BPI INTERNATIONAL FINANCE LIMITED

BANKING DISCLOSURE STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (UNAUDITED)

BPI INTERNATIONAL FINANCE LIMITED

Contents (continued)

BPI INTERNATIONAL FINANCE LIMITED

Basis of Preparation

The key prudential ratios related to regulatory capital and buffers, leverage ratio and liquidity ratios of BPI International Finance Limited (the "Company") are calculated in accordance with the Banking (Capital) Rules ("BCR") and Banking (Liquidity) Rules ("BLR"), respectively.
These regulatory capital ratios represent the solo/combined ratio of the Company under section 3C(1) of the BCR. The Company uses the Basic Approach ("BSC") in calculating the credit risk of its non-securitization exposures and the Basic Indicator Approach ("BIA") in calculating its operational risk. The Company is exempted by the Hong Kong Monetary Authority ("HKMA") from computing its market risk.

Part I: Key Prudential Ratios, Overview of Risk Management and RWA

1. Table 1 - KM1: Key prudential ratios

The following disclosures are made in accordance with section 16AB in part 2A of the Banking (Disclosure) Rules.

		(a)	(b)	(c)	(d)	(e)
		31 Dec 2020	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019
	Regulatory capital (amount) (HK$ '000)					
1	Common Equity Tier 1 (CET1)	133,076	132,501	136,421	137,109	142,345
2	Tier 1	133,076	132,501	136,421	137,109	142,345
3	Total capital	134,156	133,513	137,332	138,609	143,953
	RWA (amount) (HK$'000)					
4	Total RWA	274,985	242,273	193,277	191,972	200,028
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	48.39%	54.69%	70.58%	71.42%	71.16%
6	Tier 1 ratio (%)	48.39%	54.69%	70.58%	71.42%	71.16%
7	Total capital ratio (%)	48.79%	55.11%	71.05%	72.20%	71.97%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.500%	2.500%	2.500%	2.500%	2.500%
9	Countercyclical capital buffer requirement (%)	0	0	0	0	0
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	N/A	N/A	N/A	N/A	N/A
11	Total AI-specific CET1 buffer requirements (%)	2.500%	2.500%	2.500%	2.500%	2.500%
12	CET1 available after meeting the AI's minimum capital requirements (%)	35.04%	41.36%	57.30%	58.45%	58.22%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	414,044	409,394	379,875	373,469	387,253
14	LR (%)	32.14%	32.37%	35.91%	36.71%	36.76%
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	N/A
16	Total net cash outflows	N/A	N/A	N/A	N/A	N/A
17	LCR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2 institution only:					
17a	LMR (%)	475.71%	852.53%	568.32%	617.41%	404.98%

		(a) 31 Dec 2020	(b) 30 Sep 2020	(c) 30 Jun 2020	(d) 31 Mar 2020	(e) 31 Dec 2019
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	N/A	N/A	N/A	N/A	N/A
19	Total required stable funding	N/A	N/A	N/A	N/A	N/A
20	NSFR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2A institution only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

The Company is categorized as category 2 institution by the Hong Kong Monetary Authority (HKMA); thus, the following ratios does not apply: Liquidity Coverage Ratio (“LCR”), Net Stable Funding Ratio (“NSFR”), and Core Funding Ratio (“CFR”).

The regulatory capital, RWA’s, risk-based regulatory capital ratios, and additional buffer requirements are from the Return of Capital Adequacy Ratio submitted to the HKMA on a solo/combined basis under section 3C(1) of the BCR.

The decrease in the regulatory capital ratios is mainly due to the increase in the loan portfolio by HK$ 30M from the previous quarter, which resulted in an increase in the RWA for credit risk.

The Basel III Leverage ratio disclosures are from the Return of Leverage Ratio submitted to the HKMA under Part 1C of the BCR.

The increase in the total leverage ratio exposure measure is mainly due to the increase in the time deposits taken from the customers, which provide part of the funding to the business.

The liquidity condition of the Company is monitored on a daily basis by the Company’s Chief Executive. The balance between liquidity and profitability is carefully considered but the former is given higher priority in case of conflicts in meeting targets or regulatory requirements.

The Company computes its Liquidity Maintenance Ratio (“LMR”) on Hong Kong office basis as required under rule 10(1)(a) of the BLR. The LMR is calculated based on the average value of the LMR for each calendar month, as reported in the Return of Liquidity position submitted to the HKMA and the ratios presented above are the average quarterly LMR for the reporting period.

The decrease in the average LMR from the last quarter was mainly due to an increase in the average Customer’s Time Deposit that falls within one month.

2. OVA: Overview of risk management

Our Risk Management Framework

The Company's overall business strategy is set by the Board of Directors (the "Board") and is accompanied by a clear strategic plan, business objectives and risk appetite statement. The Company's risk profile is closely monitored by its Risk Management Units through Board-approved risk metrics and risk reports and in close coordination with the business lines.

The Company has established an effective risk governance and management framework in line with the requirements set out by the HKMA and other regulators. Risk metrics are established in line with the Company's business strategy and are aligned with regulatory requirements. These are approved by the Board or by the Risk Committee (the "RC," a Board-level Committee), and are reviewed at least annually. These metrics, as well as the overall risk profile of the Company, are reported on a monthly basis to the RC.

The Company implements the three lines of defense, a framework designed to allow clear identification of roles and responsibilities, cultivate functional independence and control, strengthen communication and dialogue, and sustain ongoing risk management activities. This framework allows the Company to proactively manage risk while remaining focused on achieving its business goals and objectives.

Risk Culture

The Company recognizes the importance of strong risk culture, and this is cultivated through the various implementation of policies which align expected employee behavior with the Company's overall risk/return objectives including the code of ethics and standards of professional conduct, policies on staff dealing, conflicts of interest, self-assessments and various Human Resources policies such as those concerning personal development and continuous professional training and development.

All policies are approved by the Board (or a Board-level committee such as the RC) and are disseminated to all employees in a timely manner. Procedures are likewise put in place for proper escalation in cases of violations and breaches, incident reporting, and internal, regulatory, and Group-wide reporting. Having well-trained and properly guided professionals promotes a strong risk culture that is reinforced and supported by the Company's senior management.

