INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED

中 國 工 商 銀 行(亞 洲)有 限 公 司

(Incorporated in Hong Kong with limited liability)

Regulatory Disclosure Statement

2018 4TH QUARTER

Purpose and Basis of Consolidation

The information contained in this Regulatory Disclosure Statement (the "Statement") is for Industrial and Commercial Bank of China (Asia) Limited and its subsidiaries to comply with the Banking (Disclosure) Rules ("BDR") (Cap. 155M) and does not constitute statutory financial statements.

While the Statement is not required to be subject to external audit, it has been reviewed and verified in accordance with the Group's governance processes over financial reporting and policies on disclosures.

Except where indicated otherwise, the financial information contained in this Statement has been prepared on the basis of regulatory scope of consolidation specified by the Hong Kong Monetary Authority ("HKMA") to the Bank.

OVA: Overview of risk management

Our business activities and operations involve identifying, assessing, accepting, measuring, monitoring and reporting various types of risks. We strike an appropriate balance between the amount and types of risks the Group is willing and able to accept in pursuit of its strategic objectives and business plan, and the level of return we target to achieve. The Group has a sound risk management framework in place to ensure the risk profile is prudent and consistent with the risk appetite which is commensurate with the complexity and nature of its business and operations and covers all types of inherent risks faced by the Group. Our risk appetite consists of quantitative and qualitative description of the types and level of risks that the Group is willing to take when achieving the strategic and business goals. The risk appetite framework is reviewed at least annually having regard to the Group's forward looking analysis of risk profile, its capital and financial plan and strategic development.

The effective risk governance is supported by adequate oversight of risk management by the Board of Directors (the Board) and senior management and well-defined three lines of defence underpinned by strong risk culture. The Risk Management Committee of the Board of Directors (BRMC) is delegated by the Board to oversee and review the effectiveness of the risk management system of the Group and approve the risk appetite statement and other key risk management policies. Reporting to the BRMC, the Senior Executive Risk Management Committee (SERMC) implements the risk management framework approved by the BRMC and formulates policies, procedures and limits to manage the risks arising from the Group's business activities and day-to-day operations.

The risk management and compliance functions, forming the second line of defense, are independent from business units. The risk management function carries out day-to-day risk management across all risk types. It establishes relevant policies and procedures to monitor, assess and report the risk profile. The compliance function oversees the Group's due compliance with the applicable regulatory and compliance requirements. The internal audit function which is the third line of defence should, among other things, perform independent periodic checking on the compliance and effectiveness of risk management processes and related internal controls.

Recognising the importance of sound risk culture, the Group has formulated and maintained various risk management policies and procedures and code of conduct applicable to all staff at all levels to help foster an effective on-going promotion of strong risk culture within the Group. The firm-wide risk management policy sets out the key elements and requirements in relation to sound risk culture which emphasise the importance of tone from top, the accountability of all staff for identifying, assessing and managing risks, the compliance to law and regulations, the integration of risk appetite into business planning and decisions, and encouragement to open communication and challenge.

To promote the expected behaviours and strengthen our risk culture, a dedicated risk culture column is established in the intranet at which updated information and messages relevant to risk culture are posted from time to time. In addition, risk-related factors are included in our employee performance assessment to reinforce sound risk culture to all staff.

Business lines and risk functions communicate and share risk issues in day-to-day operations. SERMC and BMRC meetings are held at least quarterly where discussion and decision related to risk management are made in response to the changing business environment and stringent regulatory requirements. Procedures related to handling, reporting and rectifying the breach of risk limits are set out in different types of risk's individual policy and procedure.

The Group adopts different methods or models to accurately and timely measure and assess each type of inherent risk. Depending on the nature of risk and the business activities or products involved, different risk measures are calculated to monitor the risk positions in terms of exposure size, risk level, concentration and asset quality, etc. both in normal times and in times of stress. A range of key risk measures or indicators are applied to the Bank and its major operating subsidiaries where applicable to ensure comprehensive review and monitoring on various risk types. The measurement methodologies, major assumptions, limitations, data source and procedures of risk measurement are properly documented and well presented to the senior management and the BRMC for assessment. The risk measurement system is subject to periodic review to ensure that the design, definitions and implementation can fit the purpose. Enhancement on risk measurements and methodologies are made where necessary to uphold the effectiveness of risk management.

Our risk information system supports regulatory reporting and internal management and reporting of various types of inherent risk. It provides our Board and senior management with accurate and timely risk information reports covering all risk exposures from both on- and off-balance sheet businesses. The risk information reports also provide the risk positions, limit utilization and concentration level to specific areas on a regular and need basis. Each report owner is responsible for risk measurement, analysis and assessment of risk, while ensuring the accuracy and quality of the data or information reported. The following major risk information reporting is presented to the Board and/ or senior management on a regular basis:

OVA: Overview of risk management (continued)

- The risk appetite report is submitted quarterly to the SERMC and BRMC. It comprises an overview of the updated status of each risk appetite indicators covering return, capital and eight inherent risks as defined under Supervisory Policy Manual IC-1 Risk Management Framework issued by HKMA, which are credit, market, interest rate, liquidity, operational, reputation, legal and strategic risks.

- Individual risk management report is presented to the SERMC and BRMC quarterly. Each report comprises the risk exposure or conditions quantitatively or qualitatively, limit utilization and key issues that require discussion and/ or decision by SERMC or BRMC.
- The latest status of our liquidity and funding is presented to the Asset and Liability Committee (ALCO).
- Bank-wide stress test is performed quarterly and reported to the SERMC and BRMC.

Stress testing is a crucial tool for the Group in risk management. It helps inform the Board and senior management the financial resources in terms of capital, liquidity and profitability that the Group may need in order to withstand the adverse conditions. We conduct firm-wide stress test regularly across all major business portfolios taking into account the impact of different risk factors significant and relevant to the risk profile. The stress testing scenarios are forward-looking and comprised of different level of severity which allow us to assess its vulnerability to changes in economic and financial conditions. The impact or change on the Group’s profit, capital adequacy level and/ or liquidity positions due to the assumed movement and interaction of risk factors under the stress scenarios are compared with the predetermined triggers to help decide whether any remedial actions should be taken. The stress testing results, which help reveal the potential risks and vulnerability of the Group, are also used for risk management and internal capital adequacy assessment process. The stress test policy and methodologies are subject to periodic review to ensure its appropriateness and robustness.

The Group has a comprehensive range of quantitative tools and metrics in place to monitor its risk exposures and risk level. Risk mitigation is one of the key aspects of prudent risk management. Depending on the nature of different products and business, a range of risk mitigating techniques such as seeking collateral, netting arrangement, hedging and insurance is covered in the relevant policies and procedures to mitigate the risks and reduce the potential loss. To ensure the effectiveness of mitigating techniques, there are structured process and requirements regarding the recognition of collateral or mitigating tools, the timely and reliable valuation and legal enforceability of the tools. There are also specific limits or analysis in regular risk management reports to monitor the potential concentration of collaterals.

Other than mitigating tools for particular customers, products or business lines, other mitigating strategies which can more broadly impact the risk exposure or restore the Group's liquidity and capital level are set out at the Recovery Plan and Contingency Funding Plan. The aforesaid documents are subject to periodic review and approval by the BRMC to ensure the strategies remain appropriate and effective.

OV1: Overview of RWA

		(HK$'000)		
		(a)	(b)	(c)
		RWA		Minimum capital requirements
		31/12/2018	30/09/2018	31/12/2018
1	Credit risk for non-securitization exposures	559,954,216	572,230,793	44,796,337
2	Of which STC approach	559,954,216	572,230,793	44,796,337
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	10,330,166	14,148,049	826,413
7	Of which SA-CCR	N/A	N/A	N/A
7a	Of which CEM	8,035,704	11,975,042	642,856
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	2,294,462	2,173,007	183,557
10	CVA risk	5,329,775	6,948,225	426,382
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA	N/A	N/A	N/A
13	CIS exposures – MBA	N/A	N/A	N/A
14	CIS exposures – FBA	N/A	N/A	N/A
14a	CIS exposures – combination of approaches	N/A	N/A	N/A
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	19,733,863	22,512,700	1,578,709
21	Of which STM approach	19,733,863	22,512,700	1,578,709
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)	N/A	N/A	N/A
24	Operational risk	24,984,000	24,565,863	1,998,720
25	Amounts below the thresholds for deduction (subject to 250% RW)	1,115,943	1,107,915	89,275
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	345,200	312,236	27,616

OV1: Overview of RWA (continued)

		(HK$'000)		
		(a)	(b)	(c)
		RWA		Minimum capital requirements
		31/12/2018	30/09/2018	31/12/2018
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	345,200	312,236	27,616
27	Total	621,102,763	641,201,309	49,688,220

The Group is in compliance with the Banking (Capital) Rules to calculate the risk-weighted assets (RWA). The Group adopts the standardized (credit risk) approach (STC) for the non-securitization credit risk RWA (including equity exposure and CIS exposure) calculation, the current exposure method (CEM) for the counterparty credit risk RWA calculation, standardized CVA method for the CVA risk RWA calculation, the standardized (market risk) approach (STM) for the market risk RWA calculation, the basic indicator approach (BIA) for the operational risk RWA calculation. There was no settlement risk, nor securitization exposure RWA on the reporting date. There was neither regulatory reserve nor collective provision which needed to be deducted from RWA. There was no RWA capital floor adjustment. The RWA of "Counterparty credit risk and default fund contributions" decreased by 27% amounting HKD 3.8 billion in Q4 2018, being primarily attributable to drop of "CEM" portion during the same period. It also resulted 23% fall of RWA of CVA risk in Q4 2018. The other RWA items only had small or moderate fluctuations as business development.

KM1: Key prudential ratios

		(HK$'000)				
		(a)	(b)	(c)	(d)	(e)
		31/12/18	30/09/18	30/06/18	31/03/18	31/12/17
	Regulatory capital (amount)					
1	Common Equity Tier 1 (CET1)	83,757,669	81,016,715	80,184,650	78,997,582	76,986,941
2	Tier 1	111,438,049	108,675,358	107,919,636	106,738,577	84,789,320
3	Total capital	122,646,612	123,832,810	123,282,400	121,982,515	100,642,230
	RWA (amount)					
4	Total RWA	621,102,763	641,201,309	673,325,490	649,923,036	607,311,255
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	13.49%	12.64%	11.91%	12.15%	12.68%
6	Tier 1 ratio (%)	17.94%	16.95%	16.03%	16.42%	13.96%
7	Total capital ratio (%)	19.75%	19.31%	18.31%	18.77%	16.57%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	1.88%	1.88%	1.88%	1.88%	1.25%
9	Countercyclical capital buffer requirement (%)	1.11%	1.09%	1.08%	1.10%	0.75%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	1.00%	N/A	N/A	N/A	N/A
11	Total AI-specific CET1 buffer requirements (%)	3.99%	2.97%	2.95%	2.98%	2.00%
12	CET1 available after meeting the AI's minimum capital requirements (%)	7.85%	7.00%	6.28%	6.52%	6.45%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	954,169,051	983,523,454	1,041,366,278	979,721,132	1,002,966,737
14	LR (%)	11.68%	11.05%	10.36%	10.89%	8.45%
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	72,846,277	70,385,574	74,826,216	83,538,175	76,513,223
16	Total net cash outflows	39,346,587	43,480,966	50,127,499	51,800,139	53,418,733
17	LCR (%)	185.90%	162.07%	150.74%	167.17%	144.58%
	Applicable to category 2 institution only:					
17a	LMR (%)	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	529,123,985	531,644,002	552,428,403	529,535,446	-
19	Total required stable funding	446,290,441	443,864,921	449,835,014	430,466,360	-
20	NSFR (%)	118.56%	119.78%	122.81%	123.01%	-
	Applicable to category 2A institution only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

KM1: Key prudential ratios (continued)

The reason of 1.02% increase in the total AI-specific CET1 buffer requirements is mainly due to 1% HLA (new regulatory requirement)set by HKMA with effective from 1 January 2019 as we are the sixth D-SIB bank in Hong Kong.

