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

		As at 31 December 2018					
		(a)	(b)	(c)	(d)	(e)	(f)
	In HK$'000	Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	17,879,289	-	17,879,289	-	944	0.01%
2	PSE exposures	546,051	-	1,081,820	-	216,364	20.00%
2a	Of which: domestic PSEs	546,051	-	1,081,820	-	216,364	20.00%
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	44,218,095	-	44,265,158	-	11,966,282	27.03%
5	Securities firm exposures	774,167	3,511,921	774,167	68,100	421,134	50.00%
6	Corporate exposures	102,980,214	30,636,536	96,588,888	4,442,873	94,060,453	93.10%
7	CIS exposures	-	-	-	-	-	-
8	Cash items	463,277	-	7,462,279	681,859	719,617	8.84%
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	294,817	480,894	278,724	5,775	213,374	75.00%
11	Residential mortgage loans	13,637,445	-	13,060,403	-	5,215,974	39.94%
12	Other exposures which are not past due exposures	7,225,439	2,685,517	6,628,066	105,940	6,734,006	100.00%
13	Past due exposures	184,005	-	184,005	-	241,769	131.39%
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	**Total**	**188,202,799**	**37,314,868**	**188,202,799**	**5,304,547**	**119,789,917**	**61.90%**

Part III : Credit risk for non-securitization exposures

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

	In HK$'000	As at 31 December 2018										
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
	Risk Weight / Exposure class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	17,874,568	-	4,721	-	-	-	-	-	-	-	17,879,289
2	PSE exposures	-	-	1,081,820	-	-	-	-	-	-	-	1,081,820
2a	Of which: domestic PSEs	-	-	1,081,820	-	-	-	-	-	-	-	1,081,820
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	33,887,654	-	10,377,504	-	-	-	-	-	44,265,158
5	Securities firm exposures	-	-	-	-	842,267	-	-	-	-	-	842,267
6	Corporate exposures	-	-	-	-	14,604,230	-	85,765,917	661,614	-	-	101,031,761
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	4,546,779	-	3,597,178	-	-	-	181	-	-	-	8,144,138
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	-	-	-	-	-	284,499	-	-	-	-	284,499
11	Residential mortgage loans	-	-	-	12,052,013	-	42,486	965,904	-	-	-	13,060,403
12	Other exposures which are not past due exposures	-	-	-	-	-	-	6,734,006	-	-	-	6,734,006
13	Past due exposures	820	-	509	-	-	-	64,694	117,982	-	-	184,005
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**22,422,167**	**-**	**38,571,882**	**12,052,013**	**25,824,001**	**326,985**	**93,530,702**	**779,596**	**-**	**-**	**193,507,346**

Part IV : Counterparty credit risk

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

Counterparty Credit Risk (CCR) means the risk that the counterparty to a transaction may default before the final settlement of the transaction's cash flows. CCR thus involves a bilateral risk of loss to either counterparty to the transaction. Specifically, CCR contains two components:

- Pre-settlement risk, is the risk of loss in the event that the counterparty defaults on an agreed transaction prior to settlement and the replacement cost of the contract in the market is less favorable than the contract price;
- Settlement risk, is the risk of loss due to the counterparty's failure to perform its obligation after our Group has performed its obligation under a contract on the settlement date.

CCR applies to OTC derivative, securities financing transaction and long settlement transaction.

The Group has established a set of policies to manage CCR. A cap limit (3% of the Group's total capital or 10% of the Group's net operating profit before provisions) and trigger point for Expected Loss from aggregate CCR exposure to all bank and corporate counterparties are set and subject to review from time to time. Monthly aggregate CCR exposure report will be generated and submitted to relevant committees wtih attendants including senior management for review.

Transactions with associated specific wrong-way risks are strongly discouraged, such transactions should be treated in clean basis and require prior approval from credit management.

CCR measurement is an integral part of the monitoring of the counterparties' limit utilization. Currently, the Group has adopted the Current Exposure Method to measure its CCR exposures by adding up the current exposure and potential future exposure.

The Group has developed policy relating to margin and other risk mitigation standards concerning CCR, CCR exposure can be reduced by margin standards including posting and return of collateral, the types of collateral that may be used, and the treatment of collateral by the secured party. Besides, the risk mitigation standards promote legal certainty over the terms of transactions, foster effective CCR management and facilitate timely resolution of disputes.

Any adverse credit change of our customers will trigger ad-hoc review on all their credit facilities. Such trigger event could include but not limited to weakening of customer financial position, downgrade by credit agencies, CDS exceeding certain bps or other idiosyncratic risks to our customer.

