大眾財務有限公司
PUBLIC FINANCE LIMITED

Public Finance Limited

Annual Disclosures

Pillar 3 Templates

For the year ended
31 December 2017
(Solo Basis and Unaudited)

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Table OVA: Overview of risk management

Risk management of Public Finance Limited (the "Company") is underpinned by the Company's risk appetite and is subject to the Board's oversight through the Risk Management Committee ("RMC") of the Company, which is a Board Committee overseeing the establishment of company-wide risk management framework, policies and processes. To identify and manage key risks effectively, the Company adopts a risk management framework under which key components of the Company's business model such as business activities conducted to ensure the sustainability of profitability, core supporting operations to support business activities and the delivery of risk based reports, loan product segments and features, debt securities portfolio mix, geographical segments, pricing and loan recovery strategies, and concentration of customer groups are considered in ascertaining its overall risk profile. The Company reviews its risk profile through regular assessments of both qualitative and quantitative risk factors to monitor prevailing risk levels against the applicable risk appetites regularly (at least annually) approved by the Board. The Company shall review and revise its business model, key business strategies and risk tolerance levels as appropriate pursuant to assessment results of risk profile which may vary from time to time.

RMC is responsible to assist the Board in discharging the Board's roles and responsibilities in managing risk and compliance issues including at least the Company's infrastructures, resources, capital levels and risk controls to manage the risk-taking activities in meeting the risk appetite thresholds and regulatory guidelines. Periodic reports provided by head of Risk Management Department ("RMD") on the state of the Company's risk culture, risk exposures and risk management activities are reviewed by the RMC regularly. The other key dedicated risk committees (i.e. Assets and Liabilities Management Committee ("ALCO"), Credit Committee, Operational Risk Management Committee ("ORMC")) of the Company are established to ensure that the day-to-day management of the Company's activities are consistent with the risk appetite, frameworks and policies approved by the Board or delegated authorities. The ALCO is responsible to oversee the development and implementation of policies, processes, procedures and limits for the asset and liability management and ensure key risk issues related to interest rate risk and market risk management, balance sheet structure, capital structure and planning, and liquidity and funding risk management are identified and managed within the risk appetite. The Credit Committee is responsible to assist RMC to establish the framework for identifying, measuring, monitoring and controlling credit risk of existing and new products; review credit risk management policies and credit risk tolerable limits (e.g. credit concentration limits of customer groups and industry sectors) as necessary; evaluate and assess the adequacy of strategies to manage the overall credit risk associated with the Company's activities and ensure that the business units implement credit strategy and policies of the Company; monitor exceptional credit approvals within tolerable limits; regularly monitor and assess the asset quality, credit risk portfolio composition and risk-return trade-off of credit products; and oversee loan recovery process. The ORMC is responsible to ensure the effective implementation of the operational risk management framework; oversee the development of operational risk management policies, guidelines, processes,

procedures and limits to ensure operational risk is identified and managed within the Company's risk appetite; and evaluate and assess the adequacy of controls to manage operational risk for all material products, activities, processes and systems taking into consideration the changes in the operating environment. Through the execution of operations and management information system report of the aforesaid dedicated risk committees and with the coordination of RMD, RMC regularly reviews the Company's risk management framework and ensures that all important risk-related measures are implemented according to established policies with appropriate resources. RMC also ensures that the Company's risk appetite is reflected in key policies and procedures for the execution by business functions.

The Bank Culture Committee ("BCC") of Public Bank (Hong Kong) Limited (the "Bank"), the immediate holding company, is also established to assist the Board of the Bank to communicate, cascade and enforce the risk culture within the Bank and its subsidiaries including the Company (the "Bank Group"); develop and adopt a holistic and effective framework for fostering a sound culture; formulate a regular process, with the assistance of relevant committees and departments, to review the effectiveness of the overall culture enhancement initiatives pursued by the Bank Group; approve, review and assess the adequacy of any relevant statement which sets out the Bank Group's culture and behavioural standards annually; and ensure the above-mentioned statement is translated into policies and procedures (including training) that are relevant to the day-to-day work of different levels of staff. Dedicated heads of key departments are to assist the BCC to set out in the code of conduct, which is subject to regular review, the culture related behavioural expectation of staff in carrying out their day-to-day responsibilities, build up an effective, continual and regular communication channel to share examples/cases regarding misconduct, improper behaviours and disciplines with the staff and promote an open exchange of view in relation to culture and behavioural standards, design and put in place a clear ownership structure for the core risks and culture reform initiative, ensure that incentive systems (including staff, performance management, remuneration and promotion systems) should not only reward good business performance but also taking into consideration adherence (and non-adherence) to the Bank Group's culture and behavioural standards, produce and analyse a dashboard of indicators for assessing the culture of the Bank Group and to help gauge changes over time, set up and review regularly the conflicts of interest policy to ensure that the policy aligns with culture objectives, and recommend the revisions on the policy, if any, to the BCC. In order to meet the requirements of Supervisory Policy Manual Module CG-1 "Corporate Governance of Locally Incorporated Authorized Institutions", the Company will set up its own BCC to carry out the duties and responsibilities as aforesaid with effect from 1 January 2018.