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

	(HK$'000)						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with banks and other financial institutions	151,374,532	157,061,233	157,061,233	-	-	-	-
Placements with banks and other financial institutions	74,217,313	74,217,313	74,217,313	-	-	-	-
Financial assets at fair value through profit or loss	525,689	525,689	-	-	-	-	525,689
Derivative financial instruments	9,144,877	9,144,877	1,106,197	9,144,877	-	-	-
Advances and other accounts	475,789,393	475,789,393	475,789,393	-	-	-	-
Financial investments: – measured at fair value through other compensive income	101,065,910	98,284,317	98,284,317	23,893,731	-	-	-
Financial investments: – measured at amortised cost	66,214,809	66,263,956	66,263,956	2,572,388	-	-	-
Investments in associates	97,984	173,658	173,658	-	-	-	-
Investment in subsidiaries	-	2,813,143	2,813,143	-	-	-	-
Goodwill and other intangible assets	1,017,797	980,154	-	-	-	-	980,154
Investment properties	140,135	140,135	140,135	-	-	-	-
Property, plant and equipment	901,251	911,152	911,152	-	-	-	-
Current income tax assets	-	-	-	-	-	-	-
Deferred income tax assets	749,768	749,768	-	-	-	-	749,768

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

	(HK$'000)						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			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
Other assets	12,378,929	6,749,676	6,749,676	1,556,674	-	-	-
Total assets	**893,618,387**	**893,804,464**	**883,510,173**	**37,167,670**	**-**	**-**	**2,255,611**
Liabilities							
Deposits from banks and other financial institutions	161,433,060	161,433,060	-	-	-	-	161,433,060
Derivative financial instruments	6,920,387	6,920,387	-	1,445,831	-	-	5,474,556
Deposits from customers	533,531,808	534,711,146	-	-	-	-	534,711,146
Certificates of deposit issued	24,948,381	24,948,381	-	-	-	-	24,948,381
Debt securities in issue– Designated at fair value through profit or loss	2,642,190	2,642,190	-	-	-	-	2,642,190
Debt securities in issue– At amortised cost	20,266,180	20,266,180	-	-	-	-	20,266,180
Current income tax liabilities	663,190	663,190	-	-	-	-	663,190
Subordinated debts measured at amortised cost	7,825,543	7,825,543	-	-	-	-	7,825,543
Other liabilities	18,070,159	18,271,406	-	-	-	-	18,271,406
Total liabilities	**776,300,898**	**777,681,483**	**-**	**1,445,831**	**-**	**-**	**776,235,652**

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

		(HK$'000)				
		(a)	(b)	(c)	(d)	(e)
		Total	Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	**891,548,853**	**883,510,173**	**-**	**37,167,670**	**-**
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	1,445,831	-	-	1,445,831	-
3	Total net amount under regulatory scope of consolidation	890,103,022	883,510,173	-	35,721,839	-
4	Off-balance sheet amounts	1,033,734,760	37,446,574	-	8,086,193	788,160,286
5	*Differences in valuations*	(106,806)	-	-	(106,806)	-
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*	-	-	-	-	-
9	**Exposure amounts considered for regulatory purposes**	**1,923,730,976**	**920,956,747**	**-**	**43,701,226**	**788,160,286**

LIA: Explanations of differences between accounting and regulatory exposure amounts

The differences between column (a) and column (b) of LI1 are due to difference in consolidation basis for accounting purposes and consolidation basis for regulatory purpose of the Bank and its subsidiaries and interests in associates.

The main driver for the differences between accounting values and amounts considered for regulatory purposes is the application of CCFs on off-balance sheet amounts.

Marking-to-market methodology

The Group applies mark-to-market valuations to liquefiable financial instruments via day-end market data update through market data service providers.

Mark-to-model methodology

The Group applies internal valuation procedures and model when the market is inactive, the range of reasonable fair values estimates is significant, or the probabilities of the various estimates cannot reasonably be assessed. The Group's models are calibrated and tested for validity using prices from any observable current market transactions in the same financial instrument or based on any available observable market data to make sure all the models are aligned with market acceptable methodologies for pricing financial instruments.

Independent price verification process is subject to a control framework, as well as policy and procedures designed to ensure that the prices valued internally are validated by an independent party. The verification process is carried on a monthly basis, and any price difference deviated from the acceptable thresholds is followed by investigation and root cause analysis. Valuation Committee whose voting members are mandated from non-risk taking units oversees the independent price verification process and results, in order to perform the check and balance against risk taking unit in price valuation result.

The Group has established policies and procedures for considering valuation adjustments or reserves in circumstances of Market Uncertainty and Credit/Debit Valuation ("CVA/DVA") Adjustment.

LIA: Explanations of differences between accounting and regulatory exposure amounts (continued)

Market Uncertainty

By setting up a set of marco economic factor thresholds, Valuation Committee monthly reviews whether the market uncertainty circumstance have happened, resulting consideration of valuation adjustment from the top down perspective. Meanwhile, Valuation Committee also makes use of independent price verification process, that the Group's internal valuation result of instruments are compared with independent party's valuation, to review if any potential indication of market uncertainty from bottom up perspective. The Group has established a defined procedure for proceeding valuation adjustment or reserves amount after consideration of market uncertainty situation, and if and when it is identified.

Credit/Debit Valuation Adjustment

According to the Group's Policy, the valuation result is subject to the CVA/DVA adjustment process that the adjustment method is based on the Group's internal credit rating assigned to credit counterparty and respective probability of default. Valuation Committee monthly reviews the CVA/DVA adjustment results which are adopted for valuing trading positions if accepted.

In a nutshell, the Group has adequately adopted relevant systems and controls to ensure that the valuation estimates are prudent and reliable for the purposes of implementing the guidance on prudent valuation.

PV1: Prudent valuation adjustments

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

CC1: Composition of regulatory capital

		(HK$'000)	
		(a)	(b)
		Amount	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	36,379,331	[e]
2	Retained earnings	50,113,313	
3	Disclosed reserves	1,908,483	
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	0	
6	**CET1 capital before regulatory adjustments**	88,401,127	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	3,462	
8	Goodwill (net of associated deferred tax liabilities)	980,154	[a] - [c]
9	Other intangible assets (net of associated deferred tax liabilities)	17,155	[b] - [d]
10	Deferred tax assets (net of associated deferred tax liabilities)	749,768	
11	Cash flow hedge reserve	79,010	
12	Excess of total EL amount over total eligible provisions under the IRB approach	0	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	0	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	0	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	0	
17	Reciprocal cross-holdings in CET1 capital instruments	0	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable

CC1: Composition of regulatory capital (continued)

		(HK$'000)	
		(a)	(b)
		Amount	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	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	2,813,909	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	627,637	
26b	Regulatory reserve for general banking risks	2,185,982	
26c	Securitization exposures specified in a notice given by the MA	0	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	290	
26e	Capital shortfall of regulated non-bank subsidiaries	0	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	0	
28	**Total regulatory deductions to CET1 capital**	4,643,458	
29	**CET1 capital**	83,757,669	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	27,680,380	[f]
31	of which: classified as equity under applicable accounting standards	27,680,380	
32	of which: classified as liabilities under applicable accounting standards	0	
33	*Capital instruments subject to phase-out arrangements from AT1 capital*	0	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	0	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements*	0	
36	**AT1 capital before regulatory deductions**	27,680,380	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	0	
38	Reciprocal cross-holdings in AT1 capital instruments	0	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	

CC1: Composition of regulatory capital (continued)

		(HK$'000)	
		(a)	(b)
		Amount	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
41	National specific regulatory adjustments applied to AT1 capital	0	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	0	
43	**Total regulatory deductions to AT1 capital**	0	
44	**AT1 capital**	27,680,380	
45	**Tier 1 capital (T1 = CET1 + AT1)**	111,438,049	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	3,915,825	
47	*Capital instruments subject to phase-out arrangements from Tier 2 capital*	1,558,295	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	0	
49	*of which: capital instruments issued by subsidiaries subject to phase-out arrangements*	0	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	5,452,006	
51	**Tier 2 capital before regulatory deductions**	10,926,126	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	0	
53	Reciprocal cross-holdings in Tier 2 capital instruments	0	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	
56	National specific regulatory adjustments applied to Tier 2 capital	(282,437)	
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	(282,437)	
57	**Total regulatory adjustments to Tier 2 capital**	(282,437)	
58	**Tier 2 capital (T2)**	11,208,563	
59	**Total regulatory capital (TC = T1 + T2)**	122,646,612	
60	**Total RWA**	621,102,763	
	Capital ratios (as a percentage of RWA)		
61	**CET1 capital ratio**	13.49%	

CC1: Composition of regulatory capital (continued)

		(HK$'000)	
		(a)	(b)
		Amount	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
62	**Tier 1 capital ratio**	17.94%	
63	**Total capital ratio**	19.75%	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	7.49%	
65	of which: capital conservation buffer requirement	1.88%	
66	of which: bank specific countercyclical capital buffer requirement	1.11%	
67	of which: higher loss absorbency requirement	1.00%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	7.85%	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant capital investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	209,965	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	596,377	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	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)	5,452,006	
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	7,132,264	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	Not applicable	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	Not applicable	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*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

CC1: Composition of regulatory capital (continued)

		(HK$'000)	
		(a)	(b)
		Amount	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
82	*Current cap on AT1 capital instruments subject to phase-out arrangements*	0	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	0	
84	*Current cap on Tier 2 capital instruments subject to phase-out arrangements*	1,558,295	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	2,351,423	

Notes to the Template

	Description	**Hong Kong basis**	**Basel III basis**
9	**Other intangible assets (net of associated deferred tax liabilities)**	17,155	17,155
	Explanation As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights ("MSRs") may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
10	**Deferred tax assets (net of associated deferred tax liabilities)**	749,768	0
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		

CC1: Composition of regulatory capital (continued)

	Description	Hong Kong basis	Basel III basis
18	**Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	0	0
	Explanation For the purpose of determining the total amount of insignificant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
19	**Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	0	0
	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)**	0	0
	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.		

CC1: Composition of regulatory capital (continued)

<table>
<tr><th></th><th>Description</th><th>Hong Kong basis</th><th>Basel III basis</th></tr>
<tr><td>54</td><td>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)</td><td>0</td><td>0</td></tr>
<tr><td></td><td colspan="3"><u>Explanation</u>
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.</td></tr>
<tr><td colspan="4">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.</td></tr>
</table>

CC2: Reconciliation of regulatory capital to balance sheet

	(HK$'000)		
	(a)	(b)	(c)
	Balance sheet as in published financial statements 31/12/2018	**Under regulatory scope of consolidation** 31/12/2018	**Reference**
Assets			
Cash and balances with banks and other financial institutions	151,374,532	157,061,233	
Placements with banks and other financial institutions	74,217,313	74,217,313	
Financial assets designated at fair value through profit or loss	525,689	525,689	
Derivative financial instruments	9,144,877	9,144,877	
Advances and other accounts	475,789,393	475,789,393	
of which: collective impairment allowances reflected in regulated capital		(3,266,024)	
Financial investments:	167,280,719	164,548,273	
– available-for-sale	-	98,284,317	
– measured at fair value through other comprehensive income	101,065,910	-	
– held-to-maturity	-	66,263,956	
– measured at amortised cost	66,214,809	-	
Investment in an associate	97,984	173,658	
Investment in subsidiaries	-	2,813,143	
Goodwill and other intangible assets	1,017,797	980,154	
of which: goodwill		980,154	
of which: other intangible asset		17,155	
Investment properties	140,135	140,135	
of which: cumulative revaluation gain on investment properties		43,243	
Property, plant and equipment	901,251	911,152	
Current income tax asset	-	-	
Deferred income tax assets	749,768	749,768	
Other assets	12,378,929	6,749,676	
Total assets	893,618,387	893,804,464	
Liabilities			
Deposits from banks and other financial institutions	161,433,060	161,433,060	
Derivative financial instruments	6,920,387	6,920,387	
of which: debit valuation adjustments in respect of derivative contracts		3,462	
Deposits from customers	533,531,808	534,711,146	
Certificates of deposit issued at amortised cost	24,948,381	24,948,381	

CC2: Reconciliation of regulatory capital to balance sheet (continued)

	(HK$'000)		
	(a)	(b)	(c)
	Balance sheet as in published financial statements 31/12/2018	**Under regulatory scope of consolidation** 31/12/2018	**Reference**
Debt securities in issue	22,908,370	22,908,370	
- Designated at fair value through profit or loss	2,642,190	2,642,190	
- At amortised cost	20,266,180	20,266,180	
Current income tax liabilities	663,190	663,190	
Deferred income tax liabilities	-	-	
Subordinated debts measured at amortised cost	7,825,543	7,825,543	
of which: subordinate debts not eligible for inclusion in regulatory capital		1,558,295	
of which: subordinate debt eligible for inclusion in regulatory capital		3,915,825	
Other liabilities	18,070,159	18,271,406	
Total liabilities	776,300,898	777,681,483	
Shareholders' equity			
Share capital and other statutory capital reserves	36,379,331	36,379,331	
Retained earnings	51,287,301	50,113,313	
of which: regulatory reserve for general banking risks		2,185,982	
Other reserves	2,015,150	1,994,630	
of which: bank premises revaluation reserve		671,394	
of which: investment revaluation reserve		(1,995,499)	
of which: cash flow hedge reserve		79,010	
of which: exchange reserve		(54,461)	
of which: general reserve		3,294,186	
Additional equity instruments	27,635,707	27,635,707	
Total shareholders' equity	117,317,489	116,122,981	
Total shareholders' equity and liabilities	893,618,387	893,804,464	

