中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

China CITIC Bank International Limited
中信銀行(國際)有限公司

Regulatory Disclosure Statement

31 December 2018
(Unaudited)

These disclosures are prepared under the Banking (Disclosure) Rules

Regulatory Disclosure Statements

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Regulatory Disclosure Statements (continued)

The information contained in this regulatory disclosure statements is for China CITIC Bank International Limited ("**the Bank**") and its subsidiaries (together "**the Group**"), and is prepared in accordance with the Banking (Disclosure) Rules and the disclosure templates issued by the Hong Kong Monetary Authority ("**HKMA**"). It should be read in conjunction with the Group's 2018 Annual Report. These regulatory disclosures are governed by the Group's disclosure policy, which set out the governance, control and assurance requirements for publication of the document.

PART I: KEY PRUDENTIAL RATIOS, OVERVIEW OF RISK MANAGEMENT AND RISK-WEIGHTED ASSET (RWA)

OVA: Overview of risk management

The Group has the fundamental goal of executing our strategy while managing our risks in a comprehensive and integrated manner. The Risk Appetite Statement is a key component within the risk management framework which describes the types and levels of risk that we are prepared to accept in the pursuit of our goals. The Group has a robust infrastructure to facilitate identifying, quantifying, monitoring and mitigating all risk types in our business activities. A comprehensive overview of our risk management framework including the management and mitigation of key risks facing the Group is set out in the *Risk Management Section of the Annual Report 2018*.

The Board has the primary responsibility for the effective management of risk. The Board approves the risk appetite framework and ensures that it is consistent with our strategic, business, capital and financial plans, as well as the risk-taking capacity and remuneration system. The Board has established Credit & Risk Management Committee (CRMC) to oversee our risk management strategy, risk appetite, profile and capital adequacy. The CRMC carries out its oversight function on the Group's risk management through various committees at the management level, including the Credit Committee, Market Risk Committee, Non-Performing Loans Committee, Investment Review Committee, Asset and Liability Committee, Operational Risk Management Committee, New Product Committee, Fraud Risk Management Committee and Management Committee. Further information on the risk governance structure is set out in the *Corporate Governance Section of the Annual Report 2018*.

The Group adopts a Three Lines of Defence model in risk management. As the first line of defence, the primary responsibility of managing risks rests with the line management of the respective business lines, functional units and subsidiaries. For reporting of quantifiable risks that are measured against approved limits, limits initiated by business units shall be subject to independent monitoring and control as the second line of defence. As the third line of defence, Internal Audit shall conduct regular audits on the risk areas to ascertain the effectiveness of the system in risk measurement, reporting and monitoring.

The Group has set up the Bank Culture Reform Taskforce to develop a framework and put together an implementation plan for enhancing the risk culture. Key initiatives being implemented and have already been implemented include re-prioritization of the six core values, revision of the Risk Appetite Statement, Code of Conduct, and General Compliance Manual, establishment of a separate Whistle-Blowing Policy, the appointment of Conduct Risk Champions to ensure clear accountability for and ownership of risk and culture reforms, engagement of Willis Towers Watson to conduct a culture awareness survey for our staff, revamp of the performance appraisal process to enhance behaviour assessment with core values and establishment of a dashboard to track key cultural indicators.

Our risk measurement and reporting systems are dedicated to deliver comprehensive and management information in support of business strategy and solutions to evolving regulatory reporting requirements. The Group maintains adequate tools/techniques and management information systems to identify, measure, monitor and mitigate all relevant quantifiable and material risks and to provide our management with timely and accurate reports on the financial condition, operating performance and risk exposure of the Group. Risk management tools/techniques include but not limited to quantitative models, portfolio and limit management tools, early alert tools, stress testing, etc. to ensure that the risks are evaluated and quantified in a multi-dimensional and scientific manner. The Group continually seeks to enhance our risk management practices and methodologies in alignment with international best practices. A number of key initiatives and projects to enhance risk database, data governance, system and infrastructure, and work towards meeting the Basel Committee and other applicable regulatory requirements are in progress.

The Group operates a robust and comprehensive stress-testing programme that supports our risk management and capital planning. Stress-testing also assesses our capital strength and enhances our resilience to external shocks. It also gives an insight into the potential impact of significant adverse events and how these could be mitigated. Apart from regulatory driven stress tests, the Group also conducts internal stress tests. Our stress-testing is supported by dedicated teams and infrastructure. The Board delegated committees oversees the stress-testing programme and the stress test results are regularly reported to the management level committees for approval and course of action, where appropriate. The Group uses a range of stress-testing techniques and perspectives to achieve a comprehensive coverage across our business activities. A comprehensive overview on stress-testing over different risk classes is set out in the *Risk Management Section of the Annual Report 2018*.

PART I: KEY PRUDENTIAL RATIOS, OVERVIEW OF RISK MANAGEMENT AND RISK-WEIGHTED ASSET (RWA)

KM1: Key prudential ratios

		At 31 December 2018	At 30 September 2018	At 30 June 2018	At 31 March 2018	At 31 December 2017
		(a)	(b)	(c)	(d)	(e)
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Regulatory capital					
1	Common Equity Tier 1 (CET1)	**33,354,626**	32,629,371	32,631,882	34,982,288	34,410,791
2	Tier 1	**43,440,153**	38,806,386	38,808,897	41,159,303	40,587,806
3	Total capital	**50,386,359**	45,632,680	45,696,160	48,687,366	48,046,211
	RWA					
4	Total RWA	**260,769,021**	253,726,353	256,922,304	243,040,714	236,916,524
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	**12.8%**	12.9%	12.7%	14.4%	14.5%
6	Tier 1 ratio (%)	**16.7%**	15.3%	15.1%	16.9%	17.1%
7	Total capital ratio (%)	**19.3%**	18.0%	17.8%	20.0%	20.3%
	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 (%)	**1.071%**	1.075%	1.011%	1.032%	0.707%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	**N/A**	N/A	N/A	N/A	N/A
11	Total AI-specific CET1 buffer requirements (%)	**2.946%**	2.950%	2.886%	2.907%	1.957%
12	CET1 available after meeting the AI's minimum capital requirements (%)	**8.3%**	8.4%	8.2%	9.9%	10.0%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	**380,471,033**	375,475,397	364,299,274	358,742,716	358,059,508
14	LR (%)	**11.4%**	10.3%	10.7%	11.5%	11.3%
	Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	**45,470,570**	37,721,407	40,156,201	45,594,621	36,059,763
16	Total net cash outflows	**17,611,354**	17,674,562	18,928,947	19,981,426	20,638,833
17	LCR (%) *(Remark)*	**258.5%**	213.5%	213.1%	228.2%	177.6%
	Applicable to category 2 institution only:					
17a	LMR (%) *(Remark)*	**N/A**	N/A	N/A	N/A	N/A
	Net Stable Funding Ratio (NSFR)/Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	**241,797,117**	233,251,769	226,471,370	226,726,631	N/A
19	Total required stable funding	**170,883,768**	170,595,832	170,893,092	168,055,134	N/A
20	NSFR (%)	**141.5%**	136.7%	132.5%	134.9%	N/A
	Applicable to category 2A institution only:					
20a	CFR (%)	**N/A**	N/A	N/A	N/A	N/A

N/A – Non-Applicable

Remark:
The average liquidity maintenance ratio ("LMR") was calculated based on the arithmetic mean of the average value of LMR for each month up to 30 September 2017, which was also computed on the consolidated basis covering China CITIC Bank International Limited and certain of its subsidiaries ("the Group") as required by the Hong Kong Monetary Authority ("HKMA").

The Group was designated by the HKMA as a Category 1 institution with effect from 1 October 2017. As a result, under the Banking (Liquidity) Rules, the Group is required to maintain a Liquidity Coverage Ratio ("LCR") above the statutory minimum requirement, which superseded the regulatory requirements of the Liquidity Maintenance Ratio.

Regulatory Disclosure Statements (continued)

PART I: KEY PRUDENTIAL RATIOS, OVERVIEW OF RISK MANAGEMENT AND RISK-WEIGHTED ASSET (RWA)

OV1: Overview of RWAs

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

		(a)	(b)	(c)
		RWAs		Minimum capital requirements
		At 31 December 2018	At 30 September 2018	At 31 December 2018
		HK$'000	*HK$'000*	*HK$'000*
1	Credit risk for non-securitization exposures	226,650,058	219,791,773	18,132,005
2	Of which STC approach	226,650,058	219,791,773	18,132,005
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	7,857,585	9,550,300	628,607
7	Of which SA-CCR*	Not applicable	Not applicable	Not applicable
7a	Of which CEM	7,834,401	9,537,940	626,752
8	Of which IMM(CCR) approach	–	–	–
9	Of which others	23,184	12,360	1,855
10	CVA risk	2,903,250	3,300,200	232,260
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	7,337,525	6,604,663	587,002
21	Of which STM approach	7,337,525	6,604,663	587,002
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	14,184,325	13,816,588	1,134,746
25	Amounts below the thresholds for deduction (subject to 250% RW)	2,152,538	902,538	172,203
26	Capital floor adjustment	–	–	–
26a	Deduction to RWAs	316,260	239,709	25,301
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	227,838	193,420	18,227
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	88,422	46,289	7,074
27	**Total**	**260,769,021**	**253,726,353**	**20,861,522**

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

The Bank has adopted the "standardised approach" for calculating the risk-weighted amount for credit risk and market risk and the "basic indicator approach" for calculating operational risk.

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

Regulatory Disclosure Statements (continued)

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

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
At 31 December 2018	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets							
Cash and balances with banks, central banks and other financial institutions	29,622,486	29,622,486	29,622,486	–	–	–	–
Placements with and advances to banks, central banks and other financial institutions	52,886,380	52,886,380	52,886,380	–	–	–	–
Financial assets at fair value through profit or loss	1,440,532	1,440,532	513	–	–	1,440,019	–
Derivative financial instruments	6,027,833	6,027,833	–	6,027,833	–	–	–
Loans and advances to customers and other accounts	203,829,256	203,842,958	203,842,958	–	–	–	–
Financial assets at fair value through other comprehensive income	66,977,407	66,977,407	66,977,407	–	–	–	–
Interest in associates	352,151	352,151	352,151	–	–	–	–
Property and equipment							
– Investment properties	241,970	241,970	241,970	–	–	–	–
– Other premises and equipment	492,854	492,854	492,854	–	–	–	–
Intangible assets	652,210	652,210	–	–	–	–	652,210
Tax recoverable	8,353	8,353	8,353	–	–	–	–
Deferred tax assets	413,359	413,359	–	–	–	–	413,359
Total assets	**362,944,791**	**362,958,493**	**354,425,072**	**6,027,833**	**–**	**1,440,019**	**1,065,569**
Liabilities							
Deposits and balances of banks and other financial institutions	2,849,375	2,849,375	–	–	–	–	2,849,375
Deposits from customers	285,492,851	285,492,851	–	–	–	–	285,492,851
Derivative financial instruments	6,543,351	3,543,351	–	–	–	–	3,543,351
Certificates of deposit issued	3,133,151	3,133,151	–	–	–	–	3,133,151
Debt securities issued	3,408,077	3,408,077	–	–	–	–	3,408,077
Current tax liabilities	600,053	600,053	–	–	–	–	600,053
Deferred tax liabilities	7,940	7,940	–	–	–	–	7,940
Other liabilities	8,645,374	8,645,374	–	–	–	–	8,645,374
Loan capital	6,283,542	6,280,519	–	–	–	–	6,280,519
Total liabilities	**316,963,714**	**313,960,691**	**–**	**–**	**–**	**–**	**313,960,691**

Regulatory Disclosure Statements (continued)

PART II: LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

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

		(a)	(b)	(c)	(d)	(e)
			Items subject to:			
		Total	**credit risk framework**	**securitization framework**	**counterparty credit risk framework**	**market risk framework**
At 31 December 2018		***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	361,892,924	354,425,072	–	6,027,833	1,440,019
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	–	–	–	–	–
3	Total net amount under regulatory scope of consolidation	361,892,924	354,425,072	–	6,027,833	1,440,019
4	Off-balance sheet amounts	91,061,825	9,060,942	–	–	–
5	Differences in valuations	(13,701)	(13,701)	–	–	–
6	Differences due to different netting rules, other than those already included in row 2	–	–	–	–	–
7	Differences due to consideration of provisions	–	–	–	–	–
8	Differences due to prudential filters	–	–	–	–	–
	Exposure amounts considered for regulatory purposes	**452,941,048**	**363,472,313**	**–**	**6,027,833**	**1,440,019**

LIA: Explanations of differences between accounting and regulatory exposure amounts

(1) The difference between column (a) and column (b) of Template LI 1 are due to the consolidation basis for accounting includes the Bank and all its subsidiaries whereas the consolidation basis for regulatory purposes includes the Bank and only some of the Group's subsidiaries but excluded nominee services companies.