Senior Management is responsible for implementing the business and risk strategies approved by the Board, and the risk management systems, processes and controls for managing both the financial and non-financial risks to which the Company is exposed. Senior Management is also responsible for cultivating the risk culture promoted by the Board, and ensuring that the risk appetite is appropriately translated into risk limits for business lines and

legal entities and that those limits are consistent with the Company's overall risk appetite, even under stressed conditions. The culture of risk management is well-integrated throughout the Company and embedded into the respective business practices to enable employees to take into account risks and its impact on the Company in the respective business decision-making. An overview of the magnitude of the risks affecting the Company must be monitored to ensure that the risk-taking activities remain consistent with the approved risk appetite and are periodically reported to the respective risk committees and Senior Management. The key factors to embed risk management into the culture and business operation of the Company are corporate governance; organizational structure with clearly defined roles and responsibilities; effective communication; commitment to compliance with laws, regulations and internal controls; integrity in fiduciary responsibilities; clear policies, procedures and guidelines; and continuous training. The risk management framework of the Company is developed to set out the roles and responsibilities of the respective parties involved in the company-wide risk management; and to establish a risk management process and internal controls that will enable the identification, measurement, continuous monitoring and reporting of all relevant and material risks, including new and emerging risks.

The Company has adopted a "Three Lines of Defence" risk management structure to ensure that roles within the Company are clearly defined in regard to risk management. The first-line of defence is provided by the business functions and supporting functions where risks are taken, and they are responsible for day-to-day identification, assessment, management and reporting of key risks (particularly credit risk, operational risk and compliance risk) within their products, activities, processes and systems in the course of conducting business activities; ensuring proper identification, assessment, management and reporting of relevant risk exposures on an ongoing basis and any breaches of risk limits and material risk exposures are promptly reported to the head of RMD and the Senior Management; executing risk mitigation strategies and processes, and ensuring that internal controls are consistent with the risk policies and risk appetite approved by the Board or delegated authorities. The second-line of defence is Risk Management Function ("RMF") and Compliance Function. The RMF is performed by RMD and dedicated heads of departments, and is responsible for identifying, measuring, monitoring, controlling and reporting the Company's overall risk exposures at company-wide and group-wide, portfolio and business line levels to Senior Management, RMC and the Board, encompassing risks independently from the first-line of defence. Compliance Function is performed by Compliance Department and dedicated officers, and is responsible for coordinating the identification and assessment of compliance risk at the Company-wide level, independently monitoring the compliance and ensuring testing of compliance controls are carried out consistently across the Company. Internal Audit Function supports the Audit Committee to carry out its roles and responsibilities. Being the third-line of defence, Internal Audit Function is performed by Internal Audit Department, and is responsible for providing an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls and compliance with approved risk policies and regulatory requirements. The head of Internal Audit Department reports directly to the Audit Committee.

Management information systems support risk management processes to facilitate the timely and reliable reporting of risks and enable the identification, measurement, continuous monitoring and reporting of all relevant and material risks of the Company. The risk management processes shall capture both quantitative and qualitative elements of risks. The key risk areas are documented in risk management related policies and comprise credit risk, credit concentration risk, liquidity risk, interest rate risk, market risk, operational risk, reputation risk, legal risk and strategic risk. The sophistication of the risk management processes takes into consideration the business growth, nature, scale and complexity of its activities and the risk of the operating environment. Information systems are in place to provide information of the size, quality and composition of exposures across risk types, material products and counterparties at all relevant levels.