Risk Measurement and Reporting Systems

The Company adheres to all applicable regulatory guidelines, both local and global, and various industry-recognized and accepted risk metrics. The Company's risk measurement systems effectively and efficiently capture the types and levels of risks inherent to the Company's business activities, both quantitatively and qualitatively. Other features include standardized risk and control categories, linkages to compliance and audit reports, and continuous monitoring processes to ensure any weaknesses are addressed. These systems are designed to cater to the Company's unique business requirements. Still, they remain aligned with the overall risk management framework of the Company's parent bank, Bank of the Philippine Islands, and its subsidiaries (the "BPI Group").

The Company promotes continuous improvement and development in its risk measurement and management systems in order to consistently produce high-quality risk analysis and information to support all decision-making processes across the board.

Overview of risk management (continued)

Stress Testing

The Company conduct regular stress testing by Risk Department to complement its capital plan and risk management processes. Stress testing of the Company's capital adequacy is conducted annually during its capital planning exercise. The main objective of the exercise is to assess whether the Company has sufficient capital to cover all of its material risk exposures. These assessments are conducted in line with the Company's Internal Capital Adequacy Assessment Process ("ICAAP"), also conducted annually, which includes an assessment of the materiality of the Company's Pillar 1 and Pillar 2 risk exposures.

In addition, liquidity and price stress tests are conducted quarterly to evaluate the resilience of the Company's liquidity positions, earnings, and economic value. The Company has contingency plans in place in the event of a capital or liquidity shortfall.

3. Table 2 - OV1: Overview of RWAs

The following table provides an overview of the capital requirement in terms of a detailed breakdown of RWAs for credit risk, market risk, and operational risk. The minimum capital requirements are calculated as 8% of the risk-weighted assets as of the reporting date.

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		31 Dec 2020 HK$'000	30 Sep 2020 HKD$'000	31 Dec 2020 HKD$'000
1	Credit risk for non-securitization exposures	198,497	169,960	15,880
2	Of which STC approach	-	-	-
2a	Of which BSC approach	198,497	169,960	15,880
3	Of which foundation IRB approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	-	-	-
7	Of which SA-CCR*	N/A	N/A	N/A
7a	Of which CEM	-	-	-
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	-	-	-
10	CVA risk	-	-	-
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	-	-	-

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		31 Dec 2020 HK$'000	30 Sep 2020 HKD$'000	31 Dec 2020 HKD$'000
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-
20	Market risk	-	-	-
21	Of which STM approach	-	-	-
22	Of which IMM approach	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	N/A	N/A	N/A
24	Operational risk	76,488	72,313	6,119
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	-	-	-
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			
27	**Total**	274,985	242,273	21,999

The increase in the RWA from the previous quarter is mainly due to an increase in the Company's loan portfolio by HK$30M.

Part II: Linkages between financial statements and regulatory exposures

4. Table 3 - PV1: Prudent valuation adjustments

- Prudent value adjustments are for assets measured at fair value (marked-to-market or mark to model) and for which PVA is required. The Company has taken the concentration of covering liquidity adjustment on bonds of valuation adjustment into consideration and makes adjustments, if any, in accordance with the Company's valuation process. Currently, there is no valuation adjustment on the investment portfolio.

- Other elements of valuation adjustment are considered either not applicable or insignificant (if any) in the process of making valuation adjustments.

		(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**	-	-	-	-	-	-	-	-

5. Table 4 - LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets							
Cash and short term funds	73,612	73,626	73,624	-	-	-	2
Placement with banks and other financial institutions maturing between one and twelve months	142,164	142,186	142,186	-	-	-	-
Advances and other accounts	115,199	115,394	115,394	-	-	-	-
Financial Assets designated at fair value through other comprehensive income	72,634	72,634	72,634	-	-	-	-
Fixed Assets	10,508	10,508	10,508	-	-	-	-
Intangible assets	342	342	342				
Total assets	414,459	414,690	414,688	-	-	-	2
Liabilities							
Time Deposits from customers	266,084	266,084	-	-	-	-	266,084
Lease liabilities	6,973	6,973	-	-	-	-	6,973
Other payables	7,480	7,480					7,480
Total liabilities	280,537	280,537	-	-	-	-	280,537

The difference between the carrying values, as reported in published financial statements and under the scope of regulatory consolidation is the ECL provisions of the financial assets.

6. Table 5 - LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		(a)	(b)	(c)	(d)	(e)
			Items subject to:			
		Total	credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	414,690	414,688	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	280,537	-	-	-	-
3	Total net amount under regulatory scope of consolidation	134,153	-	-	-	-
4	Off-balance sheet amounts	985	985	-	-	-
5	*Differences in valuations*	-	-	-	-	-
6	*Differences due to different netting rules, other than those already included in row 2*	-	-	-	-	-
7	*Differences due to consideration of provisions*	-	-	-	-	-
8	*Differences due to prudential filters*	-	-	-	-	-
	Exposure amounts considered for regulatory purposes	135,138	415,673	-	-	-

7. LIA: Explanations of differences between accounting and regulatory exposure amounts

The difference between the carrying values, as reported in published financial statements and under the scope of regulatory consolidation is the ECL provisions of the financial assets. The off-balance sheet amounts are subject to credit risk framework represents the undrawn portion of credit facilities.

Part IIA: Composition of Regulatory Capital

8. Table 6 - CC1: Composition of Regulatory Capital

The following table provides the breakdown of regulatory capital according to the scope of regulatory consolidation. The Company has already applied full capital deductions under the BCR. The Capital Disclosure showed below as at 31 December 2020.