CCA: Main features of regulatory capital instruments

Main Features Template – Ordinary Shares

1	Issuer	Industrial and Commercial Bank of China (Asia) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Companies Ordinance
	Regulatory treatment	
4	Transitional Basel III rules#	Common Equity Tier 1
5	Post-transitional Basel III rules+	Common Equity Tier 1
6	Eligible at solo*/group/group & solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$36,379 million
9	Par value of instrument	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	Since incorporation
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	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 rate	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 it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Depositors, bank's creditors, holders' of certificates of deposit issued, debt securities in issue and subordinated debts in issue.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Main Features Template – USD subordinated note with a final maturity on 30 November 2020

1	Issuer	Industrial and Commercial Bank of China (Asia) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0563742138
3	Governing law(s) of the instrument	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law, except that the provisions of the Notes relating to subordination shall be governed by, and construed in accordance with, the laws of Hong Kong.
	Regulatory treatment	
4	Transitional Basel III rules#	Tier 2
5	Post-transitional Basel III rules+	Ineligible
6	Eligible at solo*/group/group & solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Other Tier 2 instruments
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$1,558 million
9	Par value of instrument	USD500 million
10	Accounting classification	Liability – amortised cost
11	Original date of issuance	30 November 2010
12	Perpetual or dated	Dated
13	Original maturity date	30 November 2020
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.125% 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 rate	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 it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Depositors, bank's creditors, holders' of certificates of deposit issued and debt securities in issue.
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	The terms and conditions of the instrument do not contain a provision requiring the instrument to be written down, or converted, into ordinary shares, at the point of non-viability.

CCA: Main features of regulatory capital instruments (continued)

Main Features Template – USD subordinated note with a final maturity on 31 December 2024 (callable on 31 December 2019)

1	Issuer	Industrial and Commercial Bank of China (Asia) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ICBCAS451224
3	Governing law(s) of the instrument	The Notes are governed by and shall be construed in accordance with Hong Kong law.
	Regulatory treatment	
4	Transitional Basel III rules#	Tier 2
5	Post-transitional Basel III rules+	Tier 2
6	Eligible at solo*/group/group & solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Other Tier 2 instruments
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$3,916 million
9	Par value of instrument	USD500 million
10	Accounting classification	Liability – amortised cost
11	Original date of issuance	30 December 2014
12	Perpetual or dated	Dated
13	Original maturity date	30 December 2024
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	30 December 2019 (Redemptions in whole at 100% with accrued interests)
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	4.5% per annum
19	Existence of a dividend stopper	N/A
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A
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 rate	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 it 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
32	If write-down, full or partial	Full
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Depositors, bank's creditors, holders' of certificates of deposit issued and debt securities in issue.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Main Features Template – USD Non-Cumulative Subordinated Additional Tier 1 Capital Securities with perpetual maturity (callable on 21 July 2021)

1	Issuer	Industrial and Commercial Bank of China (Asia) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS1449306064
3	Governing law(s) of the instrument	The Capital Securities are governed by and shall be construed in accordance with English Law, except that the subordination provisions are governed by and shall be construed in accordance with Hong Kong law.
	Regulatory treatment	
4	Transitional Basel III rules#	N/A
5	Post-transitional Basel III rules+	Additional Tier 1
6	Eligible at solo*/group/group & solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Additional Tier 1 capital instruments
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$7,738 million
9	Par value of instrument	USD 1 billion
10	Accounting classification	Equity instruments
11	Original date of issuance	21 July 2016
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	First call date: 21 July 2021 (Redemptions in whole at 100%)
16	Subsequent call dates, if applicable	any distribution payment date thereafter
	Coupons/dividends	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	Year 1-5: 4.25% per annum payable semi-annually in arrear; Year 5 onwards: resettable on year 5 and every 5 years thereafter at then prevailing 5-year US Treasury yield plus a fixed initial spread
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 rate	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 it 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
32	If write-down, full or partial	full
33	If write-down, permanent or temporary	permanent
34	If temporary write-down, description of write-up	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).	Depositors, bank's creditors, creditors of Tier 2 capital and all other subordinated indebtedness of the bank.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

CCA: Main features of regulatory capital instruments (continued)

Main Features Template – USD Non-Cumulative Subordinated Additional Tier 1 Capital Securities with perpetual maturity (callable on 21 March 2023)

1	Issuer	Industrial and Commercial Bank of China (Asia) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	The Capital Securities are governed by and shall be construed in accordance with Hong Kong law
	Regulatory treatment	
4	Transitional Basel III rules#	N/A
5	Post-transitional Basel III rules+	Additional Tier 1
6	Eligible at solo*/group/group & solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Additional Tier 1 capital instruments
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$19,897 million
9	Par value of instrument	USD 2.536 billion
10	Accounting classification	Equity instruments
11	Original date of issuance	21 March 2018
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	21 March 2023(Redemptions in whole at 100%)
16	Subsequent call dates, if applicable	any distribution payment date thereafter
	Coupons/dividends	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	Year 1-5: 4.90% per annum payable semi-annually in arrear; Year 5 onwards: resettable on year 5 and every 5 years thereafter at then prevailing 5-year US Treasury yield plus a fixed initial spread
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Partially 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 rate	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 it 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
32	If write-down, full or partial	May be written-down partially
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Depositors and all other unsubordinated creditors of the Issuer, creditors in respect of Tier 2 Capital Instruments and all other Subordinated Indebtedness of the Issuer.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

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

		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
		(%)	(Amount)		
1	Hong Kong SAR	1.875%	268,551,403		
2	China	0.000%	150,136,402		
3	Afghanistan	0.000%	1,083		
4	Australia (includes Christmas Islands, Cocos Islands, Norfolk Islands, Heard and McDonald Islands, Territory of Ashmore and Cartier Islands and Territory of Coral Sea Islands)	0.000%	4,363,821		
5	Cambodia	0.000%	63		
6	Canada	0.000%	1,398		
7	Cayman Islands	0.000%	4,162,287		
8	Chinese Taipei	0.000%	38,756		
9	Dominican Republic	0.000%	11,773		
10	France (includes French Guiana, French Southern Territories, Guadeloupe, Martinique, Mayotte, Monaco, Reunion and St. Pierre and Miquelon)	0.000%	58,771		
11	India	0.000%	187,801		
12	Indonesia	0.000%	1,908,402		
13	Ireland	0.000%	3,160,815		
14	Italy	0.000%	67,384		
15	Japan	0.000%	3		
16	Luxembourg	0.000%	5,011,031		
17	Macau SAR	0.000%	2,975,164		
18	Malaysia (includes Labuan International Financial Offshore Centre)	0.000%	16,461		
19	Myanmar	0.000%	556,388		
20	Netherlands	0.000%	986,332		
21	New Zealand	0.000%	200,675		
22	Philippines	0.000%	544		
23	Singapore	0.000%	3,303,138		
24	South Korea	0.000%	87,863		
25	Thailand	0.000%	442,696		
26	United Arab Emirates	0.000%	3,099		
27	United Kingdom (excludes Guernsey, Isle of Man and Jersey)	1.000%	2,965,366		
28	United States (includes American Samoa, Guam, Midway Islands, Northern Mariana Islands, Puerto Rico, US Virgin Islands and Wake Islands)	0.000%	2,343,138		
29	Vietnam	0.000%	125,209		
30	West Indies UK (includes Anguilla, Antigua and Barbuda, British Virgin Islands, Montserrat and St. Christopher/St. Kitts - Nevis)	0.000%	2,946,052		
	Sum		454,613,318		
	Total		454,613,318	1.114%	5,064,993

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

		(a)
	Item	**Value under the LR framework** (HK$'000)
1	Total consolidated assets as per published financial statements	893,618,387
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	2,888,817
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	6,264,155
5	Adjustment for SFTs (i.e. repos and similar secured lending)	3,134,254
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	54,265,599
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(5,309,178)
7	Other adjustments	(692,983)
8	**Leverage ratio exposure measure**	954,169,051

LR2: Leverage ratio ("LR")

		(a)	(b)
		(HK$'000)	
		31/12/2018	30/09/2018
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	865,645,801	869,310,080
2	Less: Asset amounts deducted in determining Tier 1 capital	(3,889,938)	(4,165,105)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	861,755,863	865,144,975
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)	7,832,478	13,816,792
5	Add-on amounts for PFE associated with all derivative contracts	9,546,681	9,897,436
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	(3,282,526)	(3,445,986)
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**	14,096,633	20,268,242
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	26,225,880	41,796,538
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	3,134,254	4,823,947
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	29,360,134	46,620,485
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	237,488,281	249,571,266
18	Less: Adjustments for conversion to credit equivalent amounts	(183,222,682)	(192,685,994)
19	**Off-balance sheet items**	54,265,599	56,885,272
Capital and total exposures			
20	**Tier 1 capital**	111,438,049	108,675,358
20a	**Total exposures before adjustments for specific and collective provisions**	959,478,229	988,918,974
20b	**Adjustments for specific and collective provisions**	(5,309,178)	(5,395,520)
21	**Total exposures after adjustments for specific and collective provisions**	954,169,051	983,523,454
Leverage ratio			
22	**Leverage ratio**	11.68%	11.05%

LIQA: Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its financial obligations as and when they fall due. A sound liquidity risk management framework is therefore essential to ensure there is adequate cash flow to meet all financial obligations, including matured borrowings, deposits withdrawal either on demand or at contractual maturity, etc under both normal and contingency circumstances in a cost-effective manner. The Group must comply with the statutory LCR, net stable funding ratio (NSFR) and regulatory liquidity-related ratio. To ensure this, the Group maintains a stable and diversified funding base of retail and corporate customer deposits and a strong portfolio of highly liquid assets.

The Board of Directors (the "Board") has the ultimate responsibility for the oversight of liquidity risk management. For better management of the overall risks faced by the Bank, the Board has established the Board RMC to oversee the Bank's risk management framework and risk positions and approve risk policies (including liquidity risk management policy). Board RMC delegate Senior Executive RMC (the "SERMC") to monitor and assess the Bank's overall risk positions. On liquidity risk, however, SERMC appoints ALCO for management.

The ALCO, to manage liquidity risk includes but is not limited to:

- identify, assess, monitor and control the liquidity risk
- formulate, review and update the liquidity risk management policy
- strengthen the Bank's liquidity and monitor the liquidity risk indicators, cash flow and intraday liquidity
- review the liquidity stress testing on a regular basis
- build up contingency plan on liquidity, including but is not limited to solicit customer deposits, issue CDs, sell bonds, etc.

To manage liquidity risk, the Group has established liquidity risk management policies that are reviewed and approved by ALCO, SERMC and Board RMC. Liquidity is managed and forecasted on a daily basis to enable ALCO and relevant departments to act proactively in view of changing market conditions and to implement contingency plans on a timely basis. Also, liquidity risk management reports are prepared and reported to ALCO on a monthly basis; to SERMC and Board RMC on a quarterly basis for effective liquidity risk management oversight. Stress tests, with various crisis scenarios covering bank-specific, general market and a combination of both, are regularly conducted for both internal and regulatory purposes in order to assess the adequacy of the Group's liquidity to meet any contingent funding needs under severe conditions. ALCO examines and discusses the stress test results to consider the need for preventive and mitigating actions. These actions include but are not limited to limit the Bank's exposures, build up more liquidity cushion, and/or adjust the structural maturity profile of the Bank's assets and liabilities. Stress tests are conducted for all currencies in aggregate and separately for positions in significant currencies (e.g. HKD, USD, CNY).

The Bank maintains a diversified portfolio of liquidity cushion that is largely made up of the most liquid and readily marketable assets ("tier 1 assets"), such as cash, EF debt securities and other high quality government debt securities or similar instruments, that can be easily or immediately monetized with little or no loss or discount at all times. The Bank also widens the composition of the liquidity cushion by holding other liquid and marketable assets ("tier 2 assets") which can be used to cater for the longer end of the stress period without resulting in excessive losses or discounts. The Bank calculates the required liquidity cushion, which is compared to the liquidity cushion held by the Bank to ensure that the latter is sufficient in all circumstances.