Key risks are communicated across the Company and material risk management issues and the progress of the implementation of risk measures are reported to the Board/Board Committees and Senior Management in a timely manner so that suitable measures can be initiated at an early stage. Risk monitoring and reporting requirements are established across the Company including the development and the use of key risk indicators to provide early warnings and adverse risk developments. Risk monitoring and reporting is performed at business unit, portfolio level, company-wide and group-wide level. Any deficiencies and limitations in the risk estimate as well as any significant embedded assumptions are communicated/escalated to the Board/Board Committees and Senior Management. Risk reporting draws on a range of risk analytical tools/approaches and are subject to independent periodic review by the RMF and Internal Audit Function.

Policies, procedures and processes are in place to evaluate strategic position of the Company when developing appropriate strategies to achieve their strategic goals and objectives. They incorporate at least how environmental influences will affect the Company's business and its use of products or services, technology and delivery channels; analysis of strengths, weaknesses, opportunities and threats of the Company; possible alternative strategies that can be adopted by the Company having regard to corporate goals and objectives; risk tolerance and appetite; flexibility in allowing changes to deal with sudden environmental changes and crisis situations; whether strategies are financially and operationally feasible in capital management and capital related targets. Pursuant to stress-testing program of the Company, the RMF uses techniques such as sensitivity tests and scenario analyses on relevant assets/portfolios and liabilities including at least loans and advances, debt securities portfolio, bank placements and investment properties. The time horizon for regular stress-testing is in the range of 6 months to 3 years in general. Stress-testing exercises of the Company are conducted to identify possible events or stressed scenarios, measure their adverse impact on profitability and capital base or strength and assess the Company's ability to withstand such impact. Stressed scenarios and analyses are either qualitative or quantitative covering at least the downturn in domestic economy such as adverse changes to the unemployment rate, or gross domestic product growth, or composite price index; increase in hit rate of personal bankruptcy petitions and corporate wind-up orders leading to an increase in the Company's bad debts; the

decrease in prices of loan collaterals leading to the increase of provisioning level; and rating migrations of counterparties. Stress-testing results are provided by RMD to Senior Management and relevant risk committees for their feedback and/or decision making such as changes in strategic planning, changes in risk appetite and business model, shift of strategic focus, changes in business initiatives and decisions, risk-mitigating strategies to be taken, and increase or decrease of internal resources devoted to a business or an operation. Pursuant to the Company's risk appetite, the Company is not engaged in complex derivative financial instrument transactions and has no securitization exposures. The continuing effectiveness of mitigations and hedges, if any, for key risks is also monitored regularly (by dedicated risk committees at least bi-monthly). In developing a mitigation strategy or providing risk response, consideration is given to the impact of the chosen mitigation strategy on other risks to ensure all potential risks are accounted for and to avoid giving rise to new unattended risks.

Supplementary information of risk governance structure and risk management issues can be referred to note 28 to the financial statements.

Template OV1: Overview of RWA

The table below provides an overview of RWA and the related minimum capital requirements by risk type as at 31 December 2017 and 30 September 2017 respectively. The Company has adopted standardized approach for both credit risk and operational risk. During the fourth quarter of 2017, RWA increased by HK$66.8 million to HK$5.47 billion. The increase of RWA was mainly due to an increase of HK$65.6 million in credit risk weighted amounts related to loans and advances.

		(a)	(b)	(c)
		RWA		Minimum capital requirements[1]
		31 December 2017	30 September 2017	31 December 2017
		HK$'000	HK$'000	HK$'000
1	Credit risk for non-securitization exposures (excluding counterparty credit risk and 250% RWA)	4,180,908	4,115,353	334,473
2	Of which STC approach	4,180,908	4,115,353	334,473
2a	Of which BSC approach	0	0	0
3	Of which IRB approach	0	0	0
4	Counterparty credit risk	0	0	0
5	Of which SA-CCR	0	0	0
5a	Of which CEM	0	0	0
6	Of which IMM(CCR) approach	0	0	0
7	Equity exposures in banking book under the market-based approach	0	0	0
8	CIS exposures – LTA	0	0	0
9	CIS exposures – MBA	0	0	0
10	CIS exposures – FBA	0	0	0
11	Settlement risk	0	0	0
12	Securitization exposures in banking book[2]	0	0	0
13	Of which IRB(S) approach – ratings-based method	0	0	0
14	Of which IRB(S) approach – supervisory formula method	0	0	0
15	Of which STC(S) approach	0	0	0
16	Market risk	0	0	0
17	Of which STM approach	0	0	0
18	Of which IMM approach	0	0	0
19	Operational risk	1,340,713	1,339,950	107,257
20	Of which BIA approach	0	0	0