(2) The main driver for the differences between accounting values and amounts considered for regulatory purposes is the application of credit conversion factor ("CCF") on off-balance sheet amounts for counterparty risk.

Regulatory Disclosure Statements (continued)

PART II: LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

PV1: Prudent valuation adjustments

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
								Of which:	Of which:
At 31 December 2018 ***(HK$'000)***		**Equity**	**Interest rates**	**FX**	**Credit**	**Commodities**	**Total**	**In the trading book**	**In the banking book**
1	Close-out uncertainty, of which:	–	–	–	–	–	–	–	–
2	*Mid-market value*	–	–	–	–	–	–	–	–
3	*Close-out costs*	–	6,602	–	–	–	6,602	–	6,602
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**	**–**	**6,602**	**–**	**–**	**–**	**6,602**	**–**	**6,602**

Regulatory Disclosure Statements (continued)

PART IIA: COMPOSITION OF REGULATORY CAPITAL

CC1: Composition of regulatory capital

At 31 December 2018		(a) Amount HK$'000	(b) Source based on reference number 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	17,931,698	(4)+(5)
2	Retained earnings	17,411,498	(8)
3	Disclosed reserves	101,710	(6)
4	*Directly issued capital subject to phase out from CET1 capital (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**	**35,444,906**	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	6,602	(11)
8	Goodwill (net of associated deferred tax liabilities)	–	
9	Other intangible assets (net of associated deferred tax liabilities)	652,210	
10	Deferred tax assets (net of deferred tax liabilities)	413,359	(2)
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	1,884	(3)
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	–	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–	
17	Reciprocal cross-holdings in CET1 capital instruments	–	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liabilities)	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	1,016,225	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	160,768	(7)+(10)
26b	Regulatory reserve for general banking risks	855,457	(9)
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	–	

Regulatory Disclosure Statements (continued)

PART IIA: COMPOSITION OF REGULATORY CAPITAL

CC1: Composition of regulatory capital (continued)

		(a)	(b)
		Amount	**Source based on reference number of the balance sheet under the regulatory scope of consolidation**
At 31 December 2018		***HK$'000***	
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**	**2,090,280**	
29	**CET1 capital**	**33,354,626**	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	10,085,527	(12) + (13)
31	of which: classified as equity under applicable accounting standards	10,085,527	
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**	**10,085,527**	
	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**	**10,085,527**	
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	**43,440,153**	

PART IIA: COMPOSITION OF REGULATORY CAPITAL

CC1: Composition of regulatory capital (continued)

		(a)	(b)
		Amount	Source based on reference number of the balance sheet under the regulatory scope of consolidation
At 31 December 2018		*HK$'000*	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	2,349,863	(15)
47	Capital instruments subject to phase out arrangements from Tier 2 capital	1,566,035	(14)
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	–	
49	*of which: capital instruments issued by subsidiaries subject to phase out arrangements*	–	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	2,957,962	[(1) + (9)] x 92.8483%
51	**Tier 2 capital before regulatory deductions**	**6,873,860**	
	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	(72,346)	
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	(72,346)	[(7) + (10)] x 45%
57	**Total regulatory deductions to Tier 2 capital**	**(72,346)**	
58	**Tier 2 capital (T2)**	**6,946,206**	
59	**Total regulatory capital (TC = T1 + T2)**	**50,386,359**	
60	**Total RWA**	**260,769,021**	
	Capital ratios (as a percentage of RWA)		
61	**CET1 capital ratio**	**12.79%**	
62	**Tier 1 capital ratio**	**16.66%**	
63	**Total capital ratio**	**19.32%**	
64	**Institution – specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	**2.95%**	
65	*of which: capital conservation buffer requirement*	1.88%	
66	*of which: bank specific countercyclical capital buffer requirement*	1.07%	
67	*of which: higher loss absorbency requirements*	0.00%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	8.29%	

Regulatory Disclosure Statements (continued)

PART IIA: COMPOSITION OF REGULATORY CAPITAL

CC1: Composition of regulatory capital (continued)

At 31 December 2018		(a) Amount HK$'000	(b) Source based on reference number of the balance sheet under the regulatory scope of consolidation
	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 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	95,801	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	861,015	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of related 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)	3,185,800	
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	2,957,962	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	–	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	–	
	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*	–	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	–	
84	*Current cap on Tier 2 capital instruments subject to phase out arrangements*	1,566,035	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	2,505,980	

Regulatory Disclosure Statements (continued)

PART IIA: COMPOSITION OF REGULATORY CAPITAL

CC1: Composition of regulatory capital (continued)

<table>
<tr><th>Row No.</th><th>Description</th><th>Hong Kong basis</th><th>Basel III basis</th></tr>
<tr><td rowspan="2">9</td><td>Other intangible assets (net of associated deferred tax liability)</td><td>652,210</td><td>652,210</td></tr>
<tr><td colspan="3"><u>Explanation</u>
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.</td></tr>
<tr><td rowspan="2">10</td><td>Deferred tax assets (net of associated deferred tax liabilities)</td><td>413,359</td><td>413,359</td></tr>
<tr><td colspan="3"><u>Explanation</u>
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.</td></tr>
<tr><td rowspan="2">18</td><td>Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</td><td>–</td><td>–</td></tr>
<tr><td colspan="3"><u>Explanation</u>
For the purpose of determining the total amount of insignificant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI’s business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column “Basel III basis” in this box represents the amount reported in row 18 (i.e. the amount reported under the “Hong Kong basis”) adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI’s connected companies which were subject to deduction under the Hong Kong approach.</td></tr>
</table>

Regulatory Disclosure Statements (continued)

PART IIA: COMPOSITION OF REGULATORY CAPITAL

CC1: Composition of regulatory capital (continued)

Row No.	Description	Hong Kong basis	Basel III basis
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.			

Abbreviations:

CET1 : Common Equity Tier 1
AT1 : Additional Tier 1

Regulatory Disclosure Statements (continued)

PART IIA: COMPOSITION OF REGULATORY CAPITAL

CC2: Reconciliation of regulatory capital to balance sheet

	At 31 December 2018		
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	HK$'000	*HK$'000*	
Assets			
Cash and balances with banks, central banks and other financial institutions	29,622,486	29,622,486	
Placements with and advances to banks, central banks and other financial institutions	52,886,380	52,886,380	
Financial assets at fair value through profit or loss	1,440,532	1,440,532	
Derivative financial instruments	6,027,833	6,027,833	
Loans and advances to customers and other accounts	203,829,256	203,842,958	
of which: Expected credit losses allowances eligible for inclusion in Tier 2 Capital	–	*2,330,343*	(1)
Financial assets at fair value through other comprehensive income	66,977,407	66,977,407	
Interest in associates	352,151	352,151	
Property and equipment			
– Investment property	241,970	241,970	
– Other property and equipment	492,854	492,854	
Intangible assets	652,210	652,210	
Tax recoverable	8,353	8,353	
Deferred tax assets	413,359	413,359	(2)
Total Assets	**362,944,791**	**362,958,493**	
Liabilities			
Deposits and balances of banks and other financial institutions	2,849,375	2,849,375	
Deposits from customers	285,492,851	285,492,851	
Derivative financial instruments	6,543,351	6,543,351	
of which: Debit valuation adjustments in respect of derivative contracts	–	*1,884*	(3)
Certificates of deposit issued	3,133,151	3,133,151	
Debt securities issued	3,408,077	3,408,077	
Current tax liabilities	600,053	600,053	
Deferred tax liabilities	7,940	7,940	
Other liabilities	8,645,374	8,645,374	
Loan capital	6,283,542	6,280,519	
of which: Loan capital not eligible for inclusion in regulatory capital	–	*1,566,035*	(14)
Loan capital eligible for inclusion in regulatory capital	–	*2,349,863*	(15)
Total Liabilities	**316,963,714**	**316,960,691**	
Equity			
Total shareholders' equity	**35,900,497**	**35,917,222**	
of which: Paid-in share capital	18,404,013	18,404,013	(4)
of which: non-qualifying CET1 Capital	–	*(472,315)*	(5)
Other Reserves	101,711	101,711	(6)
of which: Regulatory reserve of properties	*76,312*	*76,312*	(7)
Retained earnings	17,394,773	17,411,498	(8)
of which: Regulatory reserve earmarked	–	*855,457*	(9)
of which: Cumulative retained earnings for investment properties	–	*84,456*	(10)
of which: Valuation Adjustments	–	*6,602*	(11)
Additional equity instruments	**10,080,580**	**10,080,580**	(12)
of which: Transaction costs for additional equity instruments	–	*4,947*	(13)
Total Equity	**45,981,077**	**45,997,802**	
Total Equity and Liabilities	**362,944,791**	**362,958,493**	

Regulatory Disclosure Statements (continued)

PART IIA: COMPOSITION OF REGULATORY CAPITAL

CCA: Main features of regulatory capital instruments

		Share Capital	**Subordinated notes (due 2020) with US$500 million at 6.875% per annum**
(1)	Issuer	China CITIC Bank International Limited	China CITIC bank International Limited
(2)	Unique identifier	N/A	XS0520490672
(3)	Governing law(s) of the instrument	Hong Kong laws	English laws (subordination governed by Hong Kong laws)
	Regulatory treatment		
(4)	– Transitional Basel III rules (1)	N/A	Tier 2
(5)	– Post-transitional Basel III rules (2)	Common Equity Tier 1	Ineligible
(6)	– Eligible at solo/group/group and solo	Group and solo	Group and solo
(7)	–Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Debt Instruments
(8)	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$18,404.01 million	HK$2,754.73 million
(9)	Par value of instrument	N/A	US$500.00 million
(10)	Accounting classification	Shareholders' equity	Liability – amortised cost
(11)	Original date of issuance	10 December 1954	24 June 2010
(12)	Perpetual or dated	Perpetual	Dated
(13)	– Original maturity date	No maturity	24 June 2020
(14)	Issuer call subject to prior supervisory approval	N/A	No
(15)	– Optional call date, contingent call dates and redemption amount	N/A	N/A
(16)	– Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
(17)	– Fixed or floating dividend/coupon	N/A	Fixed
(18)	– Coupon rate and any related index	N/A	6.875% per annum
(19)	– Existence of a dividend stopper	N/A	No
(20)	– Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory
(21)	– Existence of step up or other incentive to redeem	No	No
(22)	– Non-cumulative or cumulative	Non-cumulative	Cumulative
(23)	*Convertible or non-convertible*	Non-convertible	Non-convertible
(24)	– If convertible, conversion trigger(s)	N/A	N/A
(25)	– If convertible, fully or partially	N/A	N/A
(26)	– If convertible, conversion rates	N/A	N/A
(27)	– If convertible, mandatory or optional conversion	N/A	N/A
(28)	– If convertible, specify instrument type convertible into	N/A	N/A
(29)	– If convertible, specify issuer of instrument if converts into	N/A	N/A
(30)	Write-down feature	No	No
(31)	– If write-down, write-down trigger(s)	N/A	N/A
(32)	– If write-down, full or partial	N/A	N/A
(33)	– If write-down, permanent or temporary	N/A	N/A
(34)	– If temporary write-down, description of write-up mechanise	N/A	N/A
(35)	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	N/A	Immediately subordinated to indebtedness/unsecured senior notes
(36)	Non-compliant transitioned features	No	Yes
(37)	If yes, specify non-compliant features	N/A	Absence of non-viability loss absorption criteria

N/A – Non-Applicable

Footnotes:

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

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

Full terms and conditions of regulatory capital instruments can be viewed in the Regulatory Discloses section of the Bank's corporate website www.cncbinternational.com.