To ensure an effective liquidity risk management, frontline business units:

- report the customer fund in/out flow in time and monitor the trend of deposits withdrawal
- attract relatively stable deposits at reasonable rate (e.g. longer tenor, larger depositor base, etc.)
- fulfill the deposit growth targets set by senior management
- simultaneously comply with the deposit growth target when developing assets business which consumes liquidity
- implement liquidity management plans as agreed in ALCO or CEO when the liquidity is relatively tight
- price lending properly, taking into account the Bank's liquidity cost and availability
- slow down or cease committing to new loans, and / or defer or regulate loan drawdown, and / or work together on loan sale during times of liquidity stress

The Group continues to seek to diversify its funding channels to control excessive concentration on funding sources. Funding support from the Parent Bank, ICBC, has also proven to be efficient in strengthening the Group's liquidity capability.

The matching and controlled mismatching of assets and liabilities are fundamental to the liquidity management of the Group. It is unusual for bank's assets and liabilities to be completely matched in tenors, as transactions often entail uncertain terms and are frequently of different types. While an unmatched position potentially enhances profitability, it increases the liquidity risk (as well as the interest rate risk) of an entity.

A substantial portion of our assets is funded by customer deposits. These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. The Group places great emphasis on the stability of these deposits, which are sustained through the Group's retail banking activities and by maintaining depositor confidence in the Group's capital strength. Although many customer accounts are contractually due for repayment on demand or at short notice, in practice inflows and outflows are broadly matched, keeping short-term deposit balances stable.

The contingency funding plan ("CFP") is reviewed by ALCO and SERMC, and approved by Board RMC at least annually with the objective of ensuring that the Group has practical and operational plans in place to enable it to cope with a liquidity crisis. The CFP is a practical tool for managing liquidity during a crisis event. It sets out the options available to the Group for garnering liquidity and funding, and an agreed course of action in the event of an unexpected crisis. The CFP includes detailed action steps as well as roles and responsibilities of relevant parties. As a practical set of guidelines for the crisis management team and its support team to evaluate the liquidity crisis situation and execute action steps during any crisis, the CFP also consists of a sound balance sheet maturity analysis, and spells out all potential funding sources giving due consideration to their reliability, priority and the lead time during a crisis.

The bank assess the structure of the on and off balance sheet with cash flow projection and future liquidity position by monitoring 1) cumulative net maturity mismatch (normal condition) and 2) cash flow stress testing (stress condition). By projecting the future cash flow maturity position from on and off balance sheet items, corresponding cumulative maturity gap can be generated and monitored. The bank needs to ensure the cumulative net cash flow position is positive within certain period under both normal and stress condition. (i.e. the negative cumulative maturity gap can be recovered by options such as disposal of securities). In 31Dec2018, cumulative net maturity mismatch (normal condition) exposure is positive HKD 46bn within 1 month; cash flow stress testing (stress condition) exposure is positive HKD 48bn within 1 month.

There are corresponding concentration limits for risk diversification of the bank. For example for repo product, there are repo notional limits by counterparties as below.

	Repo Notional (USD mio)
ING	1,000
HSBC	1,200
GS	1,000
BARC	2,000
RBS	1,000
BNP	1,000
CACIB	1,500
ANZ	1,000
NAB	1,000
MCQ	1,000
Total	**11,700**

LIQA: Liquidity risk management (continued)

The bank monitors the liquidity exposure of the regulatory required liquidity ratios LCR, HKD L1 LCR and NSFR under local, combined and consolidated basis.

In 31Dec2018, the exposure results are as below.

LCR under local basis is 155%, LCR under combined basis is 155% and LCR under consolidated basis is 160%.

HKD L1 LCR under local basis is 209%, HKD L1 LCR under combined basis is 209% and HKD L1 LCR under consolidated basis is 186%.

NSFR under local basis is 121%, NSFR under combined basis is 121% and NSFR under consolidated basis is 119%.

LIQA: Liquidity risk management (continued)

On- and off-balance sheet items, broken down into maturity buckets and the resultant liquidity gaps as below.

(HK$'000)

	Repayable on demand	Up to one month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks and other financial institutions	50,252,489	101,122,043	-	-	-	-	-	151,374,532
Placements with banks and other financial institutions	-	-	63,630,572	10,586,741	-	-	-	74,217,313
Financial assets designated at fair value through profit or loss	-	-	-	-	-	525,689	-	525,689
Derivative financial instruments	227,548	784,736	858,874	2,078,651	4,236,853	958,215	-	9,144,877
Advances and other accounts	10,705,007	15,433,226	25,037,054	104,805,533	205,738,792	114,069,781	-	475,789,393
Measured at FVTOCI financial investments	-	2,728,721	1,317,069	7,921,571	51,608,003	34,703,844	2,786,702	101,065,910
Measured at amortised cost financial investments	-	5,359,105	16,327,602	9,205,732	26,606,259	8,716,111	-	66,214,809
Investments in associates	-	-	-	-	-	-	97,984	97,984
Goodwill and other intangible assets	-	-	-	-	-	-	1,017,797	1,017,797
Investment properties	-	-	-	-	-	-	140,135	140,135
Property, plant and equipment	-	-	-	-	-	-	901,251	901,251
Other assets, including current and deferred income tax assets	298,548	3,678,836	1,336,240	4,325,554	3,032,867	124,679	331,973	13,128,697
Sub total assets	61,483,592	129,106,667	108,507,411	138,923,782	291,222,774	159,098,319	5,275,842	893,618,387
Off-balance obligations								
Inevocable loan commitments or facilities granted								
(a) With dates and amounts of drawdown ascertained	-	-	-	-	-	-	-	-
(b) Others(not included in sub-item(a))	-	58,254,019	-	-	-	-	-	58,254,019
Off-balance sheet obligations not included in item 11 to 13								
(a) With dates and amounts of payment ascertained	-	-	1,707,942	-	-	-	-	1,707,942
(b) Others	-	16,812,665	3,118,439	17,097,693	14,816,073	3,478,620	-	55,323,490
Sub total Off-balance obligations	-	75,066,684	4,826,381	17,097,693	14,816,073	3,478,620	-	115,285,451
Total	61,483,592	204,173,351	113,333,792	156,021,475	306,038,847	162,576,939	5,275,842	1,008,903,838
Liabilities								
Deposits from banks and other financial institutions	39,618,050	37,408,489	15,685,605	41,250,888	27,470,028	-	-	161,433,060
Derivative financial instruments	32,807	883,170	1,003,093	2,207,693	2,102,567	691,057	-	6,920,387
Deposits from customers	139,899,282	145,373,608	111,879,440	125,656,796	10,722,682	-	-	533,531,808
Certificates of deposit issued	-	2,546,806	11,282,534	11,119,041	-	-	-	24,948,381
Debt securities in issue								
- Designated at fair value through profit or loss	-	-	-	108,794	2,533,396	-	-	2,642,190
- At amortised cost	-	1,173,513	4,660,270	4,438,807	9,993,590	-	-	20,266,180
Subordinated debt measured at amortised cost	-	-	-	-	3,909,718	3,915,825	-	7,825,543
Other liabilities, including current and deferred income tax liabilities	2,699,136	8,013,534	1,208,061	5,097,200	469,846	293,163	952,409	18,733,349
Sub total liabilities	182,249,275	195,399,120	145,719,003	189,879,219	57,201,827	4,900,045	952,409	776,300,898
Off-balance clamis								
Inevocable loan commitments or facilities received								
(a) With dates and amounts of drawdown ascertained	-	-	-	-	-	-	-	-
(b) Others	23,494,950	-	-	-	-	-	-	23,494,950
Off-balance sheet claims not included in item								
(a) With dates and amounts of receipt of payment ascertained	1,707,942	-	-	-	-	-	-	1,707,942
(b) Others	-	-	-	-	-	-	68,302,673	68,302,673
Sub total Off-balance obligations	25,202,892	-	-	-	-	-	68,302,673	93,505,565
Total	207,452,167	195,399,120	145,719,003	189,879,219	57,201,827	4,900,045	69,255,082	869,806,463
Net liquidity gap	(145,968,575)	8,774,231	(32,385,211)	(33,857,744)	248,837,020	157,676,894	(63,979,240)	139,097,375

LIQ1: Liquidity Coverage Ratio ("LCR") – 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: (75)		(HK$'000)	
		(a)	(b)
Basis of disclosure: consolidated		**Unweighted value** (average)	**Weighted value** (average)
A.	**HQLA**		
1	Total HQLA		73,119,866
B.	**Cash outflows**		
2	Retail deposits and small business funding, of which:	159,014,767	15,264,380
3	*Stable retail deposits and stable small business funding*	9,135,699	276,473
4	*Less stable retail deposits and less stable small business funding*	149,879,067	14,987,907
4a	*Retail term deposits and small business term funding*	-	-
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	250,741,698	124,782,398
6	*Operational deposits*	26,763,590	6,609,584
7	*Unsecured wholesale funding (other than small business funding) not covered in row 6*	219,157,836	113,352,542
8	*Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period*	4,820,272	4,820,272
9	Secured funding transactions (including securities swap transactions)		4,356,772
10	Additional requirements, of which:	54,102,810	8,581,789
11	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	6,385,861	3,710,243
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)*	47,716,949	4,871,546
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	1 ,739,256	1,739,256
15	Other contingent funding obligations (whether contractual or non-contractual)	675,199,401	2,274,973
16	**Total Cash Outflows**		156,999,568
C.	**Cash Inflows**		
17	Secured lending transactions (including securities swap transactions)	373,109	-
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	164,022,599	131,700,011
19	Other cash inflows	75,766,172	7,397,066
20	**Total Cash Inflows**	240,161,880	139,097,077
D.	**Liquidity Coverage Ratio**		
21	**Total HQLA**		72,846,277
22	**Total Net Cash Outflows**		39,346,587
23	**LCR (%)**		185.90%

Liquidity Coverage Ratio

The Liquidity Coverage Ratio('LCR') throughout year 2018 meets regulatory requirement and maintains at a high level.

(i) Composition of High Quality Liquid Assets ("HQLA")

The Bank holds a portfolio of unencumbered HQLA which can be readily liquidated to meet cash flow obligations under stress scenarios, as defined in the LCR rules. These liquid assets consist primarily of Level 1 HQLA, such as the Hong Kong Exchange Fund bills and notes as well as the US Treasuries, supplemented by Level 2A and 2B HQLA, such as bonds issued by highly rated corporate issuers.

(ii) Concentration of funding sources

The Bank maintains a diversified funding base composed mainly by retail and corporate customer deposits, supplemented by wholesale funding including but not limited to issuance of certificates of deposit and term debts. Short-term interbank money market borrowing is also used from time to time to meet temporary funding need.
The Bank continues to expand and diversify its deposit base, and to increase the proportion of stable deposits in its overall funding pool.

(iii) Derivative Exposures

The Bank's customer deposits are mainly denominated in HKD. To meet customer loan demand, the Bank swaps surplus HKD funding into USD and other foreign currencies. This represents the major currency mismatch of the Bank.
On the other hand, as the supply of HKD denominated HQLA is relatively limited, the Bank covers its HKD mismatch by holding HQLA denominated in USD. This is in line with the LCR alternative liquidity approach option elected by the HKMA.

(iv) Currency mismatch

The Bank's customer deposits are mainly denominated in HKD. To meet customer loan demand, the Bank swaps surplus HKD funding into USD and other foreign currencies. This represents the major currency mismatch of the Bank.

LIQ1: Liquidity Coverage Ratio ("LCR") – for category 1 institution (continued)

On the other hand, as the supply of HKD denominated HQLA is relatively limited, the Bank covers its HKD mismatch by holding HQLA denominated in USD when necessary. This is in line with the LCR alternative liquidity approach option elected by the HKMA.

(v) Centralization of liquidity management

The Bank has a wholly owned subsidiary in the Mainland China, namely China Mercantile Bank ("CMB"), which has set up its own liquidity risk management policy and managed liquidity risk in accordance with its local regulatory requirements. CMB calculates its own LCR, which would then be consolidated with the Bank's LCR to reflect the liquidity position on a Group basis.

(vi) Approach to liquidity risk management

The Bank has established a comprehensive liquidity risk management framework in accordance with the HKMA requirements and BCBS guidance. The Board-level Risk Management Committee is ultimately responsible for liquidity risk management, with the support from senior management committees including the Risk Management Committee and the Asset and Liability Management Committee. Policies and procedures are in place, with properly approved limits and indicators in order to identify, measure and monitor liquidity risk. Stress tests are conducted regularly, and the Bank has readied the Contingent Funding Plan which details the procedures in dealing with a potential liquidity crisis.