[1] Calculated at 8% of RWA as of 31 December 2017

[2] Of note, after entering into force of the revised securitization framework in January 2018, the following replacements in row 13, 14 and 15 should be made: (i) IRB(S) rating based method should be replaced by Securitization Internal Ratings-Based Approach (SEC-IRBA)*; (ii) IRB(S) supervisory formula method should be replaced by Securitization External Ratings-Based Approach (SEC-ERBA)*; and (iii) STC(S) should be replaced by Securitization Standardized Approach (SEC-SA)*. A new row following row 15 (say, row 15a) may be added to cater for Securitization Fall-back Approach (SEC-FBA)* where this is applicable. (* all names and applicable approaches subject to the final amendments to the BCR)

		(a)	(b)	(c)
		RWA		Minimum capital requirements[1]
		31 December 2017	30 September 2017	31 December 2017
		HK$'000	HK$'000	HK$'000
21	Of which STO approach	1,340,713	1,339,950	107,257
21a	Of which ASA approach	0	0	0
22	Of which AMA approach	N/A	N/A	N/A
23	Amounts below the thresholds for deduction (subject to 250% RW)	25,275	25,275	2,022
24	Capital floor adjustment	0	0	0
24a	Deduction to RWA	75,856	76,302	6,068
24b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	70,682	71,932	5,654
24c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	5,174	4,370	414
25	**Total**	**5,471,040**	**5,404,276**	**437,684**

N/A: Not applicable in the case of Hong Kong

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

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

	31 December 2017						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			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
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets							
Cash and short term placements	951,950	759,924	759,924	0	0	0	0
Loans and advances and receivables	5,696,957	5,696,957	5,696,957	0	0	0	0
Held-to-maturity investments	19,953	19,953	19,953	0	0	0	0
Investment properties	25,340	25,340	25,340	0	0	0	0
Property and equipment	15,659	14,994	14,994	0	0	0	0
Land held under finance leases	43,881	43,881	43,881	0	0	0	0
Investments in subsidiaries	0	10,110	10,110	0	0	0	0
Deferred tax assets	11,611	11,599	0	0	0	0	11,599

	31 December 2017						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			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
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Intangible assets	486	0	0	0	0	0	0
Other assets	90,566	18,616	18,616	0	0	0	0
Total assets	**6,856,403**	**6,601,374**	**6,589,775**	**0**	**0**	**0**	**11,599**
Liabilities							
Customer deposits at amortized cost	5,076,517	5,076,517	0	0	0	0	5,076,517
Current tax payable	4,737	3,546	0	0	0	0	3,546
Deferred tax liabilities	4,241	4,241	0	0	0	0	4,241
Other liabilities	171,358	68,550	0	0	0	0	68,550
Total liabilities	**5,256,853**	**5,152,854**	**0**	**0**	**0**	**0**	**5,152,854**

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

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

		31 December 2017				
		(a)	(b)	(c)	(d)	(e)
		Total	Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	**6,589,775**	**6,589,775**	**0**	**0**	**0**
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	0	0	0	0	0
3	Total net amount under regulatory scope of consolidation	6,589,775	6,589,775	0	0	0
4	Off-balance sheet amounts	7,735	0	0	0	0
5	Differences due to consideration of provisions		5,766	0	0	0
6	**Exposure amounts considered for regulatory purposes**	**6,595,541**	**6,595,541**	**0**	**0**	**0**

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

The basis of consolidation for regulatory purposes is different from that for accounting purposes. In accordance with the Banking (Capital) Rules, the computation of the solo total capital ratio and other regulatory capital ratios of the Company is only for purpose of regulatory reporting to the Hong Kong Monetary Authority. The subsidiaries not included in the computation of the solo total capital ratio, other capital adequacy ratios and corresponding capital base, Tier-1 Capital, other capital related components and risk weighted amounts of the Company are Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

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

- The carrying amounts reported in the financial statements are after deduction of collective and individual impairment allowances while the exposure amounts for regulatory purposes are before deducting such impairment allowances (except for exposures under Standardized Approach of credit risk from which individual impairment allowances made against the exposures are deducted).

The Company measures its investment properties at fair value using the fair value hierarchy described as follows:

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

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

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

In order to ensure that the valuation estimates are prudent and reliable, fair value is measured under level 1 of the hierarchy (i.e. quoted market prices) as far as possible. Where fair value is determined using level 2 or level 3 of the hierarchy, model inputs or outputs are validated against secondary sources, when appropriate, and the valuation process is also handled by a control function independent from business lines.