Regulatory Disclosure Statements (continued)

PART IIA: COMPOSITION OF REGULATORY CAPITAL

CCA: Main features of regulatory capital instruments (continued)

		Subordinated notes (due 2024) with US$300 million at 6.000% per annum
(1)	Issuer	China CITIC Bank International Limited
(2)	Unique identifier	XS0985263150
(3)	Governing law(s) of the instrument	English laws (subordination governed by Hong Kong laws)
	Regulatory treatment	
(4)	– Transitional Basel III rules (1)	N/A
(5)	– Post-transitional Basel III rules (2)	Tier 2
(6)	– Eligible at solo/group/group and solo	Group and solo
(7)	–Instrument type (types to be specified by each jurisdiction)	Debt instruments
(8)	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$2,337.69 million
(9)	Par value of instrument	US$300.00 million
(10)	Accounting classification	Liability – amortised cost
(11)	Original date of issuance	7 November 2013
(12)	Perpetual or dated	Dated
(13)	– Original maturity date	7 May 2024
(14)	Issuer call subject to prior supervisory approval	Yes
(15)	– Optional call date, contingent call dates and redemption amount	-7 May 2019 (Call Date). Included tax and regulatory call options. – Redemption at par, subject to adjustment following the occurrence of a Non-Viability Event.
(16)	– Subsequent call dates, if applicable	N/A
	Coupons/dividends	
(17)	– Fixed or floating dividend/coupon	Fixed
(18)	– Coupon rate and any related index	At a fixed rate of 6.000% per annum until (but excluding) 7 May 2019 and thereafter reset at then prevailing five-year U.S. Treasury rate plus the initial spread of 4.718% per annum.
(19)	– Existence of a dividend stopper	No
(20)	– Fully discretionary, partially discretionary or mandatory	Mandatory
(21)	– Existence of step up or other incentive to redeem	No
(22)	– Non-cumulative or cumulative	Cumulative
(23)	*Convertible or non-convertible*	Non-convertible
(24)	– If convertible, conversion trigger(s)	N/A
(25)	– If convertible, fully or partially	N/A
(26)	– If convertible, conversion rates	N/A
(27)	– If convertible, mandatory or optional conversion	N/A
(28)	– If convertible, specify instrument type convertible into	N/A
(29)	– If convertible, specify issuer of instrument if converts into	N/A
(30)	Write-down feature	Yes
(31)	– If write-down, write-down trigger(s)	Upon the occurrence of a Non-Viability Event, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then prevailing principal amount and cancel any accrued but unpaid interest of each Note in whole or in part. "Non-Viability Event" means the earlier of: (a) the Hong Kong Monetary Authority (the "HKMA") notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; and (b) the HKMA notifying the Issuer 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 Issuer would become non-viable.
(32)	– If write-down, full or partial	Full or partial
(33)	– If write-down, permanent or temporary	Permanent
(34)	– If temporary write-down, description of write-up mechanise	N/A
(35)	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Immediately subordinated to indebtedness/unsecured senior notes
(36)	Non-compliant transitioned features	No
(37)	If yes, specify non-compliant features	N/A

N/A – Non-Applicable

Footnotes:

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

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

Regulatory Disclosure Statements (continued)

PART IIA: COMPOSITION OF REGULATORY CAPITAL

CCA: Main features of regulatory capital instruments (continued)

		Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities with US$300 million at 7.25% per annum
(1)	Issuer	China CITIC Bank International Limited
(2)	Unique identifier	XS1055321993
(3)	Governing law(s) of the instrument	English laws (subordination governed by Hong Kong laws)
	Regulatory treatment	
(4)	– Transitional Basel III rules (1)	N/A
(5)	– Post-transitional Basel III rules (2)	Additional Tier 1
(6)	– Eligible at solo/group/group and solo	Group and solo
(7)	–Instrument type (types to be specified by each jurisdiction)	Undated Non-Cumulative Subordinated Capital Securities
(8)	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$2,313.47 million
(9)	Par value of instrument	US$300.00 million
(10)	Accounting classification	Equity – par value
(11)	Original date of issuance	22 April 2014
(12)	Perpetual or dated	Perpetual
(13)	– Original maturity date	No maturity
(14)	Issuer call subject to prior supervisory approval	Yes
(15)	– Optional call date, contingent call dates and redemption amount	– 22 April 2019 (First Call Date) – No fixed redemption date. – Optional Redemption (on a designated date in 2019 or on any Distribution Payment Date thereafter), Tax or Regulatory Redemption are all subject to prior written consent of the HKMA and satisfying any conditions that the HKMA may impose at that time. Redemption amount will be the outstanding principal amount together with distributions accrued to the date of redemption.”
(16)	– Subsequent call dates, if applicable	N/A
	Coupons/dividends	
(17)	– Fixed or floating dividend/coupon	Fixed
(18)	– Coupon rate and any related index	– At a fixed rate of 7.25% per annum until (but excluding) 22 April 2019. – On the First Call Date and each anniversary falling five years thereafter, the Distribution Rate will reset by reference to the then-prevailing five year U.S. Treasury Rate plus 5.627% per annum. – Any distributions are subject to there being no Mandatory Distribution Cancellation Event or Optional Distribution Cancellation Event.
(19)	– Existence of a dividend stopper	Yes
(20)	– Fully discretionary, partially discretionary or mandatory	Fully Discretionary
(21)	– Existence of step up or other incentive to redeem	No
(22)	– Non-cumulative or cumulative	Non-cumulative
(23)	*Convertible or non-convertible*	Non-convertible
(24)	– If convertible, conversion trigger(s)	N/A
(25)	– If convertible, fully or partially	N/A
(26)	– If convertible, conversion rates	N/A
(27)	– If convertible, mandatory or optional conversion	N/A
(28)	– If convertible, specify instrument type convertible into	N/A
(29)	– If convertible, specify issuer of instrument if converts into	N/A
(30)	Write-down feature	Yes
(31)	– If write-down, write-down trigger(s)	Upon the occurrence of a Non-Viability Event, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then prevailing principal amount and cancel any accrued but unpaid distribution of each Capital Security in whole or in part.“Non-Viability Event” means the earlier of: (a) the HKMA notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; and (b) the HKMA notifying the Issuer 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 Issuer would become non-viable.
(32)	– If write-down, full or partial	Full or partial
(33)	– If write-down, permanent or temporary	Permanent
(34)	– If temporary write-down, description of write-up mechanise	N/A
(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 the claims of: (i) all unsubordinated creditors (including depositors), (ii) creditors in respect of Tier 2 Capital Securities, and (iii) all other Subordinated Creditors whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operations of law or contract.
(36)	Non-compliant transitioned features	No
(37)	If yes, specify non-compliant features	N/A

N/A – Non-Applicable

Footnotes:

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

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

Regulatory Disclosure Statements (continued)

PART IIA: COMPOSITION OF REGULATORY CAPITAL

CCA: Main features of regulatory capital instruments (continued)

		Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities with US$500 million at 4.25% per annum
(1)	Issuer	China CITIC Bank International Limited
(2)	Unique identifier	XS1499209861
(3)	Governing law(s) of the instrument	English laws (subordination governed by Hong Kong laws)
	Regulatory treatment	
(4)	– Transitional Basel III rules (1)	N/A
(5)	– Post-transitional Basel III rules (2)	Additional Tier 1
(6)	– Eligible at solo/group/group and solo	Group and solo
(7)	– Instrument type (types to be specified by each jurisdiction)	Undated Non-Cumulative Subordinated Capital Securities
(8)	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$3,863.55 million
(9)	Par value of instrument	US$500.00 million
(10)	Accounting classification	Equity – par value
(11)	Original date of issuance	11 October 2016
(12)	Perpetual or dated	Perpetual
(13)	– Original maturity date	No maturity
(14)	Issuer call subject to prior supervisory approval	Yes
(15)	– Optional call date, contingent call dates and redemption amount	– 11 October 2021 (First Call Date) – No fixed redemption date. – Optional Redemption (on a designated date in 2021 or on any Distribution Payment Date thereafter), Tax or Regulatory Redemption are all subject to prior written consent of the HKMA and satisfying any conditions that the HKMA may impose at that time. Redemption amount will be the outstanding principal amount together with distributions accrued to the date of redemption.
(16)	– Subsequent call dates, if applicable	N/A
	Coupons/dividends	
(17)	– Fixed or floating dividend/coupon	Fixed
(18)	– Coupon rate and any related index	– At a fixed rate of 4.25% per annum until (but excluding) 11 October 2021. – On the First Call Date and each anniversary falling five years thereafter, the Distribution Rate will reset by reference to the then-prevailing five year U.S. Treasury Rate plus 3.107% per annum. – Any distributions are subject to there being no Mandatory Distribution Cancellation Event or Optional Distribution Cancellation Event.
(19)	– Existence of a dividend stopper	Yes
(20)	– Fully discretionary, partially discretionary or mandatory	Fully Discretionary
(21)	– Existence of step up or other incentive to redeem	No
(22)	– Non-cumulative or cumulative	Non-cumulative
(23)	*Convertible or non-convertible*	Non-convertible
(24)	– If convertible, conversion trigger(s)	N/A
(25)	– If convertible, fully or partially	N/A
(26)	– If convertible, conversion rates	N/A
(27)	– If convertible, mandatory or optional conversion	N/A
(28)	– If convertible, specify instrument type convertible into	N/A
(29)	– If convertible, specify issuer of instrument if converts into	N/A
(30)	Write-down feature	Yes
(31)	– If write-down, write-down trigger(s)	Upon the occurrence of a Non-Viability Event, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then prevailing principal amount and cancel any accrued but unpaid distribution of each Capital Security in whole or in part. “Non-Viability Event” means the earlier of: (a) the HKMA notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; and (b) the HKMA notifying the Issuer 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 Issuer would become non-viable. At the sole discretion of the relevant Hong Kong Resolution Authority following a non-viability event, the outstanding amount of AT1 Capital Securities can be adjusted upon the exercise of Hong Kong Resolution Authority Power in accordance with the Hong Kong Financial Institutions (Resolution) Ordinance (Cap.628).
(32)	– If write-down, full or partial	Full or partial
(33)	– If write-down, permanent or temporary	Permanent
(34)	– If temporary write-down, description of write-up mechanise	N/A
(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 the claims of: (i) all unsubordinated creditors (including depositors), (ii) creditors in respect of Tier 2 Capital Securities, and (iii) all other Subordinated Creditors whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operations of law or contract.
(36)	Non-compliant transitioned features	No
(37)	If yes, specify non-compliant features	N/A

N/A – Non-Applicable

Footnotes:

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

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

Regulatory Disclosure Statements (continued)

PART IIA: COMPOSITION OF REGULATORY CAPITAL

CCA: Main features of regulatory capital instruments (continued)

		Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities with US$500 million at 7.10% per annum
(1)	Issuer	China CITIC Bank International Limited
(2)	Unique identifier	XS1897158546
(3)	Governing law(s) of the instrument	English laws (subordination governed by Hong Kong laws)
	Regulatory treatment	
(4)	– Transitional Basel III rules (1)	N/A
(5)	– Post-transitional Basel III rules (2)	Additional Tier 1
(6)	– Eligible at solo/group/group and solo	Group and solo
(7)	– Instrument type (types to be specified by each jurisdiction)	Undated Non-Cumulative Subordinated Capital Securities
(8)	Amount recognised in regulatory capital(Currency in million, as of most recent reporting date)	HK$3,908.51 million
(9)	Par value of instrument	US$500.00 million
(10)	Accounting classification	Equity – par value
(11)	Original date of issuance	6 November 2018
(12)	Perpetual or dated	Perpetual
(13)	– Original maturity date	No maturity
(14)	Issuer call subject to prior supervisory approval	Yes
(15)	– Optional call date, contingent call dates and redemption amount	– 6 November 2023 (First Call Date) – No fixed redemption date. – Optional Redemption (on a designated date in 2023 or on any Distribution Payment Date thereafter), Tax or Regulatory Redemption are all subject to prior written consent of the HKMA and satisfying any conditions that the HKMA may impose at that time. Redemption amount will be the outstanding principal amount together with distributions accrued to the date of redemption.
(16)	– Subsequent call dates, if applicable	N/A
	Coupons/dividends	
(17)	– Fixed or floating dividend/coupon	Fixed
(18)	– Coupon rate and any related index	– At a fixed rate of 7.10% per annum until (but excluding) 6 November 2023. – On the First Call Date and each anniversary falling five years thereafter, the Distribution Rate will reset by reference to the then-prevailing five year U.S. Treasury Rate plus 4.151% per annum. – Any distributions are subject to there being no Mandatory Distribution Cancellation Event or Optional Distribution Cancellation Event."
(19)	– Existence of a dividend stopper	Yes
(20)	– Fully discretionary, partially discretionary or mandatory	Fully Discretionary
(21)	– Existence of step up or other incentive to redeem	No
(22)	– Non-cumulative or cumulative	Non-cumulative
(23)	*Convertible or non-convertible*	Non-convertible
(24)	– If convertible, conversion trigger(s)	N/A
(25)	– If convertible, fully or partially	N/A
(26)	– If convertible, conversion rates	N/A
(27)	– If convertible, mandatory or optional conversion	N/A
(28)	– If convertible, specify instrument type convertible into	N/A
(29)	– If convertible, specify issuer of instrument if converts into	N/A
(30)	Write-down feature	Yes
(31)	– If write-down, write-down trigger(s)	Upon the occurrence of a Non-Viability Event, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then prevailing principal amount and cancel any accrued but unpaid distribution of each Capital Security in whole or in part."Non-Viability Event" means the earlier of: (a) the HKMA notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; and (b) the HKMA notifying the Issuer 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 Issuer would become non-viable. At the sole discretion of the relevant Hong Kong Resolution Authority following a non-viability event, the outstanding amount of AT1 Capital Securities can be adjusted upon the exercise of Hong Kong Resolution Authority Power in accordance with the Hong Kong Financial Institutions (Resolution) Ordinance (Cap.628).
(32)	– If write-down, full or partial	Full or partial
(33)	– If write-down, permanent or temporary	Permanent
(34)	– If temporary write-down, description of write-up mechanise	N/A
(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 the claims of: (i) all unsubordinated creditors (including depositors), (ii) creditors in respect of Tier 2 Capital Securities, and (iii) all other Subordinated Creditors whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operations of law or contract.
(36)	Non-compliant transitioned features	No
(37)	If yes, specify non-compliant features	N/A

N/A – Non-Applicable

Footnotes:

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

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

Regulatory Disclosure Statements (continued)

PART IIB: MACROPRUDENTIAL SUPERVISORY MEASURES

CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer

		At 31 December 2018			
		a	b	c	d
	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect	RWA used in computation of CCyB ratio	AI-specific CCyB ratio	CCyB amount
			HK$'000		*HK$'000*
1	Hong Kong SAR	1.8750%	108,682,908		
2	Norway	2.0000%	1,140		
3	Sweden	2.0000%	1,356,359		
4	United Kingdom	1.0000%	1,546,737		
	Sum (Remark 1)		**111,587,144**		
	Total (Remark 2)		**194,243,397**	**1.071%**	**2,792,937**

Remark:

(1) This represents the sum of RWAs for the private sector credit exposures in jurisdictions with a non-zero countercyclical buffer rate.

(2) The total RWAs used in the computation of the CCyB ratio in column (b) represents the total RWAs for the private sector credit exposures in all jurisdictions to which the banks is exposed, including jurisdictions with no countercyclical buffer rate or with a countercyclical buffer rate set at zero. The CCyB amount in column (d) represents the Group's total RWAs multiplied by the Group specific CCyB ratio in column (c).

PART IIC: LEVERAGE RATIO

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

	Item	**Value under the LR framework At 31 December 2018**
		HK$'000
1	Total consolidated assets as per published financial statements	362,944,791
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(13,701)
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	7,566,141
5	Adjustment for SFTs (i.e. repos and similar secured lending)	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	16,744,365
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(41,306)
7	Other adjustments	(6,729,257)
8	**Leverage ratio exposure measure**	**380,471,033**

Regulatory Disclosure Statements (continued)

PART IIC: LEVERAGE RATIO

LR2: Leverage ratio

		(a)	(b)
		At 31 December 2018	**At 30 September 2018**
		HK$'000	***HK$'000***
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	355,302,055	351,317,323
2	Less: Asset amounts deducted in determining Tier 1 capital	(2,081,794)	(2,404,399)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	**353,220,261**	**348,912,924**
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)	2,981,572	3,886,680
5	Add-on amounts for PFE associated with all derivative contracts	7,566,141	6,903,761
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**	**10,547,713**	**10,790,441**
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	–	–
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	–	–
14	CCR exposure for SFT assets	–	–
15	Agent transactions exposures	–	–
16	**Total exposures arising from SFTs**	**–**	**–**
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	91,061,825	92,340,547
18	Less: Adjustments for conversion to credit equivalent amounts	(74,317,460)	(76,521,636)
19	**Off-balance sheet items**	**16,744,365**	**15,818,911**
Capital and total exposures			
20	**Tier 1 capital**	**43,440,153**	**38,806,386**
20a	**Total exposures before adjustments for specific and collective provisions**	**380,512,339**	**375,522,276**
20b	**Adjustments for specific and collective provisions**	**(41,306)**	**(46,879)**
21	**Total exposures after adjustments for specific and collective provisions**	**380,471,033**	**375,475,397**
Leverage ratio			
22	**Leverage ratio**	**11.42%**	**10.34%**

The increase in leverage ratio during the period is mainly due to the increase in Tier 1 capital for the quarter ended 31 December 2018.

PART IID: LIQUIDITY

LIQA: Liquidity risk management

Liquidity risk is the risk that the Group may not be able to fund an increase in assets or meet obligations as they fall due without incurring unacceptable losses. Such funding liquidity risk arises from the maturity mismatch of the assets and liabilities that the Group manages. Market liquidity risk is a risk that occurs when additional costs are involved in disposing of a position in the market under abnormal or stressed market conditions. Under these conditions, the bid-ask spreads for the position are much wider than usual or there could even be an extreme lack of buyers. As a result, the Bank will incur extra costs to dispose of the position.

The liquidity risk management framework is as follows:

– The management of the Group's liquidity risk is governed by the Liquidity Management Policy, concurred by the Asset and Liability Committee ("ALCO") and the CRMC, and approved by the Board of Directors.

– The CRMC is delegated by the Board of Directors to oversee the Group's liquidity risk management. Its main responsibilities are to review and approve policies, set strategies, and define risk appetite and tolerance limits.

– The ALCO is established by the Chief Executive Officer and ratified by the CRMC as the governing body responsible for formulating and implementing policies, strategies, guidelines and limit structures. It also identifies, measures and monitors the Group's liquidity risk profile to ensure current and future funding requirements are met. In addition, the ALCO monitors a set of risk indicators for liquidity risk. Daily liquidity stress testing, which includes market general, bank-specific and combined (market general and bank-specific) stress scenarios, is conducted by the Risk Management Group, and the stress results are regularly reviewed by the ALCO to assess the current risk tolerance level and the level of the liquidity cushion. A Contingency Funding Plan is established which sets out the strategies for addressing liquidity stress situations. The plan contains a set of policies, procedures and action plans, with clearly established lines of responsibility, as well as invocation and escalation procedures. This plan is reviewed and approved by the ALCO on a regular basis.

– Daily liquidity management is managed by the Central Treasury Unit to monitor funding requirements. This unit is supported by other functional departments including the Financial Management Group and Risk Management Group, which monitor the liquidity risk and provide regular reports to the management, committees and local regulatory bodies. Limits for net cash flow per different time bucket under stress scenarios have been set to ensure that adequate funding and liquid assets are available to meet liquidity needs. Moreover, limits, triggers or alerts are set for other liquidity risk indicators such as the statutory liquidity ratios, the loan-to-deposit ratio, the currency mismatch ratio and the maturity mismatch ratio. Both quantitative and qualitative measures are employed to identify and measure market liquidity risk. Limits and alert levels related to market and funding liquidity risk are monitored and reported by the Financial Management Group or Risk Management Group to the ALCO to review and approve on a regular basis. The Audit Department performs periodic reviews to ensure liquidity risk management functions are carried out effectively.

Liquidity management is conducted at the Group and the Bank levels, and at individual overseas branches and subsidiaries. Financial subsidiaries and overseas branches are responsible for implementing their own liquidity management policies under the framework established by the ALCO and local regulatory requirements, taking into account their different liquidity risk characteristics. The liquidity situation of overseas branches and subsidiaries falls under the overall supervision of the ALCO. Policy and respective counterparty limits are set for overseas branches and subsidiaries in respect of the funding support extended from the head office, with details shown in the below. The Group expects all business units to contribute to the success of managing liquidity under normal and contingency situations by maintaining a rapport with depositors, customers, interbank counterparties, related companies and the HKMA.

Regulatory Disclosure Statements (continued)

PART IID: LIQUIDITY

LIQA: Liquidity risk management (continued)

	Intragroup Money Market Funding Limit For the year ended 31 December 2018
	HK$ million
Subsidiaries	
CITIC Bank International (China) Limited	10,026
HKCB Finance Limited	6,100
Overseas Branches	
Singapore	15,666
New York	9,399
Los Angeles	5,483
Macau	3,133

The objective of liquidity management is to meet obligations payable under normal and emergency circumstances, to fund asset growth and to comply with the statutory liquidity requirements. To achieve this, the following liquidity management processes are in place:

– Projecting cash flows in normal and various stress scenarios, using the net mismatch gap between assets and liabilities to estimate the prospective net funding requirement;

– Factoring potential drawdown on irrevocable committed facilities into our normal and stress scenarios to cater for contingent liquidity risk;

– Monitoring the statutory liquidity ratios, the loan-to-deposit ratio, the currency mismatch ratio and the maturity mismatch ratio against internal and/or regulatory requirements;

– Ensuring a sound and diversified range of funding sources, through monitoring the structure and the stability of the deposit portfolio;

– Projecting the statutory liquidity ratios regularly for the short to medium term to permit early detection of liquidity issues and to ensure the ratios are within statutory requirements and internal triggers;

– Projecting a high-level funding requirement and funding structure during the annual budget process to ensure sufficient funding and an appropriate funding mix;

– Conducting liquidity risk assessment before launching a new product;

– Maintaining High Quality Liquid Assets (“HQLA”) comprising cash and investment grade securities as a cushion against unexpected funding needs. The amount of HQLA that the Group maintains is determined with reference to the statutory requirement and the results of the liquidity stress tests;

– Maintaining access to the interbank money market;

Regulatory Disclosure Statements (continued)

PART IID: LIQUIDITY

LIQA: Liquidity risk management (continued)

– Maintaining a funding programme to tap debt funding on a regular basis;

– Monitoring the Group's collateral requirement. Periodically assess and review the additional collateral required under derivative contracts and credit downgrade events. Based on the positions at 31 December 2018, in the event of a 2-notch downgrade, the impact on the Group's additional collateral requirement is minimal; and

– Maintaining a Contingency Funding Plan, which integrates with the results of the scenarios and assumptions used in the stress test, including setting early warning indicators (including internal and market indicators), and describing actions to be taken in the event of a stress crisis, so as to minimise adverse long-term implications for business.