LIQ2: Net Stable Funding Ratio – for category 1 institution

		31/12/2018				
		(HK$'000)				
		(a)	(b)	(c)	(d)	(e)
Basis of disclosure: consolidated		Unweighted value by residual maturity				Weighted amount
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
A.	**Available stable funding ("ASF") item**					
1	Capital:	119,629,968	-	3,915,825	3,895,737	125,483,618
2	*Regulatory capital*	119,629,968	-	3,915,825	-	121,587,881
2a	*Minority interests not covered by row 2*	-	-	-	-	-
3	*Other capital instruments*	-	-	-	3,895,737	3,895,737
4	Retail deposits and small business funding:	-	143,889,565	14,843,610	115,631	143,427,246
5	*Stable deposits*		9,035,156	-	-	8,583,398
6	*Less stable deposits*		134,854,409	14,843,610	115,631	134,843,848
7	Wholesale funding:	-	409,756,568	92,201,492	39,377,716	234,731,895
8	*Operational deposits*		26,233,495	-	-	13,116,748
9	*Other wholesale funding*	-	383,523,073	92,201,492	39,377,716	221,615,147
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	7,983,179	24,982,779	3,903,717	23,529,367	25,481,226
12	*Net derivative liabilities*					
13	*All other funding and liabilities not included in the above categories*	7,983,179	24,982,779	3,903,717	23,529,367	25,481,226
14	**Total ASF**					529,123,985
B.	**Required stable funding ("RSF") item**					
15	Total HQLA for NSFR purposes				98,057,809	14,575,826
16	Deposits held at other financial institutions for operational purposes	-	831,135	-	-	415,568
17	Performing loans and securities:	6,894,715	346,661,988	75,245,692	313,009,878	392,787,143
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	1,565,364	-	-	156,536
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	-	240,354,250	18,882,190	15,739,529	61,233,762

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

		31/12/2018 (HK$'000)				
		(a)	(b)	(c)	(d)	(e)
Basis of disclosure: consolidated		**Unweighted value by residual maturity**				**Weighted amount**
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
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:*	6,894,715	90,177,344	53,312,080	216,548,399	261,083,566
21	*With a risk-weight of less than or equal to 35% under the STC approach*	-	1,208,719	58,362	2,938,967	2,543,869
22	*Performing residential mortgages, of which:*	-	1,048,477	885,445	43,573,634	30,895,945
23	*With a risk-weight of less than or equal to 35% under the STC approach*	-	889,426	752,505	35,543,022	23,923,930
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	-	13,516,553	2,165,977	37,148,316	39,417,334
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	28,780,970	10,228,632	3,463,655	20,785,681	35,599,204
27	*Physical traded commodities, including gold*	-				-
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*	108,222				91,989
29	*Net derivative assets*	5,175,226				5,175,226
30	*Total derivative liabilities before deduction of variation margin posted*	7,884,276				-
31	*All other assets not included in the above categories*	15,613,246	10,228,632	3,463,655	20,785,681	30,331,989
32	Off-balance sheet items		-			2,912,700
33	**Total RSF**					**446,290,441**
34	**Net Stable Funding Ratio (%)**					**118.56%**

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

		30/09/2018 (HK$'000)				
		(a)	(b)	(c)	(d)	(e)
Basis of disclosure: consolidated		Unweighted value by residual maturity				Weighted amount
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
C.	**Available stable funding ("ASF") item**					
1	Capital:	117,056,630	-	3,895,260	7,805,428	126,809,688
2	*Regulatory capital*	117,056,630	-	3,895,260	3,912,750	122,917,010
2a	*Minority interests not covered by row 2*	-	-	-	-	-
3	*Other capital instruments*	-	-	-	3,892,678	3,892,678
4	Retail deposits and small business funding:	-	136,542,474	21,288,241	210,252	142,747,931
5	*Stable deposits*		9,800,712	-	-	9,310,676
6	*Less stable deposits*		126,741,762	21,288,241	210,252	133,437,255
7	Wholesale funding:	-	431,475,396	102,101,309	39,343,876	248,487,026
8	*Operational deposits*		32,733,114	-	-	16,366,557
9	*Other wholesale funding*	-	398,742,282	102,101,309	39,343,876	232,120,469
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	9,338,324	28,118,789	1,850,257	12,674,228	13,599,357
12	*Net derivative liabilities*	-				
13	*All other funding and liabilities not included in the above categories*	9,338,324	28,118,789	1,850,257	12,674,228	13,599,357
14	**Total ASF**					531,644,002
D.	**Required stable funding ("RSF") item**					
15	Total HQLA for NSFR purposes				105,924,841	11,932,722
16	Deposits held at other financial institutions for operational purposes	-	3,913,872	-	-	1,956,936
17	Performing loans and securities:	-	338,422,550	83,321,844	291,642,811	375,894,442
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	226,947	-	-	22,695
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	-	222,015,001	26,352,842	15,301,389	61,780,060

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

		30/09/2018				
		(HK$'000)				
		(a)	(b)	(c)	(d)	(e)
Basis of disclosure: consolidated		**Unweighted value by residual maturity**				**Weighted amount**
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
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:*	-	100,622,958	54,779,474	207,705,722	253,666,496
21	*With a risk-weight of less than or equal to 35% under the STC approach*	-	1,740,022	55,233	2,922,910	2,797,519
22	*Performing residential mortgages, of which:*	-	1,038,075	856,057	41,822,587	29,707,525
23	*With a risk-weight of less than or equal to 35% under the STC approach*	-	878,975	726,048	33,943,703	22,865,919
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	-	14,519,569	1,333,471	26,813,113	30,717,666
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	27,007,583	7,665,548	8,340,398	35,704,406	51,811,800
27	*Physical traded commodities, including gold*	-				-
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*	73,222				62,239
29	*Net derivative assets*	10,425,880				10,425,880
30	*Total derivative liabilities before deduction of variation margin posted*	4,394,148				-
31	*All other assets not included in the above categories*	12,114,333	7,665,548	8,340,398	35,704,406	41,323,681
32	Off-balance sheet items				-	2,269,021
33	**Total RSF**					**443,864,921**
34	**Net Stable Funding Ratio (%)**					**119.78%**

The Net Stable Funding Ratio ('NSFR') throughout the year of 2018 meets regulatory requirement and maintains at a high level.

(i) Main drivers of its NSFR results

The Bank's NSFR's change is mainly due to the various kinds of asset and liability composition and size change. Currently, the major liability funding source is from customer deposit, and its size is relatively stable, which brings about support to NSFR ratio. As for the asset development, the major product type: customer loan grows smoothly in size. Additionally, more HQLA has been invested, which does not cause too much liquidity burden to NSFR ratio.

(ii) Centralization of liquidity management

The Bank has a wholly owned subsidiary in the Mainland China, namely China Mercantile Bank ("CMB"), which has set up its own liquidity risk management policy and managed liquidity risk in accordance with its local regulatory requirements. CMB calculates its own NSFR, which would then be consolidated with the Bank's NSFR to reflect the liquidity position on a Group basis.

CRA: General information about credit risk

The Bank reviews credit risk appetite on an annual basis to provide direction of loan growth during the year. New or change of business direction will be taken into consideration during the review of credit risk appetite. The Bank's credit risk appetite will be reviewed by the Bank's Senior Executive Risk Management Committee ("SERMC") and approved by the Bank's Board Risk Management Committee ("BRMC").

The Bank's credit risk management policy includes credit risk appetite, customer selection criteria, customer acceptance criteria, and post-approval monitoring. As a subsidiary of ICBC in PRC, the Bank adopts parent Bank's credit risk management policy for loans used in PRC. For lending other than PRC, the Bank's credit risk management policy will be referred to local regulatory requirement, macroeconomic environment, market practice as well as our internal assessment. For the purpose to minimize concentration risk, the Bank also sets up credit risk limits in respect of large exposure, industry level, country and product etc.

The Board/Board Risk Management Committee ("BRMC) has ultimate responsibility for overseeing credit risk management of the Bank. In practice, BRMC approves the bank-wide risk appetite statement and credit risk appetite providing the guidance / direction of loan growth of the Bank. Senior Executive Risk Management Committee ("SERMC"), chaired by Chief Risk Officer ("CRO"), assists BRMC to review and assess credit risk of the Bank.

Credit Committee ("CC") deliberates sizable credit application prior to approval by final approver of the Bank. The Bank's credit approval authority was delegated by our parent Bank and the Bank's Board further delegates to CEO, CRO, Chief Credit Approver (CCA), Heads and approvers in Credit Approval Departments ("CAD"). Business Units act as first line of defense, other daily credit risk management and control function other than credit approval is handled by Credit and Investment Management Department ("CMD"), Loan Administration Department ("LAD") and Risk Management Department ("RMD") with direct reporting line to CRO. Reporting to CEO of the Bank, CRO is independent of Business Unit and in charge of overall risk management (including credit risk) of the Bank.

The Bank has adopted a "Three Lines of Defences" risk management structure. Business Units act as first line of defence. Credit Risk Management function and Internal Control and Compliance Department ("ICD"), reported to CRO and DCE who are independent of Business Units. Both of them act as second line of defence. Internal Audit Department ("IAD") acts as third line of defence and is responsible providing assurance on the effectiveness of the Bank's risk management framework.

Reports in relation to asset quality of the Bank will be prepared by Credit and Investment Management Department ("CMD") and reported to Credit Committee ("CC"), Senior Executive Risk Management Committee ("SERMC") and Board Risk Management Committee ("BRMC") on a regular basis (e.g. monthly or quarterly). The scope and main content of the report including but not limited to the (1) size of the Bank's loan portfolio and corresponding loan classification and internal credit rating ; (2) asset quality of key business segments; (3) overdue and non-performing loan status at the reporting period and (4) large exposure customer's impact on the Bank's capital. On top of routine reports, ad hoc reports such as portfolio review will also be reported to CC, SERMC and BRMC where appropriate.

CR1: Credit quality of exposures

		(HK$'000)			
		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
1	Loans	3,699,407	688,404,128	5,101,919	687,001,616
2	Debt securities	-	167,806,408	132,294	167,674,114
3	Off-balance sheet exposures	-	237,488,281	-	237,488,281
4	***Total***	**3,699,407**	**1,093,698,817**	**5,234,213**	**1,092,164,011**

CR2: Changes in defaulted loans and debt securities

		(HK$'000)
		(a)
		Amount
1	**Defaulted loans and debt securities at end of the previous reporting period**	**2,570,568**
2	Loans and debt securities that have defaulted since the last reporting period	1,634,497
3	Returned to non-defaulted status	(114,922)
4	Amounts written off	(318,983)
5	Other changes	(71,753)
6	**Defaulted loans and debt securities at end of the current reporting period**	**3,699,407**

Loans and debt securities that have defaulted since the last reporting period amounted to HKD1.634 billion. This was mainly represented by two loans secured by property amounted to HKD1.24 billion and HKD353 million. Since sufficient provision has been made based on assessments of the aforesaid defaulted loans, risk is considered as controllable. During the period, loans written off amounted to HKD319 million. This was mainly presented by two corporate borrowers without realizable assets and the amounts written off are HKD180 million and HKD108 million respectively.

Additionally, item of Other Changes mainly attributed by partial settlement of the defaulted loans and exchange rate difference, etc.

CRB: Additional disclosure related to credit quality of exposures

Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously exceeded the approved limit that was advised to the borrower. Impaired loans represent advances which are individually assessed to be impaired.

In general, exposures will be classified as impaired for past due exceeds 90 days or above. The only exception is exposure secured by tangible security and with identifiable repayment source.

The Bank follows the HKMA's definition of a restructured exposure.

Breakdown of exposures by geographical areas

	(HK$'000)
	Loans
Hong Kong	252,074,237
China	177,867,503
Others	23,810,845
Total	**453,752,585**

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

Breakdown of exposures by industry

	(HK$'000)
	Loans
Transport and transport equipment	25,811,920
Property development	37,218,684
Property investment	28,778,438
Financial concerns	42,185,479
Individuals	40,370,224
Wholesale and retail trade	13,777,536
Loans for use outside Hong Kong	183,526,494
Others	82,083,810
Total	**453,752,585**

Breakdown of exposures by residual maturity

	(HK$'000)
	Loans
Within one year	144,965,085
One to five years	194,419,662
Over five years	114,367,838
Total	**453,752,585**

Breakdown of impaired exposures, related allowances and write-offs by geographical areas

	(HK$'000)		
	Impaired exposure	Related allowances	Write-offs
Hong Kong	1,792,965	471,798	55,386
China	437,326	1,657,501	555,120
Total	**2,230,291**	**2,129,299**	**610,506**

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

Breakdown impaired exposures, related allowances and write-offs by industry

	(HK$'000)		
	Impaired exposure	Related allowances	Write-offs
Manufacturing	179,372	418,216	27,004
Property development	79,466	38,478	-
Property investment	-	-	-
Financial concerns	160,274	395,397	-
Individuals	229	1,463	-
Transport and transport equipment	288,589	43,701	
Wholesale and retail trade	1,312,452	45,693	1,666
Loans for use outside Hong Kong	360	223	574,727
Others	209,549	1,186,128	7,109
Total	**2,230,291**	**2,129,299**	**610,506**

Aging analysis of accounting past due exposures

	(HK$'000)
	Loans
Past due for over 3 months to 6 months	438,878
Past due for over 6 months to 12 months	1,597,447
Past due for over 12 months	1,426,355
Total	**3,462,680**

Breakdown of restructured exposures, between impaired and not impaired exposures

	(HK$'000)
	Loans
Impaired exposures	238,119
Not impaired exposures	-
Total	**238,119**

Remarks: Loans include advances to customers only.