Table CRA: General information about credit risk

The Company's business activities are underpinned by its business model and mainly comprise loan business development, investments in held-to-collect debt securities and inter-bank placements without the involvement of complex credit related derivatives, which are major components of the Company's credit risk profile. The business model is reviewed regularly (at least monthly) taking into account factors such as prevailing business and economic conditions, regulatory requirements, credit risk profile and business/risk appetite, and capital resources to be devoted to support a business activity. In formulating credit risk related policies and setting credit related limits, both regulatory/statutory requirements (such as section 83 of the Banking Ordinance ("BO") on connected lending and section 81 of BO on single largest exposure to a customer group and risk appetite derived from internal business model are taken into consideration. The risk appetite and underlying credit related limits are reviewed taking into account the interactions among external changes in operating/business conditions, credit profile of customers, and internal changes in business model and strategies. The Company manages its credit risk within a conservative framework and its credit policies, guidelines and risk management processes are regularly reviewed subject to revisions taking into account the aforesaid factors and interactions.

The Company's loan development focuses on unsecured consumer financing. There were no exposures to PIIGS countries. More than 90% of loan exposures are in Hong Kong. The Company mitigates credit risk by credit protection provided by guarantors and by loan collateral such as customer deposits, properties and taxi licences.

RMC is responsible for setting a credit risk management governance framework, monitoring credit risk independently, and providing recommendations or advice to the Credit Committee in managing all credit risk related issues of the Company. Credit Committee is dedicated to review and amend credit approval criteria and procedures, underwriting standards and credit related limits as appropriate taking into account changes in business strategies, risk appetite, and external environment in which the Company operates. It also monitors the quality of financial assets which are neither past due nor impaired by financial performance indicators (such as the loan-to-value ratio, debts servicing ratio, financial soundness of borrowers and personal guarantees) through meeting discussions and management reports. Loan borrowers subject to legal proceedings, negative comments from other counterparties and rescheduled arrangements are put under watch lists or under the "special mention" grade for management oversight. Credit Committee is responsible for establishing the framework for identifying, measuring, monitoring and controlling credit risk of the existing and new products. It reviews credit risk management policies and credit risk tolerable limits, and reports to board-level RMC. It is also dedicated to work out proposals of revised credit limit setting processes/models and revised credit concentration limits with justifications or derived from the aforesaid processes/models taking into account

stress-testing results arising from limit excesses in particular loan segments. It makes recommendations of the above-mentioned revisions of credit related policies, controls and processes after obtaining internal audit and compliance review results. Exceptions such as material deviations of underwriting standards, breaches of credit related limits and serious financial loses damage to reputation resulting from control lapses will be escalated to RMC for discussions and further actions as appropriate.

The Company has established policies, procedures, risk profile and management information systems to identify, measure, monitor, control, and report on credit risk. The guidelines for credit risk management have been elaborated in credit risk management policies and loan product manuals of the Company. They incorporate at least delegated lending authorities and limits, credit underwriting criteria, credit monitoring processes, loan classification guidelines, credit recovery procedures and provisioning policies, and are reviewed and updated on an ongoing basis to cater for market changes, statutory requirements and prevailing practices in risk management processes. The Company adopts a "Three Lines of Defence" model for credit risk management. Business units and dedicated departments such as Loan Review Centre constitute the first line of defence and are responsible for day-to-day identification, assessment, management and reporting of credit risks within their products, activities, processes and systems; ensuring proper reporting of relevant risk exposures on an ongoing basis and any breaches of risk limits and material risk exposures are promptly reported to the head of RMD and the Senior Management. Heads of RMD and Compliance Department of the Company constitute the second line of defence and are the Risk Controllers. The head of RMD reports to RMC and work closely with Credit Committee to obtain credit risk related information to perform credit risk assessment on loan portfolio independently taking into account at least emerging risk issues and latest market/regulatory developments. The head of Compliance Department also reports to RMC and is responsible to check against working files and procedures of Business Units and other involved departments whether they comply with key credit risk management related policies which are formulated in accordance with the guidelines or statutory requirements stipulated by regulators and the risk appetite of the Company. Being the third line of defence, Internal Audit Department reports to Audit Committee which is responsible for providing assurance on the effectiveness of the Company's risk management framework including credit risk governance. Internal Audit Department is responsible for reviewing credit risk related policies, controls and processes (e.g. whistle-blowing mechanism) to determine whether they can fulfil the requirements of the regulators and whether they are adequate to minimize and detect credit control lapses such as fraud cases.

