KPMG

BPI International Finance Limited

For the year ended 31 December 2017

Contents

Report of the directors

The directors submit their report together with the audited consolidated financial statements of BPI International Finance Limited (the "Company") and its subsidiary (together, the "Group") for the year ended 31 December 2017.

Principal activities

The Company is a deposit-taking company registered under the Hong Kong Banking Ordinance. The Company is licensed under the Hong Kong Securities and Futures Ordinance for dealing in securities, advising on securities and asset management activities. Its principal activities are the provision of financial services and dealing in securities on behalf of customers. The principal activity of its subsidiary is set out in Notes 15 to the consolidated financial statements.

Results and appropriations

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit and loss and other comprehensive income on page 8.

The directors do not recommend the payment of a dividend (2016: Nil).

Directors of the Company and its subsidiary

The directors of the Company and its subsidiary during the year and up to the date of this report were:

Mario Antonio V. Paner	
Joseph Albert L. Gotuaco	
Tomas S. Chuidian	
Natividad N. Alejo	
Benjamin Elpidio N. Panganiban Jr.	
Melinda V. Dulay	
Archie Lin	
Argelie O. King	
Ma Carmencita S. Bustamante	(Appointed on 19 January 2017)
SY. Olga Conde	(Appointed on 17 March 2017)
Jereza, Jose Raul IV Enriquez	(Appointed on 17 March 2017)
Farinas, Ritche Galvez	(Appointed on 17 March 2017)
Hong Ki Myung	(Appointed on 26 March 2018)
Edgardo O. Madrilejo	(Resigned on 26 March 2018)

In accordance with Article 85 of the Company's Articles of Association, all directors retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' material interests in transactions, arrangements and contracts that are significant in relation to the Company's business

No transactions, arrangements and contracts of significance in relation to the Company's business to which the Company subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company, its subsidiaries, its fellow subsidiaries, its parent company or its other associated corporations a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its specified undertakings or other associated corporations.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Compliance with the Banking (Disclosure) Rules

The Company is required to comply with the Banking (Disclosure) Rules. The Banking (Disclosure) Rules set out the minimum standards for public disclosure which authorized institutions must make in respect of the statement of profit and loss and other comprehensive, its state of affairs and capital adequacy. The financial statements for the financial year ended 31 December 2017 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Permitted indemnity provisions

At no time during the financial year and up to the date of this Directors' report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company.

Auditors

KPMG were first appointed as auditors of the Company upon the retirement of Pricewaterhouse Coopers and the ordinary resolution for the appointment of KPMG passed at Annual General Meeting of the Company held on 23 June 2017.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Joseph Albert L. Gotuaco, Chairman

Hong Kong,

23 APR 2018

KPMG

Independent auditor's report to the members of BPI International Finance Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of BPI International Finance Limited ("the Company") and its subsidiary ("the Group") set out on pages 8 to 54, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

KPMG

Independent auditor's report to the members of BPI International Finance Limited

(Incorporated in Hong Kong with limited liability)

Information other than the consolidated financial statements and auditor's report thereon (continued)

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

KPMG

Independent auditor's report to the members of BPI International Finance Limited

(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG

Independent auditor's report to the members of BPI International Finance Limited

(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 APR 2018

Consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Interest income	5	5,854	5,017
Interest expense		(1,856)	(1,851)
Net interest income		3,998	3,166
Other operating income	6	37,636	32,726
Operating income		41,634	35,892
Operating expenses	7	(34,358)	(32,283)
Profit before taxation		7,276	3,609
Income tax expense	9	(1,423)	(799)
Profit for the year		5,853	2,810
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale securities, net of tax	9	(260)	310
Total comprehensive income for the year		5,593	3,120

The notes on pages 13 to 54 are an integral part of these consolidated financial statements.