An action would be triggered if there is a credit rating downgrade clause in International Swaps and Derivatives Association ("ISDA") Master Agreement or a credit rating downgrade threshold clause in a Credit Support Annexes ("CSA").

Part IV : Counterparty credit risk

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

	In HK$'000	As at 31 December 2018					
		(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)	-	-		1.4	-	-
1a	CEM	745,552	3,110,580		N/A	3,856,131	1,229,778
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					7,652,584	154,096
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	**Total**						**1,383,874**

Part IV : Counterparty credit risk
CCR2: CVA capital charge

In HK$'000		As at 31 December 2018	
		(a)	(b)
		EAD post CRM	RWA
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	3,856,130	639,950
4	**Total**	**3,856,130**	**639,950**

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Part IV : Counterparty credit risk

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

		As at 31 December 2018										
	In HK$'000	(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
	Risk Weight / Exposure class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	2,741	-	-	-	-	-	-	-	2,741
2a	Of which: domestic PSEs	-	-	2,741	-	-	-	-	-	-	-	2,741
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	6,927,076	-	3,413,023	-	616,826	-	-	-	-	-	10,956,925
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	313,480	-	234,642	-	-	-	548,122
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	927	-	-	-	927
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	**Total**	**6,927,076**	**-**	**3,415,764**	**-**	**930,306**	**-**	**235,569**	**-**	**-**	**-**	**11,508,715**

Part IV : Counterparty credit risk

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

	As at 31 December 2018					
	(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
In HK$'000	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	40,049	-	292,134	-	-
Cash - other currencies	-	109,139	-	175,437	6,615,443	353,922
Other sovereign debt	-	-	-	-	342,302	552,196
Bank bonds	-	-	-	-	-	229,523
Corporate bonds	-	-	-	-	-	6,462,205
Total	**-**	**149,188**	**-**	**467,571**	**6,957,745**	**7,597,846**

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Part IV : Counterparty credit risk
CCR8: Exposures to CCPs

	In HK$'000	As at 31 December 2018 (a) Exposure after CRM	(b) RWA
1	**Exposures of the AI as clearing member or client to qualifying CCPs (total)**		**11,423**
2	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	279,011	5,580
3	(i) OTC derivative transactions	279,011	5,580
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	292,134	5,843
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	-	-

Part VI : Market risk
MRA: Qualitative disclosures related to market risk

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices. Market risk exposures are separated into trading portfolios and non-trading portfolios.

Trading portfolios comprise positions arising from market-making and warehousing of customer derived positions. Non-trading portfolios comprise positions that primarily arise from the interest rate risk management of our retail and commercial banking assets and liabilities, financial investments designated as financial assets measured at Fair Value through Other Comprehensive Income ("FVOCI"), financial assets measured at amortised cost and exposures arising from our daily risk management operations.

The Group has formulated market risk management policy to identify, measure, monitor, control, and report on the market risk, where appropriate, to allocate adequate capital to cover those risks.

Limits are set with reference to the nature, volume of transactions and risk appetite of the Group, and are applied at a granular level to individual trading desks, through increasing levels of aggregation to business lines and legal entities, and ultimately, the Group.

The market risk management policy and control limits are approved by the RMC and are monitored and regularly reviewed to align with market changes, statutory requirements, and best practices in risk management processes.

Market risk is measured in terms of Value at Risk (“VaR”). VaR is a method that computes the potential losses of risk positions as a result of market movement over a specified time horizon and according to a given level of confidence. The Group uses a 99% confidence interval and a one-day time horizon. VaR models allow us to estimate the aggregate portfolio market risk potential loss due to a range of market risk factors and instruments. However, there are limitations to VaR models; for example, past changes in market risk factors may not provide accurate predictions of future market movements, and the risk arising from adverse market events may be understated.

To monitor the Group’s vulnerability to unexpected but plausible extreme market risk-related events, the Group also conducts stress testing using scenarios relevant to the current portfolio composition, with measuring how such event would impact the Group financially.

For interest rate exposure, limits are set on the level of mismatch of interest rate repricing that may be undertaken. Interest rate risk is regularly monitored by regular sensitivity analysis of the net re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date. For trading portfolio, additional limits on interest rate sensitivities (also known as DV01) and stop loss are being enforced on daily basis.

The Group uses derivatives to mitigate market risk caused by price fluctuation in interest rate and foreign exchange rate.