Supplementary information of credit risk management issues are shown under "Credit Risk Management" in note 28 to the financial statements.

Template CR1: Credit quality of exposures

The table below provides a breakdown of defaulted and non-defaulted loans, debt securities and off-balance sheet exposures as at 31 December 2017. The defaulted loans are individually determined to be impaired after considering the loan overdue more than three months and the qualitative factors such as bankruptcy proceedings, corporate winding-up arrangements and other serious warning signals of repayment ability of counterparties. There were no defaulted debt securities and off-balance sheet exposures as at 31 December 2017.

		31 December 2017			
		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
		HK$'000	HK$'000	HK$'000	HK$'000
1	Loans	101,292	5,670,137	74,472	5,696,957
2	Debt securities	0	19,953	0	19,953
3	Off-balance sheet exposures	0	0	0	0
4	**Total**	**101,292**	**5,690,090**	**74,472**	**5,716,910**

Template CR2: Changes in defaulted loans and debt securities

The table below provides the movement of defaulted loans. During the year of 2017, defaulted loans decreased by HK$22.5 million to HK$101.3 million mainly due to write-off of impaired loans and loans repayments. There were no defaulted debt securities as at 31 December 2016 and 31 December 2017 respectively.

		(a)
		Amount
		HK$'000
1	**Defaulted loans and debt securities at end of the previous reporting period (31 Dec 2016)**	**123,742**
2	Loans and debt securities that have defaulted since the last reporting period	359,456
3	Returned to non-defaulted status	(57,901)
4	Amounts written off	(315,740)
5	Other changes*	(8,265)
6	**Defaulted loans and debt securities at end of the current reporting period (31 Dec 2017)**	**101,292**

* Other changes were mainly related to loan repayments.

Table CRB: Additional disclosure related to credit quality of exposures

In general, loans and other similar credit exposures with a specific expiry date are treated as overdue where principal or interest remains unpaid as at a reporting date. Loans and other credit exposures repayable by regular instalments shall be treated as overdue when an instalment payment remains unpaid as at a reporting date. Loans or other similar credit exposures repayable on demand shall be treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction of the Company, or the credit exposures have remained continuously outside the approved credit limit already advised to the borrower as at a reporting date.

The Company classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA. "Impaired" means "substandard, doubtful or loss in accordance with loan classification system of the HKMA" taking into account both qualitative factors (such as bankruptcy proceedings) and quantitative factors (for example, past due for more than 90 days) regarding credit quality of exposures. There were no loans which were past due for more than 90 days and non-impaired. After the determination of which assets are impaired taking into account the aforesaid factors, individual impairment shall be computed between a credit exposure and a recoverable amount. The recoverable amount takes into account cashflow from various debts collection means (such as realization of eligible collaterals). Collective impairment is computed for loans which are not subject to individual impairment assessment.

In general, a restructured asset is an asset that has been restructured and renegotiated between the Company and the borrower because of a deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or of repayment period, are non-commercial to the Company. Such rescheduled asset shall be treated as "impaired" in general. A rescheduled asset may be upgraded from "impaired" to "special mention" if (i) the agreed haircut has been fully written off and all the potential losses have been fully provided upon completion of restructuring; (ii) the Company is satisfied that the borrower will be able to service all future principal and interest payments in accordance with the revised repayment terms. Such asset however continues to be classified as "rescheduled" until the borrower has serviced all principal and interest payments in accordance with the revised repayment terms continuously for a reasonable period. The reasonable period of continuing repayments for rescheduled assets with monthly payments is 6 months; whilst the reasonable period for other rescheduled assets is a period of continuing repayment of 12 months.

Rescheduled assets are no longer regarded as "rescheduled" and are at "pass" grade when their revised repayment terms are, or become, commercial to the institution and where there is reasonable assurance that the borrowers will be able to service all future principal and interest payments on the assets in accordance with the revised repayment terms and the borrowers have serviced all principal and interest payments on the assets in accordance with the revised repayment terms continuously for a reasonable period.