		(a)	(b)
		Amount (HK$ '000)	**Cross-reference to Table 7 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	75,000	[a]
2	Retained earnings	58,130	[b-d]
3	Disclosed reserves	792	[e]
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	**CET1 capital before regulatory adjustments**	133,922	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)		
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable

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		(a)	(b)
		Amount (HK$ '000)	**Cross-reference to Table 7 numbers/letters of the balance sheet under the regulatory scope of consolidation**
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
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	846	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	
26b	Regulatory reserve for general banking risks	846	[c]
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	**Total regulatory deductions to CET1 capital**	846	
29	**CET1 capital**	133,076	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Capital instruments subject to phase-out arrangements from AT1 capital*	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
36	**AT1 capital before regulatory deductions**	-	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	

		(a) Amount (HK$ '000)	(b) Cross-reference to Table 7 numbers/letters of the balance sheet under the regulatory scope of consolidation
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	**Total regulatory deductions to AT1 capital**	-	
44	**AT1 capital**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	133,076	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	*Capital instruments subject to phase-out arrangements from Tier 2 capital*	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	*of which: capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,080	[c +d]
51	**Tier 2 capital before regulatory deductions**	1,080	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
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	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	1,080	
59	**Total regulatory capital (TC = T1 + T2)**	134,156	
60	**Total RWA**	274,985	
	Capital ratios (as a percentage of RWA)		
61	**CET1 capital ratio**	48.39%	
62	**Tier 1 capital ratio**	48.39%	
63	**Total capital ratio**	48.79%	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	2.500%	

		(a)	(b)
		Amount (HK$ '000)	**Cross-reference to Table 7 numbers/letters of the balance sheet under the regulatory scope of consolidation**
65	of which: capital conservation buffer requirement	2.500%	
66	of which: bank specific countercyclical capital buffer requirement	0%	
67	of which: higher loss absorbency requirement	N/A	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	35.04%	
	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	Not applicable	Not applicable
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	Not applicable	Not applicable
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)	1,080	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	1,080	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	Not applicable	Not applicable
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	Not applicable	Not applicable
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	Not applicable
82	*Current cap on AT1 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	Not applicable	Not applicable
84	*Current cap on Tier 2 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	-	

Notes:

Elements where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	*Description*	*Hong Kong basis* (HK$ '000)	*Basel III basis* (HK$'000)
10	Deferred tax assets net of deferred tax liabilities	-	-

Explanation

As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be realised is 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, and other credit exposures to connected companies) under Basel III.

9. Table 7 – CC2: Reconciliation of Regulatory Capital to Balance Sheet

The table below shows the reconciliation of the capital components from the statement of financial position based on the regulatory scope of consolidation to the regulatory capital in Table 6.

	(a)	(b)	(c)
	Balance sheet as in published financial statements as at 31 Dec 2020 HK$'000	**Under regulatory scope of consolidation** As at 31 Dec 2020 HK$'000	**Cross-referenced to definition of Capital Components**
Assets			
Cash and short-term funds	73,612	73,626	
Placements with banks and other financial institutions maturing between one and twelve months	142,164	142,186	
Advances and other accounts	115,199	115,394	
Financial investments measured at fair value through other comprehensive income	72,634	72,634	
Fixed assets	10,508	10,508	
Intangible assets	342	342	
Total assets	414,459	414,690	
Liabilities			
Time deposits from customers	266,084	266,084	
Lease liabilities	6,973	6,973	
Other payables	7,480	7,480	
Total liabilities	280,537	280,537	
Shareholders' equity			
Paid-in share capital	75,000	75,000	
of which: amount eligible for CET1	75,000	75,000	[a]
Retained earnings	58,130	58,361	[b]
of which: Regulatory Reserves for general banking risk	846	846	[c]
of which: Collective provisions under IFRS 9	234	231	[d]
of which: Regulatory reserve for general banking risk and collective provisions excluded from Tier 2 capital due to cap	-	-	
Accumulated other comprehensive income	792	792	[e]
of which: ECL provision on financial assets under OCI	-	3	[f]
Total shareholders' equity	133,922	134,153	

10. Table 8 – CCA: Main Features of Regulatory Capital Instruments

The table below describes the main features of the CET 1 instruments as at 31 December 2020.

		(a) **Quantitative / qualitative information**
1	Issuer	BPI International Finance Limited
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	N.A.
3	Governing law(s) of the instrument	Hong Kong
	Regulatory treatment	
4	Transitional Basel III rules[1]	N.A.
5	Post-transitional Basel III rules[2]	Common Equity Tier 1
6	Eligible at solo/group/solo and group	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HK$ 75 Million
9	Par value of instrument	N.A.
10	Accounting classification	Shareholders' equity
11	Original date of issuance	16 August 1974
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N.A.
16	Subsequent call dates, if applicable	N.A.
	Coupons / dividends	
17	Fixed or floating dividend / coupon	Floating
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.

[1] Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the BCR.

[2] Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the BCR.

		(a) Quantitative / qualitative information
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	N.A.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N.A.

This Main Features of Regulatory Capital Instruments can be found in the Company's website: www.bpi-ifl.com.hk

Part IIB: Macroprudential supervisory measures

11. Table 9 – CCyB1: Geographical Distribution of Credit Exposures used in Countercyclical Capital Buffer

The table below provides the Company's countercyclical capital buffer ratio computed as the aggregate risk-weighted amount ('RWA") of geographically allocated private sector credit exposures (to the extent allocated to jurisdictions on the "ultimate risk" basis) over the sum of RWA for each geographical allocated private sector credit exposures multiplied by its appropriate JCCyB ratio.

		(a)	(c)	(d)	(e)
	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect (%)	RWA used in computation of CCyB ratio (HK$'000)	AI-specific CCyB ratio (%)	CCyB amount
1			-		
2			-		
3			-		
N+1	Sum		-		
N+2	Total		105,706	0%	0

The Company has no credit exposure to private sectors with a non-zero countercyclical buffer ratio. N+2 column C represents the Company's RWAs for the private sector credit exposures in all jurisdictions with no countercyclical buffer rate or with a countercyclical buffer rate set at zero.

Part IIC: Leverage Ratio

12. Table 10 – LR1: Summary Comparison of Accounting Assets against Leverage Ratio Exposure Measure

The table below represents the reconciliation of the total assets in the published financial statements to the Leverage Ratio exposure measure as at 31 December 2020.