The Group funds its operations through a diversified funding source, primarily from the retail and corporate customer deposits. At the same time, it also participates in the wholesale funding market through the issuance of certificates of deposit ("CDs"), with the size no more than HKD25 billion, to secure another source of term funding and to enable diversification of funding sources. Deposit tenor mix and debt maturities are regularly monitored to ensure there is an appropriate funding maturity mix.

The Group was designated by the HKMA as Category 1 institution with effect from 1 October 2017. Under the Banking (Liquidity) Rules, the Group being a Category 1 institution is required to maintain a Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") above the statutory minimum requirements, which also serve as the Group's assessment tools on the future cash flows and liquidity positions. Please refer to the LIQ1 and LIQ2 of the Regulatory Disclosures for details.

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

	31 December 2018			
	Repayable within one year	**Repayable within one to five years**	**Repayable within one to five years**	**Undated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Total on-balance sheet assets	**237,048,368**	**94,242,921**	**26,662,188**	**4,991,314**
Total on-balance sheet liabilities	**302,919,952**	**7,608,314**	**4,400**	**6,431,048**
Net liquidity gap	**(65,871,584)**	**86,634,607**	**26,657,788**	**(1,439,734)**

The net liquidity gap of off-balance sheet items is mainly within one year.

Regulatory Disclosure Statements (continued)

PART IID: LIQUIDITY

LIQ1: Liquidity Coverage Ratio – for category 1 institution

	Number of data points used in calculating the average value of the LCR and related components set out in this template	For the quarter ended 31 December 2018: (75 data points)		For quarter ended 30 September 2018: (77 data points)	
	Basis of disclosure: Consolidated	**UNWEIGHTED AMOUNT (Average)**	**WEIGHTED AMOUNT (Average)**	**UNWEIGHTED AMOUNT (Average)**	**WEIGHTED AMOUNT (Average)**
		HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
A.	**High Quality Liquid Assets (HQLA)**				
1	Total HQLA		**45,470,570**		**37,721,407**
B.	**Cash outflows**				
2	Retail deposits and small business funding, of which	**141,492,729**	**9,706,254**	**135,621,978**	**9,389,532**
3	*Stable retail deposits and stable small business funding*	*9,942,289*	*497,115*	*9,276,611*	*463,831*
4	*Less stable retail deposits and less stable small business funding*	*52,632,328*	*5,263,233*	*52,168,634*	*5,216,864*
4a	*Retail term deposits and small business term funding*	*78,918,112*	*3,945,906*	*74,176,733*	*3,708,837*
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	**92,279,326**	**50,252,876**	**94,331,699**	**50,955,633**
6	*Operational deposits*	–	–	–	–
7	*Unsecured wholesale funding (other than small business funding) not covered in Row 6*	*91,639,258*	*49,612,808*	*94,331,699*	*50,955,633*
8	*Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period*	*640,068*	*640,068*	–	–
9	Secured funding transactions (including securities swap transactions)		–		**–**
10	Additional requirements, of which	**9,400,955**	**3,129,839**	**10,681,101**	**3,451,685**
11	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	*1,974,742*	*1,974,742*	*2,097,770*	*2,097,770*
12	*Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	–	–	–	–
13	*Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	*7,426,213*	*1,155,097*	*8,583,331*	*1,353,915*
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	**6,998,133**	**6,998,133**	**6,564,934**	**6,564,934**
15	Other contingent funding obligations (without contractual or non-contractual)	**82,776,631**	**358,315**	**81,194,905**	**336,464**
16	**Total cash outflows**		**70,445,417**		**70,698,248**
C.	**Cash Inflows**				
17	Secured lending transactions (including securities swap transactions)	**2,570**	**–**	**–**	**–**
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	**98,102,954**	**78,759,498**	**94,923,991**	**76,593,959**
19	Other cash inflows	**4,033,706**	**4,014,371**	**3,150,849**	**3,133,767**
20	**Total cash inflows**	**102,139,230**	**82,773,869**	**98,074,840**	**79,727,726**
D.	**Liquidity Coverage Ratio**				
21	**Total HQLA**		**45,470,570**		**37,721,407**
22	**Total Net Cash Outflows**		**17,611,354**		**17,674,562**
23	**LCR (%)**		**258.5%**		**213.5%**

PART IID: LIQUIDITY

LIQ2: Net Stable Funding Ratio – for category 1 institution

		For the quarter ended 31 December 2018				
		Unweighted value by residual maturity				
	Basis of disclosure: Consolidated	No specified term to maturity	< 6 months or repayable on demand	6 months to < 12 months	12 months or more	**Weighted amount**
A.	**Available stable funding ("ASF") item**					
1	Capital	48,172,320	2,349,863	–	3,915,087	52,087,407
2	*Regulatory capital*	47,700,005	2,349,863	–	3,915,087	51,615,092
2a	*Minority interests not covered by row 2*	–	–	–	–	–
3	*Other capital instruments*	472,315	–	–	–	472,315
4	Retail deposits and small business funding:	–	122,456,745	22,142,718	316,791	130,968,424
5	Stable deposits		9,225,680	1,016,651	11,421	9,741,635
6	Less stable deposits		113,231,065	21,126,067	305,370	121,226,789
7	Wholesale funding:	–	134,074,118	10,595,605	194,175	55,235,812
8	Operational deposits		–	–	–	–
9	Other wholesale funding	–	134,074,118	10,595,605	194,175	55,235,812
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities:	3,312,297	3,816,140	–	3,505,474	3,505,474
12	Net derivative liabilities	–				
13	All other funding and liabilities not included in the above categories	3,312,297	3,816,140	–	3,505,474	3,505,474
14	**Total ASF**					**241,797,117**
B.	**Required stable funding ("RSF") item**					
15	Total HQLA for NSFR purposes	44,970,733				5,941,987
16	Deposits held at other financial institutions for operational purposes	–	–	–	–	–
17	Performing loans and securities:	1,002,290	145,080,608	49,423,812	114,194,883	160,941,816
18	*Performing loans to financial institutions secured by Level 1 HQLA*	–	–	–	–	–
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	–	88,130,897	7,448,657	6,044,333	22,988,296
20	*Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:*	1,002,290	45,576,423	36,313,936	73,344,578	103,810,672
21	*With a risk-weight of less than or equal to 35% under the STC approach*	24,661	2,751,580	868,274	1,622,065	2,880,299
22	*Performing residential mortgages, of which:*	–	581,020	572,256	19,720,385	13,403,638
23	*With a risk-weight of less than or equal to 35% under the STC approach*	–	579,546	570,842	19,676,636	13,365,007
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	–	10,792,268	5,088,963	15,085,587	20,739,210
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	3,354,785	864,531	16,730	104	3,759,356
27	*Physical traded commodities, including gold*	–				–
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*	50,251				50,251
29	*Net derivative assets*	248,578				248,578
30	*Total derivative liabilities before deduction of variation margin posted*	–				–
31	*All other assets not included in the above categories*	3,055,956	864,531	16,730	104	3,460,527
32	Off-balance sheet items		87,004,906			240,609
33	**Total RSF**					**170,883,768**
34	**Net Stable Funding Ratio (%)**					**141.50%**

PART IID: LIQUIDITY

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

		For the quarter ended 30 September 2018				
		Unweighted value by residual maturity				
Basis of disclosure: Consolidated		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	**Weighted amount**
A.	**Available stable funding ("ASF") item**					
1	Capital	43,347,210	–	2,346,940	3,908,942	48,429,622
2	*Regulatory capital*	42,874,895	–	2,346,940	3,908,942	47,957,307
2a	*Minority interests not covered by row 2*	–	–	–	–	–
3	*Other capital instruments*	472,315	–	–	–	472,315
4	Retail deposits and small business funding:	–	120,198,750	16,909,621	233,077	124,122,653
5	Stable deposits		9,049,526	791,325	6,726	9,355,534
6	Less stable deposits		111,149,224	16,118,296	226,351	114,767,119
7	Wholesale funding:	–	143,425,963	8,558,762	621,516	57,232,179
8	Operational deposits		–	–	–	–
9	Other wholesale funding	–	143,425,963	8,558,762	621,516	57,232,179
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities:	3,841,882	3,363,159	–	3,467,315	3,467,315
12	Net derivative liabilities	–				
13	All other funding and liabilities not included in the above categories	3,841,882	3,363,159	–	3,467,315	3,467,315
14	**Total ASF**					**233,251,769**
B.	**Required stable funding ("RSF") item**					
15	Total HQLA for NSFR purposes	41,206,011				5,850,993
16	Deposits held at other financial institutions for operational purposes	–	–	–	–	–
17	Performing loans and securities:	837,724	142,145,216	46,058,455	117,216,429	159,818,845
18	*Performing loans to financial institutions secured by Level 1 HQLA*	–	–	–	–	–
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	31	89,401,520	6,542,650	5,476,699	22,158,283
20	*Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:*	837,693	41,370,064	31,984,353	77,469,053	102,880,993
21	*With a risk-weight of less than or equal to 35% under the STC approach*	–	4,019,358	1,447,496	1,784,749	3,893,514
22	*Performing residential mortgages, of which:*	–	556,114	518,031	18,940,871	12,857,837
23	*With a risk-weight of less than or equal to 35% under the STC approach*	–	554,610	516,606	18,894,881	12,817,281
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	–	10,817,518	7,013,421	15,329,806	21,921,732
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	4,042,212	923,858	61,984	35	4,490,409
27	*Physical traded commodities, including gold*	–				–
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*	50,251				50,251
29	*Net derivative assets*	503,657				503,657
30	*Total derivative liabilities before deduction of variation margin posted*	–				–
31	*All other assets not included in the above categories*	3,488,304	923,858	61,984	35	3,936,501
32	Off-balance sheet items		90,071,839			435,585
33	**Total RSF**					**170,595,832**
34	**Net Stable Funding Ratio (%)**					**136.73%**

PART III: CREDIT RISK FOR NON-SECURITISATION EXPOSURES

CRA: General information about credit risk

Risk management plays a critical role in balancing the risks and rewards of the Group's strategic goals, growth and activities. The Group's risks are managed under the oversight of the Board of Directors and its delegated Risk Management Committee, the Credit & Risk Management Committee ("CRMC"), with the fundamental objective of ensuring the Group's overall risk appetite, tolerance and risk management strategy is commensurate with the Group's strategy and direction, and therefore achieving value creation while preserving the Group's financial strength for sustainable development.

Credit risk is controlled and managed by the Risk Management Group ("RMG") under the oversight of the Credit Committee, and is reported to the CRMC at the board level on a quarterly basis. These committees provide appropriate oversight of the Group's risk management practices by defining the Group's policies and risk appetite, and providing the RMG with the means to implement measures to mitigate credit risk arising from the Group's adopted strategy.

The Group has established a comprehensive risk governance framework and risk management function comprising various risk owners and departments (including business units) that work collectively to identify, quantify, monitor and mitigate the various risks faced by the Bank. RMG is responsible for overseeing the Group's risk-taking activities and undertaking risk assessments independently from the business line. The Compliance is responsible for monitoring compliance with laws, corporate governance rules, regulations and the Group's policies. The Internal Audit Department is responsible for providing assurance on the effectiveness of the Group's risk management framework including the risk governance arrangements.

The Group has developed risk management policies and procedures to identify, monitor and mitigate risks, to set appropriate risk limits and to monitor all relevant risk exposures by means of reliable and up-to-date management information systems. The risk management framework and risk appetite statement are approved by the Board and continually monitored and reviewed by the Board delegated committee and various management level committees, including Credit Committee, Market Risk Committee, Investment Review Committee, Asset and Liability Committee, Operational Risk Management Committee, New Product Committee, Fraud Risk Management Committee and Management Committee.