CRC: Qualitative disclosures related to credit risk mitigation

The valuation and management of collateral have been documented in the Banks's Credit Manual covering acceptance criteria, loan-to-value ratio, valuation and insurance and subject to regular review. The collateral is revalued on an annual basis as a minimum. For asset based lending such as share margin financing, its collateral will be valued on a daily basis. There are procedures setting out role and responsibilites of each derpartments when enforcing or liquidation of collateral is required.

Properties, standby letter of credit issued by recognized bank, deposit and listed shares formed majority of our Banks collateral. The Bank also set out risk limit in relation to particular collateral type in our secured exposure.

CR3: Overview of recognized credit risk mitigation

		(HK$'000)				
		(a)	(b1)	(b)	(d)	(f)
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	630,308,934	56,692,682	14,129,535	42,563,147	-
2	Debt securities	167,674,114	-	-	-	-
3	**Total**	**797,983,048**	**56,692,682**	**14,129,535**	**42,563,147**	**-**
4	Of which defaulted	3,699,407	1,363,150	1,334,215	28,935	-

The Group adopts the standardized (credit risk) approach (STC) for all the non-securitization credit risk RWA, and the simply approach in treatment of recognized collateral for the purpose of calculating RWA. Meanwhile, the recognized collateral and the recognized guarantees were used as risk mitigation measures to manage the credit risk exposure, without involving any recognized credit derivative contract. Due to the increase of past-due over 90 days loans, the exposure to be secured of which defaulted, exposures secured by recognized collateral of which defaulted, and exposures secured by recognized guarantees of which defaulted increased HKD 1.3 billion, 1.29 billion and 8 million respectively in the reporting period.

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

The ECAIs recognised by the Group include Moody's , Standard & Poor's and Fitch.

The exposure classes are listed as below:

- Sovereign
- Public sector entity
- Bank
- Securities firm
- Corporate
- Collective investment scheme

The Group performs the ECAI issuer ratings mapping to its exposures in banking book in accordance with Part 4 of the Banking (Capital) Rules.

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

		(HK$'000)					%
		(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
1	Sovereign exposures	54,254,049	-	54,616,037	817	187,600	0%
2	PSE exposures	4,344,682	1,640,000	5,854,648	270,000	994,055	16%
2a	Of which: domestic PSEs	892,427	1,640,000	2,402,393	270,000	534,479	20%
2b	Of which: foreign PSEs	3,452,255	-	3,452,255	-	459,576	13%
3	Multilateral development bank exposures	3,941,251	-	3,941,251	-	-	0%
4	Bank exposures	292,874,600	512,742	339,339,721	622,997	108,213,972	32%
5	Securities firm exposures	425,826	2,326,816	425,826	-	212,913	50%
6	Corporate exposures	442,614,339	200,503,785	383,286,968	28,107,960	391,017,523	95%
7	CIS exposures	4,301,967	6,750,106	4,301,967	3,375,053	7,677,020	100%
8	Cash items	544,252	-	13,354,938	4,870,702	1,576,302	9%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	NA
10	Regulatory retail exposures	18,725,563	24,627,330	18,535,903	49,040	13,938,707	75%
11	Residential mortgage loans	45,834,018	-	44,324,083	-	20,675,061	47%
12	Other exposures which are not past due exposures	13,516,822	827,502	13,396,027	5	13,396,032	100%
13	Past due exposures	1,836,427	-	1,836,427	-	2,065,031	112%
14	Significant exposures to commercial entities	-	-	-	-	-	NA
15	**Total**	**883,213,796**	**237,188,281**	**883,213,796**	**37,296,574**	**559,954,216**	**61%**

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

Owing to the new purchases of foreign PSEs bonds with 20% risk weight, the RWA of PSE exposures of which foreign PSEs uplifted 29.6% in the second half of 2018, resulting the rise of HKD 105 million. As the decrease of HKD 829 million commitments to banks that was not unconditionally cancellable in the second half of 2018, the off-balance sheet amounts of "Exposures pre-CCF and pre-CRM" to banks, and "Exposures post-CCR and post-CRM" to banks decreased 68.43% and 44.15% respectively. The total RWA of bank exposures has also decreased 20.82% due to the decrease of both on-balance sheet amounts and off-balance sheet amounts of "Exposures post-CCR and post-CRM" in the second half of 2018. Compared with June 30 2018, due to the principal amount of loan to securities firms decreased HKD 576 million as of December 31 2018, the on-balance sheet amounts of "Exposures pre-CCF and pre-CRM", the on-balance sheet amounts of "Exposures post-CCR and post-CRM", and the RWA to securities firm exposure simultaneously decreased 57.48% in the second half of 2018. In the second half of 2018, the Group reported HKD 3.2 billion investment increase in funds to support the asset management business which leads to simultaneous 285.83% increase in the on-balance sheet amounts of "Exposures pre-CCF and pre-CRM" and the on-balance sheet amounts of "Exposures post-CCR and post-CRM" to CIS exposures. On the other hand, due to the commitment to investment in funds has been invested in the second half of 2018, the off-balance sheet amounts of "Exposures pre-CCF and pre-CRM" and the off-balance sheet amounts of "Exposures post-CCR and post-CRM" to CIS exposures simultaneously decreased 21.93% compared with June 30 2018. As the principal amounts of loans to regulatory retail customers decreased HKD 5.0 billion in the second half of 2018, the on-balance sheet amounts of "Exposures pre-CCF and pre-CRM" to regulatory retail exposures decreased 20.96% compared with June 30 2018. Due to the 22.70% uplifted of residential mortgage loan principal amounts in the second half of 2018, the on balance sheet amounts of "Exposures post-CCR and post-CRM", and RWA to residential mortgage loans increased HKD 7.1 billion and 5.2 billion respectively. Due to the principal amounts of loans which has been past due over 90 days increased HKD 879 million compared with June 30 2018, the on-balance sheet amounts of "Exposures pre-CCF and pre-CRM", the on-balance sheet amounts of "Exposures post-CCR and post-CRM", and the RWA to past due exposures uplifted 91.73%, 91.73% and 53.45% respectively in the second half of 2018.

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

		(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	53,678,853	-	938,001	-	-	-	-	-	-	-	54,616,854
2	PSE exposures	1,154,374	-	4,970,274	-	-	-	-	-	-	-	6,124,648
2a	Of which: domestic PSEs	-	-	2,672,393	-	-	-	-	-	-	-	2,672,393
2b	Of which: foreign PSEs	1,154,374	-	2,297,881	-	-	-	-	-	-	-	3,452,255
3	Multilateral development bank exposures	3,941,251	-	-	-	-	-	-	-	-	-	3,941,251
4	Bank exposures	-	-	210,422,300	-	126,821,813	-	2,718,605	-	-	-	339,962,718
5	Securities firm exposures	-	-	-	-	425,826	-	-	-		-	425,826
6	Corporate exposures	-	-	1,839,573	-	37,846,209	-	371,674,429	34,717	-	-	411,394,928
7	CIS exposures	-	-	-	-	-	-	7,677,020	-	-	-	7,677,020
8	Cash items	10,344,135	-	7,881,505	-	-	-	-	-	-	-	18,225,640
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	-	-	-	-	-	18,584,943	-	-	-	-	18,584,943

		(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)
11	Residential mortgage loans	-	-	-	35,017,944	-	3,549,434	5,756,705	-	-	-	44,324,083
12	Other exposures which are not past due exposures	-	-	-	-	-	-	13,396,032	-	-	-	13,396,032
13	Past due exposures	8,035	-	-	-	-	-	1,355,115	473,277	-	-	1,836,427
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	Total	69,126,648	-	226,051,653	35,017,944	165,093,848	22,134,377	402,577,906	507,994	-	-	920,510,370

As the Group reported HKD 491 million increase in bond investment to foreign governments with 20% risk weight in the second half, the Sovereign exposures with 20% risk weight uplifted 109.69% compared with June 30 2018. Owing to the new purchases of foreign PSEs bonds HKD 525 million, the 20% risk weight "PSE exposures of which foreign PSEs" increased 29.59% in the second half of 2018. With HKD 59.5 billion decreased bond investment in banks, the 50% risk weight bank exposures dropped 31.94% compared with June 30 2018. Due to the external rating upgrade in the reporting period, the HKD 520 million bond investment in banks with 150% risk weight has been migrated to 100% risk weight bank exposures in the second half of 2018. Together with repayment of loans with principal amounts of HKD 210 million, there was no 150% risk weight bank exposures on December 31 2018. With HKD 1.1 billion increase of loan principal amounts and HKD 525 million migration of bond investment, the 100% bank exposures with risk weight uplifted 141.23% in the second half of 2018. Further, attributing to the decrease of principal amount of loan to securities firms amounting HKD 576 million, the securities firm exposures with 50% risk weight and total exposures amounts to securities firms simultaneously decreased 57.48% in the second half of 2018. As the HKD 31.8 billion decrease of investment in high rating corporate bonds, the corporate exposures with 20% risk weight decreased 36.81% compared with June 30 2018. In the second half of 2018, mainly due to the Group reported HKD 3.2 billion investment increase in funds, the CIS exposures with 100% risk weight increased 41.18%. Following the expansion of residential mortgage business, the total increase exposures to residential mortgage loans with 35%, 75%, and 100% risk weight was HKD 7.1 billion in the second half of 2018. As the total exposures amount to past due exposures increased HKD 879 million and the increased past due exposures was with collateral as credit risk mitigation, the past due exposures with 100% risk weight and the total exposure of past due exposures uplifted 1053.67%, and

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

91.73% respectively in the second half of 2018. On the other hand, as the decrease of financial collateral covered past due exposures and the past due exposures without any credit risk mitigation, the 0%, 20%, and 150% risk weight decreased 60.77%, 100%, and 42.19% respectively compared with June 30 2018.

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

The objective of the Group's counterparty credit risk management is to adequately control counterparty credit risk exposure in ways consistent with the strategic goals and risk appetite of the Group. To effectively manage the risk involved during the normal course of business, policies and procedures are in place for identifying, measuring, monitoring and controlling counterparty credit risk. This risk management framework is reviewed periodically to ensure its effectiveness and robustness.

The Current Exposure Method (CEM) is primarily the operating limit to control counterparty credit risk of the Group, paired with the notional size limit and/or mark to market exposure threshold if and where required during credit risk assessment process. With regard to the CCPs, the Group places controls by setting up an eligible CCPs list on credit policy level according to the stringent acceptance criteria, The credit exposure measured by CEM is subject to a regular review and oversight by Credit Committee periodically.

Counterparty credit risk is part of the credit risk management framework in the Group that is governed by a set of credit policies and procedures. In particular, a credit policy relating to guarantees and other forms of credit risk mitigation has been set up and subject to periodic review in which general guidelines, acceptance criteria, documentation requirements are well delineated to govern the credit risk control and mitigation. Meanwhile, assessment concerning counterparty credit risk is carried out by an independent credit approval department in the Group that follows the specific counterparty credit risk policy as well as other corresponding credit policies if and where relevant.

The wrong-way risks, including both general and specific ones, are one of the essential areas in the credit risk management of counterparty credit risk subject to the policy control by the specific counterparty credit risk policy set up in Group. According to the said policy, the wrong-way risks management, including risk identification, assessment, reporting as well as risk mitigation measures is not only implemented in the credit assessment and approval process, but also performed in the post approval monitoring by means of stress testing on a regular basis in which extreme but plausible scenarios are adopted to identify any potential risk issue in counterparty credit risk exposure.