Analysis on credit quality of exposures that are "neither past due nor impaired", "past due but not impaired" and "impaired" is provided as follows:

	31 December 2017			
Credit exposures	Loans exposures	Debt securities	Off-balance sheet exposures	Total
	HK$'000	HK$'000	HK$'000	HK$'000
- neither past due nor impaired	5,387,676	19,953	0	5,407,629
- past due but not impaired	282,461	0	0	282,461
- impaired	101,292	0	0	101,292
Total	5,771,429	19,953	0	5,791,382

Of which,

	31 December 2017			
Credit exposures that are neither past due nor impaired	Loans exposures	Debt securities	Off-balance sheet exposures	Total
	HK$'000	HK$'000	HK$'000	HK$'000
- pass	5,387,676	19,953	0	5,407,629
- special mention	0	0	0	0
Total	5,387,676	19,953	0	5,407,629

Also, the ageing analysis of loans and advances to customers that are past due but not impaired is as follows:

	31 December 2017			
Credit exposures that are past due but not impaired	Loans exposures	Debt securities	Off-balance sheet exposures	Total
	HK$'000	HK$'000	HK$'000	HK$'000
- overdue 3 months or less	282,461	0	0	282,461
- overdue more than 3 months	0	0	0	0
Total	282,461	0	0	282,461

The quantitative disclosures of exposures by geographical areas, industry and residual maturity are shown in note 27 and supplementary financial information "Advances to customers by industry sectors" to the financial statements. The amounts of impaired exposures and related allowances and write-offs; ageing analysis of accounting past due exposures and breakdown of restructured exposures are shown in note 12 to the financial statements.

Table CRC: Qualitative disclosures related to credit risk mitigation

In evaluating credit risk associated with an individual customer, a customer group or a counterparty, financial strength and repayment ability are always the first considerations in credit review and approval process. Credit risk is mitigated by obtaining recognized collateral (including cash deposits, properties and taxi licences). Meanwhile, recognized netting is not adopted by the Company.

The relevant policies and processes relating to the use of credit risk mitigation are established and approved by Credit Committee and are subject to regular reviews to ensure the effectiveness of credit risk management. The Company monitors the value of the collateral regularly with respect to the nature of collateral and market practice. Valuations on properties and taxi licenses are reviewed periodically (i.e. at least monthly).

Template CR3: Overview of recognized credit risk mitigation

The table below provides a breakdown of unsecured and secured exposures (net of impairment allowances), including loans and debt securities as at 31 December 2017. The major collateral for secured loans and advances and receivables were cash deposits, properties, taxi licences and vehicles. All debt securities were unsecured and assigned with a grading of Grade Aa2 based on the credit rating of Moody's Investors Service ("Moody's").

		31 December 2017				
		(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
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
1	Loans	3,937,323	1,759,634	1,759,634	0	0
2	Debt securities	19,953	0	0	0	0
3	**Total**	**3,957,276**	**1,759,634**	**1,759,634**	**0**	**0**
4	Of which defaulted	32,586	0	0	0	0

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

Credit ratings from Moody's, an external credit agency, are used in the Company for risk-weighting credit risk exposures under the following relevant exposure classes of the Company:

- Sovereign;
- Public sector entity;
- Bank;
- Securities firm; and
- Corporate

Over 90% of bank placements were deposited with banks and financial institutions rated with a grading of Baa2 or above based on the credit rating of Moody's. All issuers of debt securities are central governments with a grading of Aa2. Over 90% of loan exposures are non-rated. There are no transfers of External Credit Assessment Institutions ("ECAI") issuer ratings to ECAI issue specific ratings onto comparable assets in the banking book.

Template CR4: Credit risk exposures and effects of recognized credit risk mitigation ("CRM") – for STC approach

The table below illustrates the effect of any recognized CRM on the calculation of credit risk capital requirements under STC approach as at 31 December 2017.

		31 December 2017					
		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		**Exposures post-CCF and post-CRM**		**RWA and RWA density**	
	Exposure classes	On-balance sheet amount	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	%
1	Sovereign exposures	19,953	0	19,953	0	0	0%
2	PSE exposures	0	0	0	0	0	N/A
2a	Of which: domestic PSEs	0	0	0	0	0	N/A
2b	Of which: foreign PSEs	0	0	0	0	0	N/A
3	Multilateral development bank exposures	0	0	0	0	0	N/A
4	Bank exposures	740,339	0	740,339	0	148,068	20%
5	Securities firm exposures	0	0	0	0	0	N/A
6	Corporate exposures	46,626	0	46,626	0	46,626	100%
7	CIS exposures	0	0	0	0	0	N/A
8	Cash items	20,055	0	20,055	0	0	0%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	0	0	0	0	0	N/A
10	Regulatory retail exposures	4,666,191	7,735	4,666,191	0	3,499,644	75%
11	Residential mortgage loans	956,910	0	956,910	0	334,919	35%

		31 December 2017					
		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		**Exposures post-CCF and post-CRM**		**RWA and RWA density**	
	Exposure classes	On-balance sheet amount	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	%
12	Other exposures which are not past due exposures	102,772	0	102,772	0	102,772	100%
13	Past due exposures	32,586	0	32,586	0	48,879	150%
14	Significant exposures to commercial entities	0	0	0	0	0	N/A
15	**Total**	**6,585,432**	**7,735**	**6,585,432**	**0**	**4,180,908**	**63%**

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

The table below provides the breakdown of credit risk exposures by asset classes and by risk weights under STC approach as at 31 December 2017.