To proactively strengthening the risk infrastructure and combat the ever-increasing and complex regulatory environment, the Group has implemented a number of risk management projects and initiatives. Since 2018, the Group has kick started various regulatory projects to achieve full compliance with the new rules and regulatory standards, including Banking (Exposure Limits) Rules, Initial Margin Standard, and Standardized Approach to Counterparty Credit Risk. Furthermore, the Group continues to enhance the governance, control process, reporting, disclosure and variance analysis for expected credit losses (ECL) calculation.

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

PART III: CREDIT RISK FOR NON-SECURITISATION EXPOSURES

CR1: Credit quality of exposures

		(a)	(b)	(c)	(d)
		Gross carrying amounts of			
		Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net values
At 31 December 2018		***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
1	Loans	438,513	201,381,369	(2,658,898)	199,160,984
2	Debt securities	–	68,321,625	(212,861)	68,108,764
3	Off-balance sheet exposures	–	4,889,861	(41,306)	4,848,555
4	**Total**	**438,513**	**274,592,855**	**(2,913,065)**	**272,118,303**

CR2: Changes in defaulted loans and debt securities

		(a)
		Amount
At 31 December 2018		***HK$'000***
1	**Defaulted loans and debt securities at end of the previous reporting period**	1,907,449
2	Loans and debt securities that have defaulted since the last reporting period	350,604
3	Returned to non-defaulted status	(145)
4	Amounts written off	(1,124,869)
5	Other changes (Note)	(694,526)
6	**Defaulted loans and debt securities at end of the current reporting period**	**438,513**

Note: Other changes mainly due to repayments from loan customers.

CRB: Additional disclosure related to credit quality of exposures

Loans and advances past due up to 90 days and not otherwise classified as impaired are separately classified as "past due but not impaired", irrespective of their credit rating. "Past due but not impaired" gross financial instruments are those loans where, although customers have failed to make payments in accordance with the contractual terms of their facilities, they do not exhibit any objective evidence of impairment. Impaired loans and advances are loans which exhibit objective evidence of impairment, and the borrower is either unlikely to pay their credit obligations in full without recourse to security, or is more than 90 days past due on any material credit obligation. Objective evidence for impairment is described in the accounting policy Note 2 of the *Annual Report 2018*. The accounting definition of past due and the regulatory definition of default are generally aligned.

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

HKFRS 9 replaces the 'incurred loss' model in HKAS 39 with a forward-looking 'ECL' model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The Group has an effective credit risk rating process in place which captures the varying level, nature and drivers of credit risk of all in-scope assets in order to reasonably ensure that the corresponding ECL are appropriately measured. ECL must be updated on a timely basis to reflect changes in credit risk quality for all in-scope assets. The models used in the ECL computation process shall be validated on at least an annual basis. Our approach for determining impairment allowances is set out in Note 2 Changes in Accounting Policies Section of the *Annual Report 2018*.

Loans and receivables with renegotiated terms are loans that have been restructured due to (i) deterioration in the borrower's financial position or the borrower's inability to meet the original repayment schedule; and (ii) for which the revised repayment terms, either of interest or of repayment period, are "non-commercial" to the Group. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

Regulatory Disclosure Statements (continued)

PART III: CREDIT RISK FOR NON-SECURITISATION EXPOSURES

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

(a) Breakdown of exposures by geographical areas

		31 December 2018
		HK$'000
1	Hong Kong	139,398,469
2	Mainland China	95,702,732
3	United States	7,856,572
4	Singapore	9,045,204
5	Others	23,024,390
6	**Total**	**275,027,367**

(b) Breakdown of exposures by industry

	31 December 2018
	HK$'000
Industrial, commercial and financial	
– Property development	26,207,351
– Property investment	36,009,224
– Financial concerns	45,724,483
– Stockbrokers	3,131,658
– Wholesale and retail trade	10,623,920
– Manufacturing	30,051,704
– Transport and transport equipment	2,651,008
– Recreational activities	3,798,842
– Information technology	9,708,800
– Others	69,297,419
Individuals	29,970,143
Trade finance	7,852,815
Total	**275,027,367**

(c) Breakdown of exposures by residual maturity

		31 December 2018
		HK$'000
1	Less than 1 year	150,437,310
2	1 to 5 years	97,655,078
3	More than 5 years	26,659,457
4	Undated	275,522
5	**Total**	**275,027,367**

PART III: CREDIT RISK FOR NON-SECURITISATION EXPOSURES

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

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

		31 December 2018		
		Impaired exposures	Related allowances	Write-offs
		HK$'000	*HK$'000*	*HK$'000*
1	Hong Kong	753,215	216,898	1,168,222
2	Mainland China	772,016	241,006	189,931
3	United States	19,345	12,363	–
4	Singapore	256,362	88,618	–
5	Others	38,689	24,726	–
6	**Total**	**1,839,627**	**583,611**	**1,358,153**

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

		31 December 2018		
		Impaired exposures	Related allowances	Write-offs
		HK$'000	*HK$'000*	*HK$'000*
1	Wholesale and retail trade	231,994	64,132	2,519
2	Manufacturing	168,287	123,232	197,063
3	Others	1,401,348	381,295	1,142,946
4	Individuals	37,998	14,952	15,625
5	**Total**	**1,839,627**	**583,611**	**1,358,153**

(f) Aging analysis of accounting past due exposures

	31 December 2018
	HK$'000
Loans overdue for:	
– 6 months or less but over 3 months	92,265
– 1 year or less but over 6 months	174
– over 1 year	346,074
Total	**438,513**

(g) Rescheduled loans

		31 December 2018
		HK$'000
1	Impaired exposures	5,588
2	Not impaired exposures	–
	Total	**5,588**

Regulatory Disclosure Statements (continued)

PART III: CREDIT RISK FOR NON-SECURITISATION EXPOSURES

CRC: Qualitative disclosures related credit risk mitigation

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

The Group enters into enforceable master netting arrangements with counterparties. If an event of default occurs, all outstanding transactions with the counterparty are terminated and all amounts outstanding are settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the statement of financial position. The Group discloses information to evaluate the effect or potential effect of netting arrangements, including the rights of set-off associated with the Group's recognised financial assets and recognised financial liabilities, on the Group's financial position.

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

The most common form of mitigating credit risk is to take collateral. The principal collateral received to secure loans and advances includes mortgages, cash collateral, equities listed on a main index/recognised exchanges, accounts receivable assignments, standby letters of credit and listed debt securities acceptable to the Group. The main types of provider of guarantees are banks, sovereigns and other financial institutions and corporates. The creditworthiness of guarantee providers is thoroughly assessed and ideally independent of the financial position of the borrower.

CR3: Overview of recognised credit risk mitigation

		(a)	(b1)	(b)	(d)	(f)
		Exposures unsecured: carrying amount	**Exposures to be secured**	**Exposures secured by recognized collateral**	**Exposures secured by recognized guarantees**	**Exposures secured by recognized credit derivative contracts**
At 31 December 2018		***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
1	Loans	180,320,072	18,840,912	3,776,838	15,064,074	–
2	Debt securities	68,321,624	–	–	–	–
3	**Total**	**248,641,696**	**18,840,912**	**3,776,838**	**15,064,074**	**–**
4	Of which defaulted	213,750	240,059	238,367	1,692	–

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

The standardized approach requires banks to use risk assessments prepared by external credit assessment institutions (ECAIs), including Standard & Poor's, Moody's and Fitch's, to determine the risk weights applied to exposures. There has been no change on the ECAIs over the current reporting period.

ECAI risk assessments are used within the Group as part of the determination of risk rating for the following exposure classes:

a) Sovereigns
b) Domestic Public Sector Entities
c) Banks
d) Corporates

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

PART III: CREDIT RISK FOR NON-SECURITISATION EXPOSURES

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

		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
At 31 December 2018		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*%*
	Exposure classes						
1	Sovereign exposures	23,851,207	–	23,876,301	–	232,081	1%
2	PSE exposures	3,039,137	1,400,000	3,159,813	–	631,963	20%
2a	Of which: domestic PSEs	3,039,137	1,400,000	3,159,813	–	631,963	20%
2b	Of which: foreign PSEs	–	–	–	–	–	–
3	Multilateral development bank exposures	–	–	–	–	–	–
4	Bank exposures	98,139,144	4,056,917	112,270,213	4,061,396	34,777,786	30%
5	Securities firm exposures	2,763,428	8,931,734	3,284,752	48,955	1,666,854	50%
6	Corporate exposures	187,387,153	36,663,789	169,272,127	4,476,000	166,745,228	96%
7	CIS exposures	513	–	513	–	513	100%
8	Cash items	224,756	–	3,930,971	466,432	152,038	3%
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	8,537,755	20,405,526	8,394,110	8,159	6,301,702	75%
11	Residential mortgage loans	20,904,597	–	20,824,626	–	7,329,551	35%
12	Other exposures which are not past due exposures	8,670,257	19,603,859	8,504,521	–	8,504,521	100%
13	Past due exposures	286,398	–	286,398	–	307,821	107%
14	Significant exposures to commercial entities	–	–	–	–	–	–
15	**Total**	**353,804,345**	**91,061,825**	**353,804,345**	**9,060,942**	**226,650,058**	**62%**

PART III: CREDIT RISK FOR NON-SECURITISATION EXPOSURES

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

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)
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
1	Sovereign exposures	22,715,896	–	1,160,405	–	–	–	–	–	–	–	23,876,301
2	PSE exposures	–	–	3,159,813	–	–	–	–	–	–	–	3,159,813
2a	Of which: domestic PSEs	–	–	3,159,813	–	–	–	–	–	–	–	3,159,813
2b	Of which: foreign PSEs	–	–	–	–	–	–	–	–	–	–	–
3	Multilateral development bank exposures	–	–	–	–	–	–	–	–	–	–	–
4	Bank exposures	–	–	78,525,070	–	37,467,535	–	339,004	–	–	–	116,331,609
5	Securities firm exposures	–	–	–	–	3,333,707	–	–	–	–	–	3,333,707
6	Corporate exposures	–	–	898,475	–	17,119,690	–	151,178,511	4,551,451	–	–	173,748,127
7	CIS exposures	–	–	–	–	–	–	513	–	–	–	513
8	Cash items	3,637,352	–	760,016	–	–	–	35	–	–	–	4,397,403
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	–	–	–	–	–	8,402,269	–	–	–	–	8,402,269
11	Residential mortgage loans	–	–	–	20,747,202	–	37,576	39,848	–	–	–	20,824,626
12	Other exposures which are not past due exposures	–	–	–	–	–	–	8,504,521	–	–	–	8,504,521
13	Past due exposures	1,048	–	665	–	–	–	238,679	46,006	–	–	286,398
14	Significant exposures to commercial entities	–	–	–	–	–	–	–	–	–	–	–
15	**Total**	**26,354,296**	**–**	**84,504,444**	**20,747,202**	**57,920,932**	**8,439,845**	**160,301,111**	**4,597,457**	**–**	**–**	**362,865,287**

PART IV: COUNTERPARTY CREDIT RISK

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

Counterparty Credit Risk (CCR) refers to the risk that the counterparty to a transaction may default before the final settlement of the transaction's cash flows. An economic loss would only occur if the transaction with the counterparty has a positive economic value at the time of default. CCR is the risk of loss arising from a default of a customer before the final settlement of the transaction's cash flows, which vary in value by reference to a market factor, such as an interest rate, exchange rate or asset price. Counterparty credit risk relates to derivative contracts (including over-the-counter (OTC) derivatives and exchange-traded derivatives), securities financing transactions (SFTs), and long settlement transactions in either the trading or the non-trading book.

Counterparty credit risk for treasury transactions is managed in the same way as the Group manages its lending risk. The policies are established and implemented to effectively assess and control credit limits and tenors made available to the counterparty. Limits are based on the credit quality of the counterparty and aligned with the Group's risk appetite.