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

The credit rating of the Group is A currently as assigned by Standard and Poor's. As per International Swaps and Derivatives Association agreement signed with counterparty, the total amount of collateral provided by the Group is around USD 315 million as at Dec 2018. When there is a downgrade in credit rating, the Group is required to post additional collateral. A one notch credit rating downgrade to A- means that the Group has to provide extra collateral of USD 20 million. If the credit rating is downgraded by two notch to BBB+ or three notch to BBB, the Group has to increase its collateral by USD 105 million and USD 123 million respectively.

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

		(HK$'000)					
		(a)	(b)	(c)	(d)	(e)	(f)
		Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-
1a	CEM	6,645,200	8,086,193		-	14,731,393	8,035,704
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					26,225,881	1,475,219
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	**Total**						**9,510,923**

Compared with June 30 2018, the replacement cost (RC) of equity contracts decreased HKD 3.8 billion on December 31 2018, which was the primary source of 36.89% decrease of CEM replacement cost (RC), 20.18% decrease of CEM "default risk exposure after CRM", and 28.58% decrease of CEM RWA respectively. Meanwhile, due to HKD 32.6 billion decrease of REPO style transactions' principal amounts in the second half of 2018, the "default risk exposure after CRM" and RWA of "simple approach (for SFTs)" decreased 55.44% and 28.26% respectively on December 31 2018.

CCR2: CVA capital charge

		(HK$'000)	
		(a)	(b)
		EAD post CRM	RWA
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	17,379,158	5,329,775
4	Total	17,379,158	5,329,775

On December 31 2018, there was no material movement of CCR2 template compared with June 30 2018.

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

		(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	227,981	-	-	-	-	-	-	-	-	-	227,981
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	19,257,966	-	8,537,002	-	5,339,980	-	1,551	-	-	-	33,136,499
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	2,326,550	-	-	-	199,608	-	4,922,076	-	-	-	7,448,234
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	137,826	-	-	-	-	137,826
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	6,735	-	-	-	6,735
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	Total	21,812,497	-	8,537,002	-	5,539,588	137,826	4,930,362	-	-	-	40,957,275

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

Compared with the June 30 2018, due to the decrease of reverse-repo transaction with sovereign bond as received collateral, the 0% risk weight sovereign exposures reduced by HKD 489 million on December 31 2018. Mainly due to the HKD 3.8 billion decrease of default risk exposure after CRM to banks with original maturity within 3 months, the 20% risk weight bank exposures decreased 33.53% in the second half of 2018. Owing to the CEM decrease of OTC transactions with corporate counterparties especially HKD 3.0 billion decrease in replacement cost of equity contracts, the 100% risk weight corporate exposures decreased 39.83% in the second half of 2018.

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

	(HK$'000)					
	(a)	(b)	(c)	(d)	(e)	(f)
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	194,745	-	-	-	20,706,589	569,161
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	233,762	11,858,879
Domestic PSE debt						-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	7,890,890
Bank bonds/debts	-	-	-	-	1,431,520	4,205,041
Equity securities	-	-	-	-	136,546	-
Other collateral	-	-	-	-	-	-
Total	**194,745**	**-**	**-**	**-**	**22,508,417**	**24,523,971**

The decrease of collateral incurred by derivative contracts was due to the decrease of replacement cost in netting set with counterparties under VMCSA contracts. In the meantime, to deal with the short term liquidity management, the Group made use of REPO and Reverse-REPO market and entered trades with original maturity less than 3 months. Thus, the distribution of collateral received and posted in SFTs would show relatively material movements in the reporting period.

CCR6: Credit-related derivatives contracts

	(HK$'000)	
	(a)	(b)
	Protection bought	Protection sold
Notional amounts		
Single-name credit default swaps	-	-
Index credit default swaps	-	-
Total return swaps	-	-
Credit-related options	-	-
Other credit-related derivative contracts	-	-
Total notional amounts	-	-
Fair values		
Positive fair value (asset)	-	-
Negative fair value (liability)	-	-

CCR8: Exposures to CCPs

		(HK$'000)	
		(a)	(b)
		Exposure after CRM	RWA
1	**Exposures of the AI as clearing member or client to qualifying CCPs (total)**		**819,243**
2	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	2,647,765	52,955
3	(i) OTC derivative transactions	2,647,765	52,955
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	1,448,452	28,969
9	Funded default fund contributions	108,222	737,319
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	-	-

Due to more initial margin and default fund requested by the qualifying CCPs to the Group as the business development, the exposure after CRM of "unsegregated initial margin" and "funded default fund contributions" to qualifying CCPs increased 154.8% and 85.88% respectively in the second half of 2018.

SEC1: Securitization exposures in banking book

		(HK$'000)								
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
		Acting as originator (excluding sponsor)			Acting as sponsor			Acting as investor		
		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
1	Retail (total) – of which:	-	-	-	-	-	-	-	-	-
2	residential mortgage	-	-	-	-	-	-	-	-	-
3	credit card	-	-	-	-	-	-	-	-	-
4	other retail exposures	-	-	-	-	-	-	-	-	-
5	re-securitization exposures	-	-	-	-	-	-	-	-	-
6	Wholesale (total) – of which:	-	-	-	-	-	-	-	-	-
7	loans to corporates	-	-	-	-	-	-	-	-	-
8	commercial mortgage	-	-	-	-	-	-	-	-	-
9	lease and receivables	-	-	-	-	-	-	-	-	-
10	other wholesale	-	-	-	-	-	-	-	-	-
11	re-securitization exposures	-	-	-	-	-	-	-	-	-

SEC2: Securitization exposures in trading book

		(HK$'000)								
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
		Acting as originator (excluding sponsor)			Acting as sponsor			Acting as investor		
		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
1	Retail (total) – of which:	-	-	-	-	-	-	-	-	-
2	residential mortgage	-	-	-	-	-	-	-	-	-
3	credit card	-	-	-	-	-	-	-	-	-
4	other retail exposures	-	-	-	-	-	-	-	-	-
5	re-securitization exposures	-	-	-	-	-	-	-	-	-
6	Wholesale (total) – of which:	-	-	-	-	-	-	-	-	-
7	loans to corporates	-	-	-	-	-	-	-	-	-
8	commercial mortgage	-	-	-	-	-	-	-	-	-
9	lease and receivables	-	-	-	-	-	-	-	-	-
10	other wholesale	-	-	-	-	-	-	-	-	-
11	re-securitization exposures	-	-	-	-	-	-	-	-	-

SEC3: Securitization exposures in banking book and associated capital requirements – where AI acts as originator

		(HK$'000)																
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
		Exposure values (by RW bands)					Exposure values (by regulatory approach)				RWAs (by regulatory approach)				Capital charges after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%
1	**Total exposures**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Traditional securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Of which retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Of which retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

SEC4: Securitization exposures in banking book and associated capital requirements – where AI acts as investor

		(HK$'000)																
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
		Exposure values (by RW bands)					Exposure values (by regulatory approach)				RWAs (by regulatory approach)				Capital charges after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%
1	**Total exposures**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Traditional securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Of which retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Of which retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

MRA: Qualitative disclosures related to market risk

As a premier provider of financial services in HK market, our Group undertakes trading activities to serve our clients' needs to arbitrage and provide liquidity to the market as well as managing market risks within risk appetite. The Group takes on the exposure to market risk that arises from foreign exchange, interest rate, precious metals and associated derivatives instruments. Most off-balance sheet derivative positions arise from the execution of customer-related orders and transactions taken for hedging purpose. Structured derivatives, except Quanto Swap, are currently only allowed to be traded for the support of customer business on a back-to-back basis. The Group established policies and procedures to identify, measure, monitor and control market risk. When derivatives are held for risk management purposes, they are designated in hedge relationships where the required criteria for documentation and hedge effectiveness are met.

The Board Risk Management Committee (Board RMC) as delegated by Board takes ultimate responsibility of market risk management. The Board RMC approves market risk appetite, market risk management policy and stress test policy as the framework governing policies to the Group's market risk management and market risk appetite respectively. Senior Executive Risk Management Committee (SERMC) periodically reviews the Group's market risk management result and performance in quarterly meeting or from time to time whenever deemed necessary. MRC is the Group's market risk management committee to oversee the implementation of market risk management control in daily business, and approves market risk manual to govern risk control implementation in details. MRC reports to SERMC, which further reports to the Board RMC as well as CEO Committee, for the adequacy and efficiency of market risk management system, procedures and performance of the Group.

The daily primary control, management and assumption of market risk are principally undertaken in front office within the approved market risk limits and guidelines. Monitoring of the utilization of these approved limits is performed on a regular basis by market risk team, an independent unit ultimately reported to Chief Risk Officer ("CRO") of the Group. Market risk team also produces regular market risk reporting to the MRC / SERMC / Board RMC / Head Office Risk Management Department for their review and oversight. The Group's Internal Audit Department also helps to ensure compliance with the approved policies and procedures.

MRA: Qualitative disclosures related to market risk (continued)

The Group's market risk analysis and management systems include Kondor, Fenics and GMRM, of which the first two are vendor systems widely used in banking industry while the last one is our in-house system developed by head office. Most of our trading businesses are vanilla FX and interest rate products, which are booked in Kondor. Risk sensitivities such as FX NOP and IR DV01 are generated from Kondor system and used for market risk measurement and reporting. For FX option business, Greeks sensitivities (Delta, Gamma, Vega) are used for market risk measurement and reporting, which are generated from Fenics system. On top of risk factor sensitivities, the Group has implemented Value-at-Risk (VaR) as overall diversified measurement of market risk in trading book. Our in-house system GMRM is used for VaR measurement and reporting. VaR and risk factor sensitivities are measured and reported on daily basis to provide an overall understanding of all the risks associate with market risk activities of our Group. Market risk limits, which are approved by Board RMC or its delegated Risk Committee (currently MRC is the delegated Risk Committee) and as owned by RMD-MKR for control and monitoring in daily implementation, should be reviewed and updated on a regular basis (at least on an annual basis). Approved market risk limits must, among others, be consistent with the Group's market risk appetite as approved by Board RMC and with the Group's capital adequacy and allocation. The proposed/reviewed limits should be subsequently approved by Board RMC or MRC for becoming effective. The reporting and measurement systems are updated and assessed at least on annual basis.

MR1: Market risk under STM approach

		(HK$'000)
		(a)
		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	4,991,513
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	13,881,762
4	Commodity exposures	803,750
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	56,838
7	Other approach	-
8	Securitization exposures	-
9	**Total**	**19,733,863**

Compared with 30 June 2018, Market risk RWA decreased in 31 Dec 2018 resulting from the decrease in foreign exchange risk and interest rate risk exposure. RWA of foreign exchange risk decreased by HKD 3.8 billion as foreign exchange position decreased, while RWA of general and specific interest rate risk decreased by HKD 2.3 billion due to the decrease of trading book bond position.

IRRBB: Interest rate exposures in banking book

Interest rate risk is an adverse impact resulting from the changes in interest rates. The Bank manages the interest rate risk on the banking book primarily by focusing on the mismatches of repricing tenor or maturity between assets, liability and off-balance sheet positions.

Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed through a hypothetical interest rate shock by 200 basis points with the following assumptions:

1) parallel shift in the yield curve

2) static view of the maturity and re-pricing characteristics of the Bank's positions

3) no loan prepayment

4) deposits without fixed maturity dates are repriced on the next day

The results are reported to the senior management on a monthly basis.

Sensitivity analysis of earnings and economic value to interest rate changes are summarised below:

	HK$	US$	CNY	EUR	AU$	JPY	Total major currency
31 December 2018	**HK$ million**	**HK$ million**	**HK$ million**	**HK$ million**	**HK$ million**	**HK$ million**	**HK$ million**
Impact on earnings over the next 12 months if interest rates rise by 200 bps	**1,908**	**(436)**	**96**	**23**	**5**	**-**	**1,596**
Impact on economic value if interest rates rise by 200 bps	**(661)**	**1,180**	**664**	**124**	**(2)**	**-**	**1,305**
31 December 2017							
Impact on earnings over the next 12 months if interest rates rise by 200 bps	1,593	(414)	(46)	(381)	-	-	752
Impact on economic value if interest rates rise by 200 bps	(316)	3,105	227	168	-	-	3,184

IRRBB: Interest rate exposures in banking book (continued)

The sensitivity on earnings for 12 months increased by HK$844 millions comparing December 2018 with December 2017 in 200bps parallel shock up. The increases were mainly driven by movements in HK$ and EUR amounts primarily due to changes in balance sheet composition.

The sensitivity on economic value decreased by HK$1,879 millions comparing December 2018 with December 2017 in 200bps parallel shock up. The decreases were mainly driven by movements in US$ amount primarily due to changes in balance sheet composition.