		(a)
	Item	**Value under the LR framework** (HK$ '000)
1	Total consolidated assets as per published financial statements	414,459
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4	Adjustments for derivative contracts	-
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet ("OBS") items (i.e., conversion to credit equivalent amounts of OBS exposures)	197
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	234
7	Other adjustments	(846)
8	**Leverage ratio exposure measure**	414,044

Other adjustments represent the regulatory reserve for general banking risk that is deducted from computing the Tier 1 capital.

13. Table 11 – LR2: Leverage Ratio (“LR”)

The table below provides a detailed breakdown of the components of the Leverage ratio denominator as at 31 December 2020.

		(a)	(b)
		HK$ ‘000	
		31 Dec 2020	30 Sep 2020
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	414,927	407,457
2	Less: Asset amounts deducted in determining Tier 1 capital	846	846
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	414,081	406,611
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)	-	-
5	Add-on amounts for PFE associated with all derivative contracts	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	**Total exposures arising from derivative contracts**	-	-
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	985	19,946
18	Less: Adjustments for conversion to credit equivalent amounts	(788)	(16,997)
19	**Off-balance sheet items**	197	2,949
Capital and total exposures			
20	**Tier 1 capital**	133,076	132,501
20a	**Total exposures before adjustments for specific and collective provisions**	414,278	409,560
20b	**Adjustments for specific and collective provisions**	(234)	(166)
21	**Total exposures after adjustments for specific and collective provisions**	414,044	409,394
Leverage ratio			
	Leverage ratio	32.14%	32.37%

Part IID: Liquidity

14. LIQA: Liquidity Risk Management

Liquidity risk is defined as the risk of impact on the Company's earnings or capital from its inability to meet its financial or payment obligations as they fall due or its incapability of meeting its liquidity needs without incurring significant costs or losses.

Liquidity risk is managed within the framework of policies and limits that are approved by senior management in the Asset-Liability Committee (ALCO) and are in compliance with the local regulatory standard. Senior management receive reports on risk exposure and performance against approved limits. The ALCO provides senior management oversight of liquidity risk.

Liquidity risk is measured and managed on a projected cash flow basis with daily monitoring and reporting to senior management together with regular stress-testing. The Company also employs early warning indicators and trigger limits to detect earlier on any emerging liquidity risk.

The Company performs liquidity stress testing regularly, to evaluate the effect of both industry-wide and bank-specific disruptions on the Company's liquidity position. The liquidity stress tests consider the effect on changes in the market value of liquid assets. The stress testing results to be reported to senior management in ALCO for consideration in making liquidity management decisions.

Contingency plan is in place to identify potential liquidity crisis using a series of early warning indicators. The Company also maintain a certain percentage of liquid assets as a buffer against unforeseen liquidity requirement. The main objective is to honor all cash outflow commitments on an on-going basis and to satisfy the statutory liquidity requirement.

Liquidity position

	31 December 2020	31 December 2019
Average Liquidity Maintenance Ratio	628.49%	383.23%

The Liquidity Maintenance Ratio ("LMR") is calculated in accordance with the Banking (Liquidity) Rules effective from 1 January 2015. The average liquidity maintenance ratio is calculated based on the average value of the LMR for each calendar month, as reported in the liquidity position return submitted to the Hong Kong Monetary Authority ("HKMA").

The Company is categorized as Category 2 institution by the HKMA; thus the following ratios does not apply: Liquidity Coverage Ratio ("LCR"), Net Stable Funding Ratio ("NSFR"), and Core Funding Ratio ("CFR").

LIQA: Liquidity Risk Management (continued)

Maturity analysis

The table below analyse assets and liabilities of the Company as at 31 December 2020 into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables below are the approximation of the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on expected undiscounted cash flows.

	2020							
	Repayable on demand	*Up to 1 month*	*1 - 3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Undated*	*Total*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets								
Cash and short-term funds	50,350	23,262	-	-	-	-	-	73,612
Placements with banks and other financial institutions maturing between one and twelve months	-	-	142,226	-	-	-	-	142,226
Advances and other accounts	-	3,780	13,863	90,253	1,890	-	6,394	116,180
Financial assets designated at fair value through other comprehensive income	-	281	7,911	30,889	34,589	1,428	-	75,098
Fixed assets	-	-	-	-	-	-	10,508	10,508
Intangible Assets	-	-	-	-	-	-	342	342
Total assets	50,350	27,323	164,000	121,142	36,479	1,428	17,244	417,966
Liabilities								
Deposits from customers	-	42,109	103,195	121,433	-	-	-	266,737
Lease liabilities	-	475	949	4,271	1,363	-	-	7,058
Other payables	-	149	4,940	763	23	-	1,605	7,480
Total liabilities	-	42,733	109,084	126,467	1,386	-	1,605	281,275
Net liquidity gap	50,350	(15,410)	54,916	(5,325)	35,093	1,428	15,639	136,691

Part III: Credit Risk for Non-securitization exposures

15. CRA: General information about credit risk

Overview

The Company's current business model emphasizes a conservative approach in managing credit risk as reflected in (i) zero past due/non-performing loans and default rates in recent history, (ii) the maintenance of the Company's accounts and placements predominantly with authorized financial institutions prudently supervised by the Hong Kong Monetary Authority, and (iii) Company investments in debt securities concentrated in the higher credit quality bands with exposures diversified across banks, non-bank financial institutions, corporates, and sovereign entities.

The Company's credit risk management framework is aligned with (i) the prescribed regulatory requirements, including but not limited to the Hong Kong Banking Ordinance and related regulations, as well as the HKMA's Supervisory Policy Manuals, (ii) the credit risk management framework of its parent bank, Bank of the Philippine Islands, and (iii) the Company's risk appetite statement, set by its Board of Directors and reviewed annually.

In its credit risk management framework, the Company takes into consideration prescriptive limits such as limitations on advances (e.g., single borrower's limits), limitations on aggregate advances to directors and other connected parties, limitations on advances to employees, limitations on aggregate holdings and exposures to directors and other connected parties, share capital of other companies, and interests in land in or outside of Hong Kong, the Company's level of regulatory reserves, and its internal targets and regulatory limits for CET1, Tier 1 and capital ratios, loan-to-collateral ratios, and country/sovereign risk limits.