Counterparty credit exposures are mitigated to the extent possible by various means including requiring and accepting collateral or cash margining or other forms of mitigation including but not limited to guarantee from third parties and/or incorporation of measures such as set-off rights, option to terminate and material change triggers or financial covenants. Payment netting and closeout netting, where proper documentation is in place will also mitigate counterparty credit risk. Industry standard documentation (for example, International Swaps and Derivatives Association master agreements for derivatives and Global Master Repurchase Agreements for SFTs) is executed for clients prior to trading. The Bank establishes a guideline for CSA requirement criteria, collateral threshold amounts, minimum transfer amounts, minimum haircuts and collateral eligibility criteria, and call frequency. Where netting is not enforceable, exposures are shown gross, and where netting and collateral enforceability criteria are not fulfilled, exposure is assumed to be uncollateralized.

Wrong-way risk represents the risk of loss that arises when the risk factors driving the exposure to a counterparty are positively correlated with the probability of default of that counterparty, i.e. the size of the exposure increases at the same time as the risk of the counterparty being unable to meet that obligation increases. The Group also manages its exposure to wrong-way risk under a risk management framework incorporating transactional approvals, controls, excesses, limits and regular monitoring, where appropriate.

A credit rating downgrade threshold clause in a CSA is designed for the Group to trigger an action if the credit rating of the affected party falls below a prescribed level, which may include the requirement to pay or increase collateral, the reduction of threshold amount, the termination of transactions or the assignment of transactions. Upon the new Variation Margin requirement, most of the CSA entered with banks had been updated with zero threshold.

PART IV: COUNTERPARTY CREDIT RISK

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

		(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
At 31 December 2018		***HK$'000***	***HK$'000***	***HK$'000***		***HK$'000***	***HK$'000***
1	SA-CCR (for derivative contracts)	–	–		–	–	
1a	CEM	5,662,460	10,319,854		–	15,982,314	7,834,401
2	IMM (CCR) approach			–	–	–	–
3	Simple Approach (for SFTs)					–	–
4	Comprehensive Approach (for SFTs)					–	–
5	VaR (for SFTs)					–	–
6	**Total**						**7,834,401**

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

CCR2: CVA capital charge

		(a)	(b)
		EAD post CRM	**RWA**
At 31 December 2018		***HK$'000***	***HK$'000***
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	–	–
1	(i) VaR (after application of multiplication factor if applicable)		–
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		–
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	16,581,213	2,903,250
4	**Total**	**16,581,213**	**2,903,250**

Regulatory Disclosure Statements (continued)

PART IV: COUNTERPARTY CREDIT RISK

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

At 31 December 2018		(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
	Exposure class \ Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
1	Sovereign exposures	–	–	–	–	–	–	–	–	–	–	–
2	PSE exposures	–	–	–	–	–	–	–	–	–	–	–
2a	Of which: domestic PSEs	–	–	–	–	–	–	–	–	–	–	–
2b	Of which: foreign PSEs	–	–	–	–	–	–	–	–	–	–	–
3	Multilateral development bank exposures	–	–	–	–	–	–	–	–	–	–	–
4	Bank exposures	–	–	3,996,655	–	8,205,910	–	121,715	–	–	–	12,324,280
5	Securities firm exposures	–	–	–	–	805,143	–	–	–	–	–	805,143
6	Corporate exposures	–	–	–	–	–	–	2,340,564	–	–	–	2,340,564
7	CIS exposures	–	–	–	–	–	–	–	–	–	–	–
8	Regulatory retail exposures	–	–	–	–	–	77	–	–	–	–	77
9	Residential mortgage loans	–	–	–	–	–	–	–	–	–	–	–
10	Other exposures which are not past due exposures	444,988	–	71	–	–	–	67,191	–	–	–	512,250
11	Significant exposures to commercial entities	–	–	–	–	–	–	–	–	–	–	–
12	**Total**	**444,988**	**–**	**3,996,726**	**–**	**9,011,053**	**77**	**2,529,470**	**–**	**–**	**–**	**15,982,314**

Regulatory Disclosure Statements (continued)

PART IV: COUNTERPARTY CREDIT RISK

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

	(a)	(b)	(c)	(d)	(e)	(f)
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
At 31 December 2018	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Cash – domestic currency	17,348	–	39,800	–	–	–
Cash – other currencies	22,126	1,648,287	124,353	2,230,255	–	–
Total	**39,474**	**1,648,287**	**164,153**	**2,230,255**	**–**	**–**

CCR8: Exposures to CCPs

		(a)	(b)
		Exposure after CRM	RWA
At 31 December 2018		***HK$'000***	***HK$'000***
1	**Exposures of the AI as clearing member or client to qualifying CCPs (total)**		23,184
2	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	956,715	19,134
3	(i) OTC derivative transactions	956,715	19,134
4	(ii) Exchange-traded derivative contracts	–	–
5	(iii) Securities financing transactions	–	–
6	(iv) Netting sets subject to valid cross-product netting agreements	–	–
7	Segregated initial margin	–	
8	Unsegregated initial margin	–	–
9	Funded default fund contributions	324	4,050
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 V: MARKET RISK

MRA: Qualitative disclosures related to market risk

Overview of Market Risk

Market risk is the risk of loss caused by an adverse change in valuation associated with holding either long or short market positions. The Group is exposed to market risk as a consequence of its banking activities in the global financial markets. The activities include market making, principal position, asset/liability management and capital markets in foreign exchange, interest rate, credit, equity and commodity markets and associated derivative instruments. The Group manages its market risk exposures mainly through its trading and treasury business. The trading business is to facilitate customer activities, but as a result, takes on principal positions. The treasury business performs asset/liability management function including liquidity risk management, with securities positions intended for liquidity management and investment purposes under non-trading portfolio (debt securities measured at fair value through other comprehensive income).

The objective of market risk management is to consistently measure and monitor market risk on a timely and unbiased basis in order to better manage the portfolio's and, by doing so, optimize financial performance. The business is responsible in managing market risks for meeting corporate performance objectives within the market risk limit parameters. The RMG is responsible to independently monitor and report all market risks.

Market Risk Management and Governance Structure

The Board allocates capital or risk appetite through the limit process. The Board delegates CRMC to establish limits for the different businesses. CRMC further delegates market risk limit establishment to Market Risk Committee ("MRC") which then to RMG. RMG is responsibility in designing and drafting the market risk limits and framework and reviewing and updating the limits on a regular basis. The market risk limits are to be approved by MRC and endorsed by CRMC. In addition, the Board also establishes a set of risk indicators under the risk appetite statement ("RAS") in measuring different types of risks including market risk.

RMG is an independent function reporting to the Chief Risk Officer ("CRO"). RMG uses both quantitative and qualitative measures in analyzing market risk. The analysis includes, but not limited to, Value-at-Risk ("VaR"), stress testing, risk sensitivities, market events, product liquidity and volatility, underlying quality, hedging strategy, performance including P&L, accuracy of valuations and balance sheet and capital consumptions. The results are regularly reported to senior management and CRO and to MRC and CRMC.

In addressing newly introduced risks, all new products are governed by the "New Product Approval Policy" approved by the Board. Prior to execution, each of the new products through the New Product Committee are reviewed and concurred by various functions including some of the senior management and heads of various risk functions.

Regulatory Disclosure Statements (continued)

PART V: MARKET RISK

MRA: Qualitative disclosures related to market risk (continued)

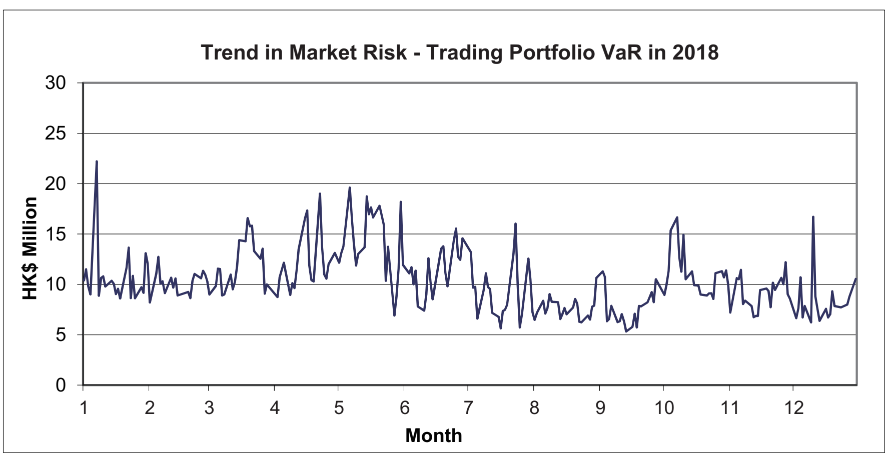
Value at Risk ("VaR")

VaR is a quantitative measure of potential losses based on current positions results from movements in risk factors, as well as the distributions of these risk factors: For a given portfolio, probability and time horizon, VaR is defined as a threshold value such that the probability that the mark-to-market loss on the portfolio over the given time horizon exceeds this value is the given probability level.

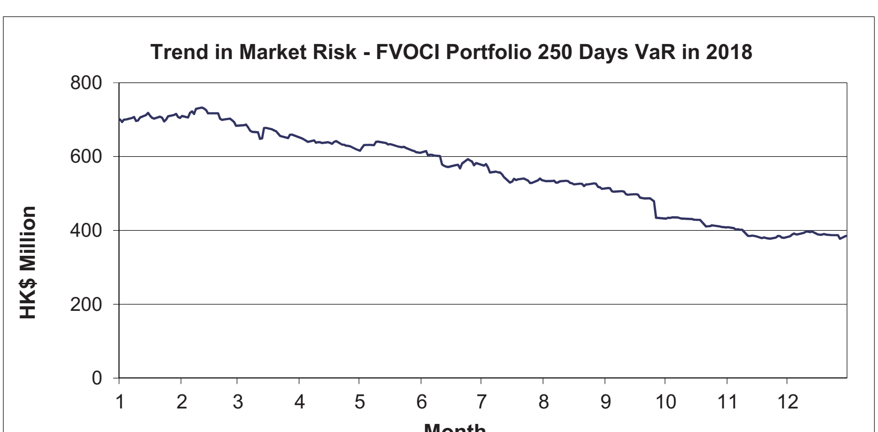
The VaR model used by the Group is based on the historical simulation technique. The technique predicts the value at risk by simulating or constructing position returns over time arise from the historical changes in rates and prices in the interest rate, foreign exchange, equity, credit and commodity markets. The calculation that the Group has adopted for VaR is based on Historical method that includes the following:

- Period of observations of market data – based on 2 years of historical data
- Confidence level – set at 99%
- Time horizons – 1-day & 10-day for trading book; 250-day for FVOCI bond portfolio debt securities and related positions

Trading book VaR



Banking book VaR

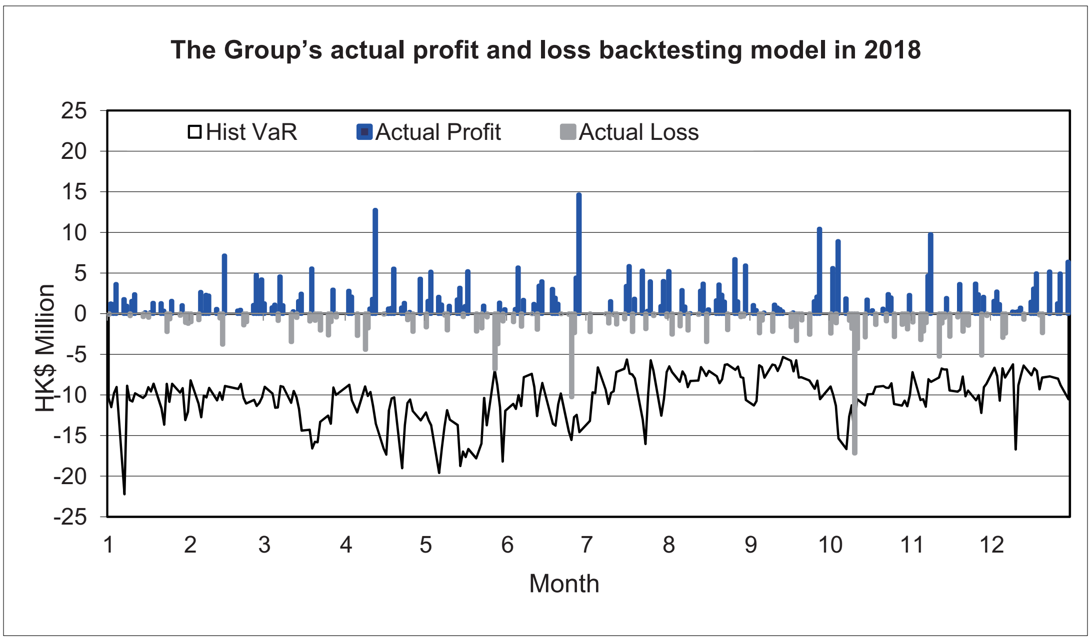


PART V: MARKET RISK

MRA: Qualitative disclosures related to market risk (continued)

Back Testing

Model verification is an integral component of the risk management process. Backtesting VaR numbers provides valuable feedback to users about the accuracy of their VaR models. The Group back-tests the accuracy of its VaR model by comparing the actual and hypothetical daily profit and loss, adjusted for items including fees and commissions, against the corresponding VaR figures. Statistically, the Group should only expect losses in excess of VaR less than 1% of the time over a one-year period.