For banking book, the hedge effectiveness process is stipulated in the Treasury Accounting Booking Procedure and the Group's accounting policies which are complied with IFRS requirements. The effectiveness threshold is monitored at inception and on an on-going basis.

Robust internal control process is in place to support our market risk management approach. Market Risk Management Department, an independent risk management unit reporting directly to Chief Risk Officer, monitors and analyses the Group’s market risk positions according to the approved limit structure that sets limits for all exposures in all markets. Material breaches of the approved limit structure are communicated monthly to the RMC. The control process is subject to regular review to assess its effectiveness.

Part VI : Market risk

MR1: Market risk under STM approach

In HK$'000		As at 31 December 2018
		(a)
		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	1,275,462
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	2,812,438
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	**Total**	**4,087,900**

Part VII : Interest rate risk in banking book
IRRBB: Interest rate exposures in banking book

Nature of the risk

Interest rate risk is referred to the risk to the Group's financial condition resulting from adverse movements in interest rates. This consists of repricing risk, basis risk, option risk and yield curve risk. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movement arises.

Interest rate risks comprise those originating from both trading and non-trading portfolio. The Group's interest rate risk exposure is mainly contributed by non-trading portfolio. The Group manages interest rate risks within the limits approved by the RMC and under the monitoring of both ALCO and RMC. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. For trading portfolio, additional limits on interest rate sensitivities (also known as DV01) and stop loss are being enforced on daily basis.

The Group maintains controllable interest rate positions on its trading portfolio, in addition to certain interest rate contracts entered into for the management of Group's own risk with securities that are classified as trading. Interest rate risk arises primarily from the timing differences in the re-pricing of and the different bases of pricing interest-bearing assets, liabilities and off-balance-sheet positions. Interest rate risk is regularly monitored by regular sensitivity analysis of the net re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

The Group measures interest rate risks on a daily basis. The key assumptions the Group uses in the measurements of the risk include:

(a) for fixed rate items, the earliest interest repricing date is the maturity dates of the assets or liabilities concerned;
(b) for variable rate items, the earliest interest repricing date is the next repricing date of the assets or liabilities concerned;
(c) for managed rate items, the earliest interest repricing date is the next business day;
(d) a parallel shift in interest rate throughout the time spectrum;
(e) no loan prepayment; and
(f) for deposits without a fixed maturity, the earliest interest repricing date is the next business day.

Interest rate exposures in banking book

Variations in earnings for significant upward and downward interest rate movements in accordance with the method the Group uses for stress-testing, broken down by major currencies are set out below:

	As at 31 December 2018				
			Currency		
	HK$	US$	CNY	EUR	Total
Interest rate risk shock					
Equivalents of HK$'000					
Impact on earnings over the next 12 months if interest rates rise by 200 basis points	546,000	(6,000)	19,000	(1,000)	558,000
Impact on economic value if interest rates rise by 200 basis points	(21,000)	(14,000)	369,000	3,000	337,000

Part VIII : Remuneration
REMA: Remuneration policy

Remuneration Committee - Authority and Responsibility

The Bank has established a Remuneration Committee with specific Terms of Reference to entrust it with the authority and responsibilities for, among others, making recommendation and reviewing the Remuneration Policy of the Bank Group (the “Bank Group”) by taking into account the pay and conditions across the Bank Group’s individual remuneration packages for Directors, Senior Management and Key Personnel as well as those in positions of significant influence and those having an impact on the Bank Group’s risk profile; ensuring that the remuneration frameworks and decisions shall be developed in a manner that is in line with the Bank Group’s risk appetite, risk culture and long-term interests; ensuring that no individual Director, Chief Executive or any of their associates will be involved in deciding his/her own remuneration; and assisting the Board in carrying out the Bank Corporate Culture-related duties.

The Remuneration Committee comprises five members, including three Independent Non-executive Directors and two Non-executive Directors.

Remuneration Structure

The remuneration system of the Bank Group is composed mainly of fixed remuneration (cash-based) with performance based variable remuneration (in cash-based discretionary bonus and/or other incentive) which not only conforms with the risk appetite, align with the long-term value creation and time horizon of risk of the Bank Group to grow steadily and prudently by encouraging long-term performance rather than short-term risk taking, but also motivates, recognizes and rewards both outstanding individual contribution, sound team performance and positive behaviors. The proportion and amount of fixed and variable remuneration shall vary according to an employee's seniority, role and responsibilities within the Bank Group, also the market benchmarking and trend.