Credit exposures involving short term loans and facilities granted to the Company's clients undergo a standardized process involving information gathering, borrower evaluation, loan approval, and on-going monitoring.

The performance of all client loans and facilities is monitored daily and reported to the Board periodically. Collateral values are likewise evaluated regularly to ensure the underlying collateral remains sufficient to cover any outstanding obligation.

Credit Risk Management

The overarching objectives of the Company's credit risk management function are:

- To facilitate the proper evaluation and management of risk exposures to achieve risk-adjusted returns on capital consistent with the Company's objectives

- To establish identifiable procedures/uniform mechanism to properly assess the Company's risk-taking activities

- To integrate marketing, policy formulation, and risk limits monitoring into a matrix of complementary responsibilities. The Board of Directors ("Board") sets the Company's credit policies and risk appetite and ensures its credit risk strategy remains appropriate to the Company's business model, the current operating environment and stage of the economic cycle, and supported by adequate levels of capital and allocated resources. The credit strategy is annually reviewed and incorporated into the Company's annual capital plan.

CRA: General information about credit risk - Credit Risk Management (continued)

The Office of the Chief Executive is responsible for the overall implementation of the Board's credit strategies. It is responsible for ensuring that the necessary credit-related policies and procedures are established to carry out the business. It likewise acts through the authority delegated by the Board to approve credit risk exposures acceptable to the Company's credit standards. Beyond these standards, approval must be sought from the Board. The credit process requires an annual review for any outstanding loan or facility granted, or more frequently as may be required given any unforeseen credit event.

To ensure that the BPI Group's total credit exposures remain within the appropriate limits, client loans and facilities proposed on the Company level are routed to the relevant BPI Group Credit Committee for aggregation and endorsement and subsequently presented to the Company's Office of the Chief Executive for final approval. All approved client loans and facilities are presented to the Board of Directors for information.

The Company's risk department structure works as an independent function, in conjunction with the parent's risk management department to maintain its alignment and consistency with the overall credit strategy of the BPI Group. Credit limits for certain portfolios such as those managed by the Company's Treasury department covering sovereigns, supra-nationals, banks, and non-bank financial institutions and some corporate credits are approved centrally with BPI but confirmed at the Company's Board level. This credit system allows for credit risk aggregation at the BPI Group level but permits independence and cascades the responsibility to the operating business unit (e.g., the Company) for proper evaluation prior to taking the actual credit exposure. Similar to loans and advances granted by the Company, the credit limits for these portfolios are evaluated annually at the BPI Group level, and likewise reviewed and confirmed at least annually at the Company level.

As with the overall risk governance structure, the Company employs the three lines of defense in the management of credit risk. The first line is responsible for evaluating new and existing credit exposures and the overall quality of the relevant portfolios. Controls are in place to ensure sufficient checks and balances govern the activities of the business units extending credit. Backroom functions are responsible for these controls by Operations department such as (i) the overall administration of the Company's credit portfolio, including checking credit approval, handling loan disbursements, maintenance of credit files, and compilation of relevant management information reports, (ii) the valuation of collateral, execution of hold-out and lien on assets, and preparation of relevant reports, and (iii) loan documentation.

The second line of defense involves the independent oversight of the Risk Management Department. The credit risk profile is regularly reported to the RC or the Board, as necessary.

The third line of defense is the independent internal audit function, responsible for the independent assessment of the adequacy and reliability of the credit risk measures set in place.

Reports on credit risk exposures cover all regulatory and internal limits and are monitored by the Risk Management Department. Breaches in limits are escalated to senior management and the RC.

16. Table 12 - CR1: Credit Quality of Exposures

The following table provides an overview of the credit quality of on- and off-balance sheet exposures as at 31 December 2020.

		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
		(HK$ '000)	(HK$ '000)	(HK$ '000)	(HK$ '000)
1	Loans	-	105,706	(195)	105,511
2	Debt securities	-	72,634	-	72,634
3	Off-balance sheet exposures	-	985	-	985
4	***Total***	**-**	**179,325**	***(195)***	**179,130**

17. Table 13 - CR2: Changes in defaulted loans and debts securities

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

The Company does not have any defaulted loans and debt securities for the reporting period.

18. CRB: Additional disclosure related to credit quality of exposures

The Company classifies the loans and advances in accordance with the loan classification system for the reporting to HKMA. The Company adopts the impairment classification of 3 stages allocations under HKFRS9.

Pass	Borrower is current in meeting commitments
Special Mention	The borrower exhibits potential weaknesses that, if not corrected in a timely manner, may adversely affect future repayments and warrant close attention
Substandard	The borrower exhibits potential weaknesses that may adversely affect future repayments and warrant close attention
Doubtful	Collection in full is improbable and the lender expects to sustain a loss
Loss	Uncollectible after exhausting all collection efforts

For impairment purposes, the Company measure impairment allowances for 12-month or lifetime expected credit losses ("ECL") using 3 stage approach as followed

Stage 1: consists of an asset with no significant increase in credit risk since initial booking (12 – month ECL)

Stage 2: consists of assets that have evidence of a significant increase in credit risk since initial booking but do not have objective evidence of impairment (lifetime ECL)

Stage 3: consists of assets that have shown objective evidence of impairment at the reporting date. (Lifetime ECL)

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired.

The financial asset is considered credit-impaired when, based on observable data, one or more events have occurred and have a significant impact on the expected future cash flows of the financial asset. These events may include the following:

- Significant financial difficulty of the issuer or borrower
- A breach of contract, such as a default or past-due event
- The lenders, for economic or contractual reasons relating to the borrower's financial difficulty, granted the borrower a concession that would not otherwise be considered
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization
- The disappearance of an active market for the financial asset because of financial difficulties, or
- The purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

There is no past due for the Loans and advances as at 31 December 2020, and all client loans are fully collateralized. The Company has made ECL provision for loan and advances to the customers at the amount of HK$195,566 as at 31 Decemebr 2020.