		31 December 2017										
	HK$'000	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
	Exposure class / Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	19,953	0	0	0	0	0	0	0	0	0	19,953
2	PSE exposures	0	0	0	0	0	0	0	0	0	0	0
2a	Of which: domestic PSEs	0	0	0	0	0	0	0	0	0	0	0
2b	Of which: foreign PSEs	0	0	0	0	0	0	0	0	0	0	0
3	Multilateral development bank exposures	0	0	0	0	0	0	0	0	0	0	0
4	Bank exposures	0	0	740,339	0	0	0	0	0	0	0	740,339
5	Securities firm exposures	0	0	0	0	0	0	0	0	0	0	0
6	Corporate exposures	0	0	0	0	0	0	46,626	0	0	0	46,626
7	CIS exposures	0	0	0	0	0	0	0	0	0	0	0
8	Cash items	20,055	0	0	0	0	0	0	0	0	0	20,055
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	0	0	0	0	0	0	0	0	0	0	0
10	Regulatory retail exposures	0	0	0	0	0	4,666,191	0	0	0	0	4,666,191
11	Residential mortgage loans	0	0	0	956,910	0	0	0	0	0	0	956,910

		31 December 2017										
	HK$'000	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
	Exposure class / Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
12	Other exposures which are not past due exposures	0	0	0	0	0	0	102,772	0	0	0	102,772
13	Past due exposures	0	0	0	0	0	0	0	32,586	0	0	32,586
14	Significant exposures to commercial entities	0	0	0	0	0	0	0	0	0	0	0
15	**Total**	**40,008**	**0**	**740,339**	**956,910**	**0**	**4,666,191**	**149,398**	**32,586**	**0**	**0**	**6,585,432**

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

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

		31 December 2017										
	HK$'000	(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
1	Sovereign exposures	0	0	0	0	0	0	0	0	0	0	0
2	PSE exposures	0	0	0	0	0	0	0	0	0	0	0
2a	Of which: domestic PSEs	0	0	0	0	0	0	0	0	0	0	0
2b	Of which: foreign PSEs	0	0	0	0	0	0	0	0	0	0	0
3	Multilateral development bank exposures	0	0	0	0	0	0	0	0	0	0	0
4	Bank exposures	0	0	0	0	0	0	0	0	0	0	0
5	Securities firm exposures	0	0	0	0	0	0	0	0	0	0	0
6	Corporate exposures	0	0	0	0	0	0	0	0	0	0	0
7	CIS exposures	0	0	0	0	0	0	0	0	0	0	0
8	Regulatory retail exposures	0	0	0	0	0	0	0	0	0	0	0
9	Residential mortgage loans	0	0	0	0	0	0	0	0	0	0	0
10	Other exposures which are not past due exposures	0	0	0	0	0	0	0	0	0	0	0
11	Significant exposures to commercial entities	0	0	0	0	0	0	0	0	0	0	0
12	**Total**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Key capital ratios disclosures

Capital adequacy ratio		31 December 2017	30 September 2017
	Item	**HK$'000**	**HK$'000**
1	CET1 capital	1,191,014	1,255,688
2	AT1 capital	0	0
3	Tier 1 capital (Tier 1 = CET1 + AT1)	1,191,014	1,255,688
4	Tier 2 capital	56,810	55,334
5	Total capital (Total capital = Tier 1 + Tier 2)	1,247,824	1,311,022
6	Total risk weighted assets	5,471,040	5,404,276
Capital ratios (as a percentage of risk weighted assets)			
	CET1 capital ratio	21.77%	23.24%
	Tier 1 capital ratio	21.77%	23.24%
	Total capital ratio	22.81%	24.26%

Leverage ratio		31 December 2017	30 September 2017
	Item	**HK$'000**	**HK$'000**
1	Tier 1 capital	1,191,014	1,255,688
2	Total exposures	6,473,656	6,513,084
Leverage ratio (as percentage of total exposures)			
	Leverage ratio	18.40%	19.28%

Glossary

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