Review of Remuneration Policy

The Remuneration Committee has during the year reviewed the update and enhancement of Remuneration Policy and Appendix with regards to the HKMA SPM Module "IC-2 Internal audit function" ("IC-2") by which the annual remuneration of the Internal Audit function as a whole shall be reviewed and approved by the Audit Committee and also the Bank's new Grading Structure and recommended to the Board.

Performance Management

The Bank Group uses a Balanced Scorecard ("Scorecard") approach to measure and manage performance at the levels of the Bank Group, business/functional units and individual employees. With reference to corporate goals and objectives at the beginning of financial year and when necessary, the Remuneration Committee reviews the Key Performance Indicators ("KPIs") and the corresponding target levels of the Bank Group and recommends to the Board for approval. The targets of the Bank Group will be cascaded down under the Balanced Scorecard Framework whereby the performance would be assessed from the four key dimensions of financial, customer, internal process and people management.

Each dimension of the Scorecard is comprised of a set of KPIs to assess the performance according to the specific areas of responsibility of the Bank Group, business/functional units and individual employees; both financial and non-financial performance indicators are required to ensure a balanced evaluation. To ensure independence, financial KPIs should not be applicable to those risk control unit/personnel whose performance should be evaluated by their performance objectives and independent of the performance of the business areas which they oversee.

To put the principle of aligning performance and remuneration with risk into practice, on top of the mentioned KPIs, a Compliance and Risk Control Dimension is in place in the Scorecard to take into account any risk factors, control, ethics and compliance event, also its severity and impact to be fully reflected on the performance score of the Bank Group, business/functional units and individual employees.

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Part VIII : Remuneration
REMA: Remuneration policy

Performance Management (continued)

In the respect of risk management, the Bank has developed a complete Risk Appetite Statement and Key Risk Indicators as the basis for monitoring, assessing and controlling the Bank Group's risk profile. In the Risk Modifier Framework of the Corporate Scorecard for 2018, seven major areas including credit risk, market risk, interest rate risk, liquidity risk, operational risk, compliance risk and risk culture are taken into account as a Corporate Scorecard Risk Modifier.

The Compliance and Risk Control assessment at individual level covers the employee's compliance, risk control and ethical standard. This includes, but is not limited to, the performance of the assessed employee in controlling various risks (e.g. credit, compliance, operations and reputation etc.), the risk management ratings, compliance reports or audit reports related to the performance of the assessed employee, verbal or written warnings etc.

Compliance and Risk Control Modifier can be applied to adjust the annual performance score in response to any relevant performance. Poor performance can result in a deduction of the total performance score, which in turn affects the magnitude and amount of variable remuneration.

Since 2018, under the current performance management system, apart from evaluating individuals' KPIs in the Scorecard, there is a separate assessment of adherence to "Corporate Culture & Value". The assessment indicators are designed and matched with reference to the Bank Group's "Management Concepts" and "Enterprise Spirit" and the six Core Competencies and their related behavioral indicators, so as to ensure employees and appraising managers clearly understand the required behaviors and attitude to achieve the defined corporate culture and core values of the Bank Group.

The final performance rating of the staff (including the "Balanced Scorecard" and "Corporate Culture and Values") will be a major consideration factor of their salary review and discretionary bonus (if applicable).

Award of Variable Remuneration

The size of the overall discretionary bonus pool of the Bank Group is determined according to the risk adjusted performance of the Bank Group together with the consideration of all necessary factors (including capital position, market and peers business conditions, market competitiveness, material or potential risks involved in the business, and the extent to which the risks affect the Bank Group as a whole), as recommended by Remuneration Committee to the Board for approval and is subject to the Board's discretion.

The subsequent allocation of discretionary bonus to each business/functional unit is based on the overall performance of the relevant business/functional unit; while the performance assessment of the employees is based on the final risk-adjusted performance rating in the individual Scorecards and the Corporate Culture and Value rating.

Poor performance (either financial or non-financial) will result in a reduction or elimination of discretionary bonus at any level. Adverse performance in non-financial factors, where appropriate, should override outstanding financial achievements. The overall performance of a business/functional unit or an individual employee could be thoroughly assessed, rather than solely relying on its/his/her financial performance. This ultimately helps mitigate risk to the Bank Group and align with its long-term value creation.

To ensure independence, the remuneration of risk control personnel is determined in accordance with their performance objectives and commensurate with their key role in the Bank Group. To avoid possible undue influence from business units, risk control personnel are compensated in a manner that is independent of the performance of the business unit which they oversee.