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

1. Exposures by Geographic Location

Table 1: Credit Exposures as at end-December 2020, grouped by geographic location

	Country	Gross Carrying Amounts in HK$ Mn
1	Japan	65
2	United States of America	36
3	Singapore	51
4	Republic of the Philippines	110
5	Australia	19
6	Malaysia	21
7	Thailand	24
8	Others*	68
9	**Total**	**394**

**Segments constituting less than 10% of the Company's total Credit Risk-Weighted Assets are aggregated as "Others."*

2. Exposures by Industry

Table 2: Credit Exposures as at end-December 2020, grouped by industry

	Industry	Gross Carrying Amounts in HK$ Mn
1	Financial Institutions	261
2	Sovereigns	25
3	Miscellaneous - for private purposes	106
4	Others*	2
5	**Total**	**394**

**Segments constituting less than 10% of the Company's total Credit Risk-Weighted Assets are aggregated as "Others."*

3. Exposures by Maturity

Table 3: Credit Exposures as at end-December 2020, grouped by maturity

	Maturity	Gross Carrying Amounts in HK$ Mn
1	Less than one year	359
2	One to five years	34
3	Over five years	1
4	**Total**	**394**

19. CRC: Qualitative disclosures related to credit risk mitigation

The Company, when granting credit facilities, is to do so on the basis of capacity to repay, financial strength, and repayment ability. Credit risk may be mitigated by obtaining collateral from the customer.

The Company currently does not have netting arrangements as it does not engage in derivative or securities financing transactions ("SFTs"). For its loan exposures, the Company utilizes standardized loan documentation that governs the Company's rights to the collateral and includes the right to set-off or the realization of the collateral to repay the outstanding obligation should the client default on their obligations.

For credit risk mitigation, the Company's client loan portfolio is supported by the use of two types of financial assets, namely a) debt securities held under the client's securities account maintained with the Company, and/or b) time deposits placed by clients with the Company.

Marketable securities held as collateral are marked-to-market on a daily basis. Loan-to-collateral ratios for each approved loan line is calculated and monitored daily to ensure that the collateral holds sufficient value to provide an alternative source of loan repayment should a loan becomes impaired. The Company applies safe custodian of collaterals; regular re-valuation parameters are subject to periodic reviews to ensure their effectiveness over credit risk management.

Loans that are collateralized by time deposits are tagged in the system as under hold-out and time deposits are automatically rolled over as long as the client's loan facility remains outstanding.

20. Table 14 - CR3: Overview of recognized credit risk mitigation

The following table discloses the extent of credit risk exposures covered by different types of recognized CRM as at 31 December 2020.

		(a)	(b1)	(b)	(d)	(f)
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
1	Loans	-	105,511	105,511	-	-
2	Debt securities	72,634	-	-	-	-
3	**Total**	72,634	105,511	105,511	-	-
4	Of which defaulted	-	-	-	-	-

21. Table 15 - CR4: Credit risk exposures and effects of recognized credit risk mitigation (BSC approach)

The following table illustrates the effect of any recognized CRM on the calculation of capital requirements as at 31 December 2020.

		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		**Exposures post-CCF and post-CRM**		**RWA and RWA density**	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	
1	Sovereign exposures	24,734	-	24,734	-	17,757	4.28%
2	PSE exposures	1,947	-	1,947	-	1,947	0.47%
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	261,763	-	261,763	-	52,352	12.63%
5	Cash items	2	-	2	-	-	-
6	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-
7	Residential mortgage loans	-	-	-	-	-	-
8	Other exposures	126,244	985	126,244	985	126,441	30.49%
9	Significant exposures to commercial entities	-	-	-	-	-	-
10	**Total**	414,690	985	414,690	985	198,497	47.87%

The Company currently does not recognize collateral in calculating risk-weighted assets; hence, the exposures pre-CRM and post-CRM are equivalent.

22. Table 16 - CR5: Credit risk exposures by asset classes and by risk weights (BSC Approach)

The following table presents the breakdown of credit risk exposures by asset classes and by risk weights as of 31 December 2020.

	Presented in HK$'000	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Exposure class / Risk Weight	0%	10%	20%	35%	50%	100%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	-	7,752	-	-	-	16,982	-	-	24,734
2	PSE exposures	-	-	-	-	-	1,947	-	-	1,947
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	261,763	-	-	-	-	-	261,763
5	Cash items	2	-	-	-	-	-	-	-	2
6	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-
7	Residential mortgage loans	-	-	-	-	-	-	-	-	-
8	Other exposures	-	-	985	-	-	126,244	-	-	127,229
9	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-
10	¤ **Total**	2	7,752	262,748	-	-	145,173	-	-	415,675

Part IV: Counterparty Credit Risk

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

Counterparty credit risk is defined by the Banking (Capital) Rules as counterparty default risk and credit valuation adjustment ("CVA") risk. Counterparty default risk is, in relation to a derivative contract or a securities financing transaction ("SFT") entered into with a counterparty, is the risk that the counterparty could default before the final settlement of the cash flows of the contract or transaction. On the other hand, credit valuation adjustment is the adjustment made to the valuation of a netting set with a counterparty to reflect the market value of the credit risk of that counterparty. Hence, CVA risk is the risk of marked-to-market losses in the transaction arising from a change in the CVA for the counterparty. Wrong way risk is defined here as the risk that arises when the exposure to a counterparty is positively correlated with the probability of default of the counterparty due to the nature of the transactions with the counterparty.

As at 31 December 2020, the Company does not engage in derivatives, securities financing transactions, nor enter into any bilateral netting arrangements for counterparty exposures, hence does not incur counterparty credit risk exposures and wrong way risks. Given its current business model, there are no internal capital limits, no collaterals pledged, no governing policies relating to guarantees and other forms of credit risk mitigation for counterparty credit risk, credit exposures to central counterparties ("CCPs") and wrong way risks.

24. Table 17 - CCR1: Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

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

The Company has no derivative contracts and SFTs exposures for the reporting period.