REMA: Remuneration policy

DISCLOSURE ON REMUNERATION FOR YEAR 2018

INTRODUCTION

In accordance with the most updated "Guideline on a Sound Remuneration System" (the "**Guideline**") issued by the Hong Kong Monetary Authority, Industrial and Commercial Bank of China (Asia) Limited (the "**Bank**") has prepared its arrangement for bonus distribution in respect of year 2018 according to its remuneration policy.

The remuneration policy is applicable to the Bank’s employees in Hong Kong and covers all categories of employees including senior management, proprietary traders and dealers, marketing and sales, loan officers, risk management, financial control and compliance personnel.

In general, risk factors which have been considered in the performance rating of staff affect the bonus for him/her. Also, the current and future risk of the Bank will be considered by the Remuneration Committee in the determination of the overall bonus to be allocated.

GENERAL PRINCIPLES

Remuneration should facilitate the delivery of long term financial stability for the business and promote sound risk management principles. Risk control functions have played an important role in the remuneration related procedures and decisions of the Bank. The preparation of the remuneration policy is initiated by Human Resources Department after consultation with the risk controls units including risk management, legal and compliance and etc. prior to submission to the Remuneration Committee delegated by the Board of Directors for approval. The Remuneration Committee reviews the remuneration policy at least annually and may at its discretion seek information and recommendations from external consultants as appropriate. In 2018, the Remuneration Committee did not seek advice from external consultant on remuneration matters. The aim of the remuneration policy and the arrangement is to enable the Bank to maintain a fair, equitable and market-competitive remunerative structure for its employees based on the Bank's performance and industry practice, and is designed to encourage employee behaviour that supports the institution's risk tolerance, risk management, business strategies and long-term financial soundness of the Bank. The total bonus is funded based on the Bank’s overall performance, after factoring in the financial, non-financial and other long-term strategic measures, as well as risk-adjusted elements. Legacy losses realized (ex post) in the performance year should be taken into consideration to determine the bonus pool created and the deferral payout. The remuneration of staff in risk control functions are determined in accordance with their performance objectives and are independent of the performance of the business units which they oversee. The performance factors in carrying out their core job responsibilities under their respective job functions are assessed in the performance appraisals, and appropriate remuneration will be recommended based on the appraisal result.

When deciding the remuneration measures, the Bank considers market risk, credit risk, liquidity risk and operational risk and also takes into account certain key risk factors such as its asset quality, liquidity position, business and economic conditions, respective staff performance, the overall business results as well as long-term financial position. Reports on these risk factors are used for identification of current and future risks. The Remuneration Committee sets the target bonus pool against profit mechanism of the Bank in the first half of each year. The Bank reviews its business and risk management performance and reduces the bonus pool if the Bank's business objectives are not achieved, or if there is deficiency/failure in risk and compliance performance, or when it is necessary to protect the financial soundness of the Bank. There is no change of these mechanism and measures over the past years and it continues to apply in 2018.

REMUNERATION COMMITTEE

A Remuneration Committee has been set up with specific terms of reference and delegated with the authority and duties which include, amongst others, making recommendations to the board of directors (the "**Board**") on the Bank's policy and structure for remuneration of all directors, senior management (who are responsible for overseeing the Bank's business strategy or activities or those of the Bank's material business duties) and key personnel (whose duties or activities in the course of their employment involve the assumption of material risk or the taking on of material exposure on behalf of the Bank) of the Bank, determining the specific remuneration packages of all executive directors, senior management and key personnel, and reviewing and approving performance-based remuneration of directors, senior management and key personnel of the Bank by reference to corporate goals and objectives as determined by the Board from time to time. Factors such as business performance of the Bank and emoluments paid by comparable banks will be considered. No director will be involved in deciding his/her own remuneration. The Remuneration Committee will also review the remuneration policy of other employees.

The terms of reference require that the Remuneration Committee shall comprise not less than 3 independent non-executive directors, and most of the members of the Committee (including Chairman of Remuneration Committee) should be an independent non-executive director. Chairman of Remuneration Committee is appointed by the Board of Directors. Currently, members of the Remuneration Committee are Mr. Yuen Kam Ho, George (independent non-executive director), Mr. Tsui Yiu Wa, Alec (independent non-executive director) and Mr. Shang Jun (non-executive director). Mr. Yuen Kam Ho, George is the chairman of the Remuneration Committee.

The Remuneration Committee has held 1 meeting, 6 written resolutions and 1 report circulation in the year of 2018.

During 2018, the remuneration policy has been reviewed and approved by the Remuneration Committee, and the major changes to the remuneration policy were as follows:

i) Reviewed the job roles in the Employee Categorization.
ii) Reviewed the definition and deferral rate table of annual bonus.

REMUNERATION STRUCTURE

The remuneration package is a combination of fixed and variable remuneration in line with the seniority, role, responsibilities and activities of an employee within the Group. The variable remuneration is awarded in the form of cash.

Fixed remuneration includes annual salary, allowance and pension contribution while variable remuneration refers to discretionary bonus and other variable income. Variable remuneration takes into account the overall performance of the Bank and individual business units, while individual performance is measured against the established key performance indicators, adherence to risk management policies and compliance with legal and regulatory requirements. For top level business lines, performance criteria and metrics taken into consideration include key financial indicators such as earnings, loan and deposit growth, impaired loans ratio and etc.

The Bank maintains a performance evaluation scheme to ensure individual staff performance would be adequately and effectively evaluated. The award of variable remuneration depends on the fulfilment of budgeted income and business objectives, peer group performance comparison and risk control factors. These criteria include both financial and non-financial factors. The financial metrics link the variable remuneration to the profits, revenue and other performance measures of the Bank as a whole, and the contribution of business units and individual employee as well. The non-financial metrics capture the performance on qualitative aspects such as the compliance with risk management policies, adherence to legal, regulatory and ethical standards, customer satisfaction and etc. The performance objectives of staff and annual performance appraisal exercise take into account these factors. Variable remuneration is directly related to performance, and poor performance (including both financial and non-financial) will result in a reduction or elimination of variable remuneration.

CHIEF EXECUTIVE, SENIOR MANAGEMENT AND KEY PERSONNEL COMPENSATION

The Remuneration Committee annually reviews the remuneration packages of the Chief Executive, members of the senior management and key personnel. The aggregate payout of the Chief Executive, senior management and key personnel for 2018 is shown in the section "Remuneration for the Chief Executive Officer, Senior Management and Key Personnel" in accordance with the disclosure requirement of 3.2.3 of the Guideline. In the year of 2018, the senior management (12 Persons) of the Bank includes: Chairman & Executive Director, Executive Director & Chief Executive Officer, Vice Chairman & Executive Director & Chief Executive Officer, Deputy Chief Executive, Deputy Chief Executive & Chief Risk Officer, Deputy Chief Executive & Chief Information Officer and Assistant Chief Executive. Key Personnel (36 Persons) includes Chief Audit Officer, Chief Corporate Banking Officer, Chief Credit Approver, Chief Financial Officer, Chief Operation Officer, Risk Management Director, Chief Executive Officer and Deputy Chief Executive of Chinese Mercantile Bank, Chief Executive Officer and Deputy Chief Executive of ICBC Asset Management (Global) Company Limited, Head and Deputy/Assistant Department Head of Global Markets Department, Head and Deputy Department Head of Asset & Liability Management Department, Chief Traders of Global Markets Department and of Asset & Liability Management Department (i.e. Head of Desks with dealing activities), Head of Legal Department and Head and Deputy/Assistant Department Head of Internal Control & Compliance Department.

DEFERMENT OF VARIABLE REMUNERATION

The award of variable remuneration to all employees in the Bank, including the Chief Executive, members of the senior management, and key personnel is subject to deferral mechanism. The key deferral principles are:

- deferral applies when the amount of performance-based variable remuneration is considered "significant" according to the remuneration policy of the Bank;
- deferral amount needs to be "meaningful" according to the remuneration policy of the Bank;
- the period of deferred performance-based variable remuneration is no less than 3 years and aligned the nature and risks of business, activities undertaken by the employee and the time frame during which the risks from the activities are likely to be realised.

In addition, the deferral remuneration is subject to forfeiture/claw-back in circumstances where it is later established that any performance measurement for a particular year has been manifestly misstated, or it is later established that the relevant employee has committed fraud or other malfeasance, or a violation of any regulatory requirements or the Bank's policy or procedures, or there has been a significant financial performance deterioration of the Bank, i.e. financial loss, or significant variation in the economic capital or in the qualitative valuation of risk.

The rationale and justification for any forfeiture/claw-back imposed must be recorded and retained for 7 years.

POLICY REVIEW

The remuneration policy shall be reviewed at intervals to be determined by the Remuneration Committee. The policy shall at minimum be reviewed annually from the effective date.

REM1: Remuneration awarded during financial year

Pursuant to CG-5 Guideline on a Sound Remuneration System issued by the Hong Kong Monetary Authority, details of the remuneration for the Chief Executive, Senior Management and Key Personnel of the Group for the year are as follows:

Remuneration amount (HK$ in thousands)		2018		2017	
		Senior Management Note 1	Key Personnel Note 2	Senior Management	Key Personnel
Fixed remuneration	Number of employees	12	36	11	30
	Fixed remuneration				
	Cash-based	18,237	33,030	18,572	31,490
	Of which: deferred	-	-	-	-
Variable remuneration	Number of employees	12	36	11	30
	Variable remuneration				
	Cash-based	5,703	7,237	11,426	16,601
	Of which: deferred	-	-	2,174	5,597
Total Remuneration		**23,940**	**40,267**	**29,998**	**48,091**

Note 1 (1) Two existing Senior Management are newly appointed in 2018 and their remuneration are disclosed on a pro-rata basis according to the period they assumes such senior management role within the year.

(2) Two existing Senior Management are ceased appointment in 2018.

(3) The disclosure amount refers to the remuneration earned for period of being a Chief Executive or Senior Management during the year. If the assignment is not in a full year, the amount will be calculated on a pro-rata basis.

Note2 (1) Eleven existing Key Personnel are newly appointed in 2018 and ten of their remunerations are disclosed on a pro-rata basis according to the period they assume such key personnel role within the year.

(2) Sixteen existing Key Personnel are ceased appointments in 2018 and fourteen of their remunerations are disclosed on a pro-rata basis according to the period they assume such key personnel role within the year.

REM1: Remuneration awarded during financial year (continued)

(3) The disclosure amount refers to the remuneration earned for period of being a Key Personnel during the year. If the assignment is not in a full year, the amount will be calculated on a pro-rata basis.

Fixed remuneration included employee's annual salary, allowance and pension contributions. Variable remuneration comprised of cash bonus payment only.

REM2: Special payments

No guaranteed bonus, sign-on bonus and severance payments were awarded or made to the Chief Executive, Senior Management and Key Personnel in 2017 and 2018.

REM3: Deferred remuneration

Deferred and retained remuneration (HK$ in thousands)	2018				
	Total amount of outstanding deferred remuneration Note 1	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year Note 2
Senior Management					
Cash	3,777	3,777	-	-	0.5
Key Personnel					
Cash	7,901	7,901	141	-	136
Total	**11,678**	**11,678**	**141**	**-**	**136.5**

Remark: Actual deferral is calculated based on the full amount of variable remuneration granted.

Note 1 Outstanding and unvested at the year-end in related to cash-based variable remunerations awarded both for performance year 2018 and for prior performance years, which included the total amount of amendment during the year due to ex post explicit or implicit adjustments, if any.

Note 2 Vested and paid out during the year in related to cash-based variable remunerations awarded both for performance year 2018 and for prior performance years.

REM3: Deferred remuneration (continued)

	2017				
Deferred and retained remuneration (HK$ in thousands)	Total amount of outstanding deferred remuneration Note 3	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year Note 4
Senior Management					
Cash	3,948	3,948	-	-	1,963
Key Personnel					
Cash	8,178	8,178	90	-	1,851
Total	**12,126**	**12,126**	**90**	**-**	**3,814**

Remark: Actual deferral is calculated based on the full amount of variable remuneration granted.

Note 3 Outstanding and unvested at the year-end in related to cash-based variable remunerations awarded both for performance year 2017 and for prior performance years, which included the total amount of amendment during the year due to ex post explicit or implicit adjustments, if any.

Note 4 Vested and paid out during the year in related to cash-based variable remunerations awarded both for performance year 2017 and for prior performance years.

Deferred remuneration comprised cash bonus depend on pre-defined vesting, service and/or performance conditions. If certain conditions are not fulfilled during the vested period, all or part of the unvested portion of the deferred remuneration should be foregone.

An amount of deferred variable remuneration for HK$141,000 has been forfeited during the year of 2018. (2017: HK$90,000).