Part VIII : Remuneration
REMA: Remuneration policy

Deferral Arrangements

The award of discretionary bonus to employee is subject to deferment in such a manner as determined by the Remuneration Committee. Deferral of the payment of a portion of variable bonus will allow employees' performance, including the associated risks, to be observed and validated over a period of time before the payment is actually made. In general, when the overall level of their discretionary bonus exceeds a certain multiple of their fixed salary or a certain amount, a pre-defined portion of the bonus is subject to deferment. Deferral period can last for 2 years the longest.

The award of deferred bonus is subject to a minimum vesting period and pre-defined vesting conditions as determined by the Remuneration Committee and communicated to all relevant employees. Deferred bonus is awarded in such a manner so as to align the relevant employees' variable awards with long-term value creation and the time horizons of risk. The future performance (both financial and non-financial) of the Bank Group, relevant business/functional units, and individual employees are taken into consideration when approving the vesting arrangement. In circumstances where it is later established that any performance measurement for a pre-defined year was based on data that is later proven to have been manifestly misstated, or it is later established that the relevant employee has committed fraud, malfeasance, or a violation of internal control policies, any unvested portions of the deferred variable bonus (relating to that particular year in question) should be forgone, either in part or in whole, as determined by the Remuneration Committee.

External Remuneration Consultant

Appointed by the Board, the Remuneration Committee is authorised to obtain professional advice as it deems appropriate and is responsible for the selection and appointment of consultants to advise it on all aspects of remuneration.

The Bank Group plans to introduce a long-term incentive scheme into the reward management system. With the objective to motivate and retain key talents, the Group has appointed PricewaterhouseCoopers (PwC) as the professional consultant for the project, to recommend a long-term incentive design framework and to provide the associated consulting services for the Group's consideration.

Senior Management and Key Personnel

According to the Hong Kong Monetary Authority ("HKMA")'s Supervisory Policy Manual Module– CG-5 "Guideline on a Sound Remuneration System" and defined in the Remuneration Policy of the Bank Group, Senior Management refers to Executive Directors, Chief Executive, Deputy Chief Executive and the Chief Functional Officers; Key Personnel refers to individual positions whose duties or activities involve the assumption of material risk or the taking on of material exposures on behalf of the Bank Group and Heads of control functions.

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Part VIII : Remuneration

REM1: Remuneration awarded during financial year

In HK$'000			As at 31 December 2018	
			(a)	(b)
Remuneration amount and quantitative information			Senior management	Key personnel
1	Fixed remuneration	Number of employees	7	14
2		Total fixed remuneration	38,638	32,078
3		Of which: cash-based	38,638	32,078
4		Of which: deferred	-	-
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	7	11
10		Total variable remuneration	12,190	11,054
11		Of which: cash-based	12,190	11,054
12		Of which: deferred	3,633	4,199
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**		**50,828**	**43,132**

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Part VIII : Remuneration
REM2: Special payments

In HK$'000		As at 31 December 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	-	-	-	-	-	-
2	Key personnel	1	750	1	200	-	-

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Part VIII : Remuneration
REM3: Deferred remuneration

In HK$'000		As at 31 December 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	-	-	-	-	-
2	Cash	-	-	-	-	-
3	Shares	-	-	-	-	-
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel	300	300	-	-	-
7	Cash	300	300	-	-	-
8	Shares	-	-	-	-	-
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	**Total**	300	300	-	-	-

Abbreviations	Brief Description
AI	Authorized Institution
ALCO	Asset and Liability Management Committee
AT1	Additional Tier 1
BIA	Basic Indicator Approach
BVAL	Bloomberg Valuation
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CEM	Current Exposure Method
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CIS	Collective Investment Scheme
CRM	Credit Risk Mitigation
CVA	Credit Valuation Adjustment
EAD	Exposure At Default
ECAI	External Credit Assessment Institution
EPE	Expected Positive Exposure
EWI	Early Warning Indicator
EXCO	Executive Committee
FVOCI	Fair Value through Other Comprehensive Income
HKMA	Hong Kong Monetary Authority
IPV	Independent Price Verification
LR	Leverage Ratio
OTC	Over-The-Counter
PFE	Potential Future Exposure
PSE	Public Sector Entity
RC	Risk Committee
RMC	Risk Management Committee
RW	Risk-Weight
RWA	Risk-Weighted Asset/ Risk-Weighted Amount
SFT	Securities Financing Transaction
SPM	Supervisory Policy Manual
STC	Standardised (Credit Risk) Approach
STM	Standardised (Market Risk) Approach
VaR	Value At Risk