25. Table 18 - CCR2: CVA capital charge

		(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	-	-
4	Total	-	-

The Company has no exposures that are subject to CVA capital charge.

26. Table 19 - CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for BSC approach

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

The Company has no default risk exposures in respect of derivative contracts and SFT's.

27. Table 20 - CCR5: Composition of collateral for counterparty default risk exposures

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

The Company has no collateral posted and recognized collateral received in the context of derivative contracts or SFTs.

28. Table 21 -CCR6: Credit-related derivative contracts

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

The Company has no derivative contracts exposure for the reporting period.

29. Table 22 - CCR8: Exposures to CCPs

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

The Company has no exposures to products requiring CCP’s.

Part V: Securitization Exposures

SECA: Qualitative disclosures related to securitization exposures

SEC1: Securitization exposures in banking book

SEC2: Securitization exposures in trading book

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

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

The above disclosure sections do not apply to the Company for the reason that it has no securitization exposures.

Part VI: Market Risk

MRA: Qualitative disclosures related to market risk

The Company is exempt from computing market risk

MR1: Market risk under STM approach

MR2: RWA flow statements of market risk exposures under IMM approach

MR3: IMM approach values for market risk exposures

MR4: Comparison of VaR estimates with gains or losses

The above disclosure sections do not apply to the Company for the reason that it is under Basic Approach (BSC).

Part VII: Interest Rate Risk in Banking Book

30. IRRBBA: Interest rate risk in banking book- risk management objectives and policies

The Company defines Interest Rate Risk in Banking Book ("IRRBB") as the current or prospective risk to its capital and earnings arising from adverse movements in interest rates that affect the Company's banking book positions. This, in turn, changes the underlying value of the Company's assets, liabilities, and off-balance sheet items, and ultimately its economic value.

The Company has an established IRRBB risk governance framework. The Board exercise oversight and approves the Company's IRRBB management framework, strategies as well as ensures the interest risk is in line with the risk appetite. The Board level Risk Committee ("RC") oversee the Company's interest rate risk management, set the strategy and policy for managing interest rate risk. RC assists the Board in overseeing the practices of IRRBB management framework, reviewing the procedures and major policies.

The Management level Asset and Liability Management Committee ("Management Level ALCO") assists the Office of the Chief Executive and the Board in conducting firm-wide asset/liabilities management including policy formulation, liquidity and managing interest rate risk on the Banking Book. The functions of the ALCO are to approve the balance sheet structure and investment portfolio structure and off-balance sheet management strategies and submit to the Committee's review and Board's approval. Management Level Risk Management Committee assists the Board Level Risk Committee to monitor and manage IRRBB. It is responsible for designing the IRRBB management framework and draft relevant policies, reviewing risk limits, monitoring the interest rate risk limit set by Board and reviewing stress-testing results for IRRBB.

Interest rate risk is daily managed by different business units. The activities of business units and interest rate limits are monitored on a regular basis. Actions will be taken to mitigate any potential risks. Interest rate risk reporting and regulatory return results are submitted to HKMA quarterly. To further ensure the integrity, accuracy, and reasonableness of the interest rate risk measurement system, independent review from internal and/or external auditors are carried out regularly to evaluate the effectiveness of the Company's internal control system. All identified audit issues are discussed with senior management and responded to mitigate the gaps.

The Company adopts the standardized calculation methodologies in measuring interest rate risk exposure on the Economic Values of shareholders' Equity ("EVE") and Net Interest Income ("NII"), based on the Hong Kong Monetary Authority Supervisory Policy Manual IR-1 Interest Rate Risk in Banking Book.

To measure the impacts on EVE in stressed market conditions, stress testing is conducted through the six prescribed interest rate shock scenarios under different currencies defined by the Basel Committee. Descriptions are shown as follows:

(i) Parallel shock up: Yield curve constantly parallel shifts up

(ii) Parallel shock down: Yield curve constantly parallel shifts down

(iii) Steepener shock: Short-term interest rates decrease while long-term interest rates increase

(iv) Flattener shock: Short-term interest rates increase while long-term interest rates decrease

(v) Short rates shock up: Interest rate shock up is the greatest at the shortest time band and diminishes towards current rates in the longer time band

(vi) Short rates shock down: Interest rate shock down is the greatest at the shortest time band and diminishes towards current rates in the longer time band

30. IRRBBA: Interest rate risk in banking book- risk management objectives and policies (continued)

The impacts on the NII over the next 12 months are assessed through the parallel shock up and parallel shock down scenarios. The Company utilizes the same assumptions for regulatory reporting and internal monitoring. As of 31 December 2020, there are no significant changes compared with the previous disclosure.

31. Table 23- IRRBB1: Quantitative information on interest rate risk in banking book

This table provides information on the change in EVE and the change in net interest income ("NII") over the next 12 months in respect of the date indicated in the table below under each of the prescribed interest rate shock scenario in respect of the Company's interest rate exposures arising from banking book positions for the current annual reporting date as at 31 December 2020.

		(a)	(b)	(c)	(d)
(in HKD miilion)		**ΔEVE**		**ΔNII**	
	Period	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
1	Parallel up	1	2	-	-
2	Parallel down	1	0	-	-
3	Steepener	1	0		
4	Flattener	0	1		
5	Short rate up	0	3		
6	Short rate down	1	0		
7	**Maximum**	1	3	-	-
	Period	**31 Dec 2020**		**31 Dec 2019**	
8	**Tier 1 capital**	134		143	

Part VIII: Remuneration

32. REMA: Remuneration Policy

The Company has established a Remuneration Policy, which governs the setup of a Board Level Remuneration Committee and formulates the principles of remuneration for its staff. The Remuneration Policy of the Company promotes an overall scheme of remuneration that matches the Company's business objectives, risk tolerance, and risk management framework.

The Company has complied with the requirement set out in Part 3 (disclosure on remuneration) of the Supervisory Policy Manual CG-5 entitled "Guideline on a Sound Remuneration System" issued by the Hong Kong Monetary Authority in all material aspects.