Stress Testing

Stress testing is implemented as a compliment of the VaR model in order to capture remote, but plausible events. The Group uses both sensitivity-based and historical-based scenarios for market risk stress testing. The results are reported to senior management, MRC and CRMC.

Other Risk Metrics

In addition, risk sensitivities and other risk metrics are used in measuring market risk of different asset classes and products. The types of risk sensitivities include, but not limited to, foreign exchange ("FX Open"), interest rate ("PV01"), credit fixed income ("CS01"), option volatility ("vega") and etc. The types of risk metrics such as aging for staled securities positions, tenor to control risk with respect to time and rating on the issuer of securities are also adopted.

Fair Value

The Group adopts fair value practice including independent price verification ("IPV"), model validation, valuation uncertainty ("VU") and valuation adjustments ("VA") in addressing uncertainties arising from different sources. They include market price uncertainty, bid-offer or position close out uncertainty, model risk, concentration risk, liquidity risk, unearned credit spreads and liquidity.

Regulatory Disclosure Statements (continued)

PART V: MARKET RISK

MR1: Market risk under STM approach

		(a)
		RWAs
At 31 December 2018		***HK$'000***
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	5,555,937
2	Equity exposures (general and specific risk)	–
3	Foreign exchange (including gold) exposures	1,755,088
4	Commodity exposures	–
	Option exposures	
5	Simplified approach	–
6	Delta-plus approach	26,500
7	Other approach	–
8	Securitization exposures	–
9	**Total**	**7,337,525**

PART VI: INTEREST RISK IN BANKING BOOK

IRRBB: Interest rate risk in the banking book (before 30 June 2019)

Interest rate risk in the banking book ("IRRBB") is the potential impact of changes in interest rates on earnings ("NII") and economic value ("EV"). ALCO and RMG are responsible in overseeing the interest rate risk exposure arised from its assets and liabilities management. The central treasury unit is responsible in managing the interest rate risk using different financial products including interest rate derivatives, under which hedge accounting treatment is adopted. The interest rate risk includes repricing risks, basis risks, yield curve risks and embedded option risks.

Sensitivity analysis on interest rate exposures

The Group measures the interest rate risk of the banking book by conducting a sensitivity analysis of the interest rate exposure on a quarterly basis. In the sensitivity analysis, the potential impacts of movements in interest rates on the Group's earnings are assessed assuming that the interest rates of three major currencies (HKD, RMB and USD) will rise by 200 basis points on the repricing dates (the midpoint of the corresponding time bands) of each asset and liability. Nevertheless, the Group does not expect the interest rates of these three major currencies to decrease by 200 basis points on the repricing dates because of the current low level of interest rates. The impacts on both the on- and off-statement of the financial position items are included in the assessment.

	2018		
Equivalent in HK$'000	**HKD**	**RMB**	**USD**
Impact on earnings over the next 12 months if interest rates rise by 200 basis points	1,045,918	57,297	(79,167)
Impact on economic value if interest rates rise by 200 basis points	(237,676)	(104,608)	472,060

This sensitivity analysis, which is based on an interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis is based on the following assumptions:

(i) There is a parallel shift in the yield curve and in interest rates.

(ii) There are no other changes to the portfolio.

(iii) No loan prepayment is assumed as the majority of loans are on a floating rate base.

(iv) Deposits without fixed maturity dates are assumed to be repriced the next day.

Actual changes in the Group's net interest income and the economic value resulting from the increase in interest rates may differ from the results of this sensitivity analysis.

PART VII: REMUNERATION

REMA: Remuneration Policy

The Bank seeks to reward staff for their contribution to the success and sustainable growth of the Bank. To this end, the Bank has put in place the Master Remuneration Policy and a structured reward system that enable the Bank to attract and retain appropriate people in the highly competitive manpower market, promote effective risk management, and support the Bank's business objectives. The policy is applicable to the Bank, its overseas offices and its subsidiaries.

During the year 2018, in executing its roles and responsibilities in supervising the Bank's remuneration policies and structure, the major work performed by the Remuneration Committee included:

- engaged an external consulting firm, Willis Towers Watson, to review the remuneration policy and systems against regulatory requirements and sound remuneration governance framework;
- updated the Master Remuneration Policy to further strengthen the Bank's governance;
- reviewed and approved the proposed variable pay for 2017 and the pay review proposal for 2018;
- determined the remuneration packages of the senior management and key personnel of the Bank;
- discussed and reviewed the fees payable to the directors and made its recommendation to the Board; and
- reviewed the Remuneration Committee's effectiveness in discharging its roles and responsibilities, and its terms of reference.

(i) Reward System

The reward system is designed based on the Total Compensation Framework ("TCF"). Total Compensation comprises a fixed component (Guaranteed Cash), a variable component, and benefits.

The Bank's variable remuneration includes Performance Bonus and Retention Award which mainly take the form of cash bonus, while Long-term Incentive is a form of phantom share scheme (Book Value Appreciation Rights Scheme).

Performance Bonus Scheme is intended to reward performance in the preceding year. In determination of the Performance Bonus pool of the Bank, the Remuneration Committee would consider both financial factors (including Operating Profit and other financial ratios against the market) and non-financial factors (including but not limited to compliance risk, liquidity risk and operational risk management). Unsatisfactory performance in non-financial factors will lead to reduction of Performance Bonus pool.

Allocations of Performance Bonus to individual employees are based on assessment on the achievement against key measures including financial, risk management, regulatory and compliance, growth, people and team, as well as staff competencies and behaviour. Such variable remuneration is subject to a deferral provision, under which if the variable remuneration of an employee exceeds the prescribed threshold, a portion of the variable remuneration will be deferred in order to align remuneration with the time horizon of risk and to allow their performance, including the associated risks, be validated over a period of time. The unvested deferred remuneration will be forfeited where it is later established that there has been fraud or other malfeasance on the part of the employee or violations by the employee of internal control policies.

The Retention Award is granted for retention of high-performing staff or those in key job roles. It is payable under a deferred arrangement and will be discounted or forfeited in case the employees have any material adverse findings before the Retention Award is paid.

The Long-term Incentive is aimed to motivate executives towards increasing shareholders' wealth while balancing long-term risk management. Under the Long-term Incentive Scheme, payment of incentive is determined by the appreciation in the Bank's net asset value over a 3-year period and is made at the end of the performance period. Payment is deferred until performance results create the economic value that triggers an award. It is designed to align employees' reward with long-term value creation.

Regulatory Disclosure Statements (continued)

PART VII: REMUNERATION

REMA: Remuneration Policy (continued)

(ii) Methodologies and Approaches

Methodologies and approaches applied to remuneration arrangement include but not limited to the followings:

- **Total Compensation Framework** to ensure optimal level of remuneration and to deliver balanced solution.
- **Market Benchmarking** to take into account market relativities, having regard to the need to attract, motivate and retain talents.
- **Job evaluation** to determine relative size of different position and therefore corresponding level of reward.
- **Performance Management System** linked with reward system to support performance-oriented culture.
- **Talent Identification and Classification Method** taking into account performance and potential for differentiation when granting variable rewards.
- **Promotion review mechanism** with consideration of competency requirements and performance to support the Bank's manpower plan.
- **Remuneration Committee** assists the Board in the design and operation of the remuneration system. The Committee held four meetings in 2018. Members of the Remuneration Committee are Non-executive Directors of the Bank and are paid Directors' fee.
- Engagement of external consulting firm in verification of incentive scheme to ensure effectiveness (to be commissioned by the Chairman of the Board), when necessary.

(iii) Senior Management and Key Personnel

Senior Management ("SM") is defined as heads of major functional units and Key Personnel ("KP") is defined as those whose activities involve the assumption of material risk or the taking on of material exposures on behalf of the Bank.

(iv) Staff within risk control function

Staff within Risk Control Function includes risk management, legal, compliance, audit, and financial management function.

The remuneration of Risk Control Function staff is determined by their functional job responsibilities and achievements against key measures specific to the functional role they undertake, which are independent from the performance of the business they oversee. Remuneration of Risk Control Function staff is carefully benchmarked with the market and internally to ensure that it is set at an appropriate level.

Regulatory Disclosure Statements (continued)

PART VII: REMUNERATION

REM1: Remuneration awarded during financial year

There were 10 employees being classified as Senior Management ("SM") and 2 employees being classified as Key Personnel ("KP") during the financial year of 2018 and aggregate quantitative information on remuneration for the 12 SM and KP is set out below:

Amounts of remuneration for the financial year 2018, split into fixed and variable remuneration:

	31 December 2018			
	Non-deferred *(HK$'000)*		Deferred *(HK$'000)*	
	SM	KP	SM	KP
Fixed remuneration				
– Salary and allowance	26,407	4,588	–	–
Variable remuneration				
– Performance Bonus ("PB")	18,242	3,724	5,880	1,253
– Long-term incentive ("LTI")	–	–	5,904	673

REM2: Special payments

Guaranteed bonuses amounted to HK$3,500,000 was granted to 1 SM during the financial year of 2018, and will be paid in April 2019 and January 2020. No SM and KP has been awarded with severance payment during financial year of 2018.

Regulatory Disclosure Statements (continued)

PART VII: REMUNERATION

REM3: Deferred remuneration

(a) Amounts and form of outstanding deferred variable remuneration, split into (i) vested, and (ii) unvested as at 31 December 2018 are set out below:

	31 December 2018	
	SM	**KP**
	(HK$'000)	***(HK$'000)***
(i) Vested		
– PB	3,809	114
– LTI	6,605^	–
(ii) Unvested		
– PB	19,113	2,231
– LTI	20,075	1,153

^ Vested in 2018 and will be paid in 2019

(b) Amounts of deferred variable remuneration for the financial year 2018 for SM and KP was HK$11,784,000 and HK$1,926,000 respectively. The aforesaid are the Deferred Performance Bonus and LTI. For the LTI scheme, payment will be determined by achievement of the long-term goals set for the performance period of 3 years. The variable remuneration in form of LTI reported in REM1 and (a)(ii) above are the target cash value at maturity upon achieving the long-term goals.

(c) From a 2018 payment perspective, deferred variable remuneration for SM and KP amounted to HK$10,413,000 and HK$114,000 respectively was vested. No discount of deferred variable remuneration was made for performance adjustment.

(d) Quantitative information about employee's exposure to implicit and explicit adjustments of deferred remuneration:

		2018
		HK$'000
Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit/implicit adjustment #	SM KP	39,188 3,384

(#): Refers to the unvested deferred variable remuneration after reduction made during the financial year due to ex post explicit/implicit adjustments. Total amount of reductions made due to ex post explicit/implicit adjustments were HK$257,000 in 2018.