Below are some relevant Policies:

- Governance

  The Remuneration Committee is a BPI IFL Board level committee that reviews and approves BPI IFL's remuneration policy. The consistent, continuing implementation of the policy shall be the responsibility of the Board and the local human resources personnel. An annual review of the policy shall be conducted and passed upon by the Board to ensure compliance with the guideline.

- Remuneration Structures

  Besides monthly fixed pay, employee may be entitled to a variable compensation, which depends on the performance of the Company, team, and individual employee.

- Performance Measurement

  Employee Performance Appraisee (EPA) process is conducted annually. Individual employee's goal and performance objective for next year should be set at the beginning of a year and to be agreed with his/her manager. Under the EPA process, employees are required to set, with the approval of their managers, their objectives and expected deliverables (which are quantifiable) for the coming year. The EPA is a base to evaluate the performance of each employee for the previous year.

Senior Management and Key personnel

Senior management is defined as those persons responsible for oversight of the Company's firm-wide strategy, activities, or material business lines. This includes the Chief Executive, the Chief Operating Officer, the Chief Financial Officer, Executive Officer(s), Head of Risk, Legal, Compliance, Operations, Information Technology and Relationship Management, and those Managers registered under HKMA.

Key personnel is employees whose duties or activities in the course of their employment involve the assumption of taking material risk on behalf of the Company. There were 14 members of senior management and key personnel in 2020.

33. Table 24 - REM1: Remuneration awarded during financial year

Due to the sensitivity of the information as the Company is composed of 29 employees, the figures shown below is the aggregate remuneration of the Senior Management and key personnel as at 31 December 2020.

			(a)/(b)	(a)/(b)
Remuneration amount and quantitative information			2020 Senior management/ Key personnel	2019 Senior management/ Key personnel
			HK$	HK$
1	Fixed remuneration	Number of employees	14	14
2		Total fixed remuneration	13,688,801	12,965,466
3		Of which: cash-based	13,688,801	12,965,466
4		Of which: deferred		-
5		Of which: shares or other share-linked instruments		-
6		Of which: deferred		-
7		Of which: other forms		-
8		Of which: deferred		-
9	Variable remuneration	Number of employees	14	14
10		Total variable remuneration	3,446,050	3,311,050
11		Of which: cash-based	3,446,,050	3,311,050
12		Of which: deferred		-
13		Of which: shares or other share-linked instruments		-
14		Of which: deferred		-
15		Of which: other forms		-
16		Of which: deferred		-
17	**Total remuneration**		**17,134,851**	**16,276,516**

34. Table 25 - REM2: Special payments

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

The Company has no special payments for 2020.

35. Table 26 - REM3: Deferred remuneration

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

The Company has no deferred remuneration for 2020.

Part IX: Other Disclosures

36. International Claims

International claims are on-balance sheet exposure to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. The table shows claims on individual countries and territories or areas, after recognised risk transfer, amounting to not less than 10% of the Company's total international claims.

31 December 2020			*Non-Bank Private Sector*			
	Banks	*Official Sector*	*Of which: Non-bank financial institution*	*Of which: non-financial private sector*	*Other*	*Total*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
1. Developed Countries						
of which Australia	19,000	-	-	-	-	19,000
of which United States	1,000	8,000	-	-	-	9,000
of which Japan	8,000	-	-	-	-	8,000
2. Offshore Centers						
of which Singapore	14,000	-	-	-	-	14,000
of which Hong Kong	198,000	-	1,000	-	-	199,000
3. Developing Asia and Pacific						
of which Philippines	1,000	1,000	-	115,000	-	117,000
of which Indonesia	-	16,000	-	-	-	16,000
of which South Korea	-	-	6,000	-	-	6,000

31 December 2019			*Non-Bank Private Sector*			
	Banks	*Official Sector*	*Of which: Non-bank financial institution*	*Of which: non-financial private sector*	*Other*	*Total*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
1. Developed Countries						
of which Australia	18,000	-	-	-	-	18,000
of which United States	8,000	35,000	-	-	-	43,000
of which Japan	8,000	-	-	-	-	8,000
2. Offshore Centers						
of which Singapore	23,000	-	-	-	-	23,000
of which Hong Kong	186,000	-	1,000	-	-	187,000
3. Developing Asia and Pacific						
of which Philippines	4,000	1,000	-	25,000	-	30,000
of which Indonesia	-	23,000	-	-	-	23,000
of which South Korea	-	-	6,000	-	-	6,000

37. Sector Information

(i) By geographical areas

Information has been classified according to the location of the principal operations of the Company. All of the Company's principal operations are conducted in Hong Kong.

(ii) Advances to customers

Gross advances to customers by industry sectors

	As at 31 Dec 2020 HK$'000	*As at* 31 Dec 2019 HK$'000
Loans for use outside Hong Kong		
Individuals - others	105,706	18,956
	105,706	18,956

Gross advances to customers by geographical area

	As at 31 Dec 2020 HK$'000	*As at* 31 Dec 2019 HK$'000
Residential status of customers:		
The Philippines	105,706	18,956

The above gross advances only include gross advances to customers less collective impariment The related general provisions maintained in regulatory reserve source from the same geographical area.

38. Overdue or rescheduled assets

There were no overdue and rescheduled loans and repossessed assets as at 31 December 2020 (2019: Nil).

39. Non-Bank Mainland China Exposures

The Company does not have non-bank mainland China exposures as at 31 December 2020 (2019: Nil).

40. Other than functional currency concentrations

	USD HK$'000	*EUR* HK$'000	*GBP* HK$'000	*AUD* HK$'000	*PHP* HK$'000	*Total* HK$'000
Equivalent in Hong Kong dollars 31 December 2020						
Spot assets	368,085	105	361	19,410	26	387,987
Spot liabilities	(247,307)	-	-	(18,937)	(28)	(266,272)
Net long position	120,778	105	361	473	(2)	121,715
Net structural position		-				-
Equivalent in Hong Kong dollars 31 December 2019						
Spot assets	318,421	280	456	18,009	14	337,180
Spot liabilities	(207,094)	-	-	(17,663)	(3)	(224,760)
Net long position	111,327	280	456	346	11	112,420
Net structural position		-				-