Consolidated statement of financial position as at 31 December 2017

	Note	*2017* HK$'000	*2016* HK$'000
Assets			
Cash and short-term funds	10	122,734	152,542
Placements with banks and other financial institutions maturing between one and twelve months	11	188,005	124,057
Held-to-maturity securities	12	19,491	29,662
Advances and other accounts	13	24,439	24,606
Current tax assets		-	828
Available-for-sale securities	14	104,230	93,734
Fixed assets	16	185	810
Deferred tax assets	17	1	202
Total assets		459,085	426,441
Liabilities			
Time deposits from customers		259,693	236,612
Other payables		10,176	5,796
Tax payable		175	585
Total liabilities		270,044	242,993

Consolidated statement of financial position as at 31 December 2017 (continued)

	Note	*2017* HK$'000	*2016* HK$'000
Equity			
Share capital	18	75,000	75,000
Retained earnings	19	114,190	108,337
Investment revaluation reserve	19	(149)	111
		189,041	183,448
Total equity and liabilities		459,085	426,441

The consolidated financial statements on pages 8 to 54 were approved by the Board of Directors on and were signed on its behalf.

Joseph Albert L. Gotuaco

Director

2 3 APR 2018

Archie Lin

Director

2 3 APR 2018

The notes on pages 13 to 54 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2017

	Share capital HK$'000	*Investment revaluation reserve* HK$'000	*Retained earnings* HK$'000	*Total* HK$'000
At 1 January 2016	75,000	(199)	105,527	180,328
Comprehensive income				
Profit for the year	-	-	2,810	2,810
Other comprehensive income				
Change in fair value of available-for-sale securities, net of tax.	-	310	-	310
Total comprehensive income for the year	-	310	2,810	3,120
At 31 December 2016 and 1 January 2017	75,000	111	108,337	183,448
Comprehensive income				
Profit for the year	-	-	5,853	5,853
Other comprehensive income				
Change in fair value of available-for-sale securities, net of tax.	-	(260)	-	(260)
Total comprehensive income for the year	-	(260)	5,853	5,593
At 31 December 2017	75,000	(149)	114,190	189,041

The notes on pages 13 to 54 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2017

	Note	*2017* $'000	*2016* $'000
Net cash inflow from operating activities before taxation	24	44,795	9,458
Net Hong Kong profits tax paid		(782)	(1,305)
Net cash inflow from operating activities after taxation		44,013	8,153
Investing activities			
Purchase of fixed assets		(347)	(119)
Purchase of held-to-maturity securities		(15,450)	(16,009)
Purchase of available-for-sale securities		(66,959)	(34,955)
Proceeds from redemption/disposal of available-for-sale securities		56,240	44,324
Proceeds from redemption of held-to-maturity securities		25,378	25,500
Net cash (outflow)/inflow from investing activities		(1,138)	18,741
Increase in cash and cash equivalents		42,875	26,894
Cash and cash equivalents at 1 January		248,950	222,056
Cash and cash equivalents at 31 December		291,825	248,950
Analysis of cash and cash equivalents			
Cash in hand	10	490	335
Balances with banks and other financial institutions	10	70,011	66,334
Placement with banks and other financial institutions with original maturity within three months		221,324	182,281
		291,825	248,950

The notes on pages 13 to 54 are an integral part of these consolidated financial statements.

Notes to the financial statements

1 General information

The principal activities of BPI International Finance Limited (the "Company") and its subsidiary (together the "Group") are the provision of financial services and dealing in securities on behalf of customers. The Company is a deposit-taking company registered under the Hong Kong Banking Ordinance and licensed under the Hong Kong Securities and Futures Ordinance for dealing in securities, advising on securities and asset management activities.

The Company is incorporated in Hong Kong and its registered office is 23/F Entertainment Building, 30 Queen's Road Central, Hong Kong.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(i) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

- Amendments to HKAS 7, Statement of cash flows
- Amendments to HKAS 12, Income taxes
- Annual Improvements to HKFRSs 2014-2016 Cycle

The adoption of these amendments did not have any impact on the current period or any prior and is not likely to affect future periods.

2 Summary of significant accounting policies (continued)

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, "Financial instruments"

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement.* HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9. The Group currently does not have any financial assets designated at FVTPL

2 Summary of significant accounting policies (continued)

and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

With respect to the financial assets classified as "available-for-sale" and represented investments in equity securities, the entity has the option to irrevocably designate as FVTOCI (without recycling) on transition to HKFRS 9. If an entity intends to elect this designation option for any of the investments held on 1 January 2018, it will instead recognise any fair value changes in respect of these investments in profit or loss as they arise. This represents a change of accounting treatment as the entity recognises the fair value changes of available-for-sale equity investments in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss under HKAS 39. The Group currently does not have any available-for sale equity investment and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. Based on the initial assessment performed by the Group, validated and reviewed by headquarter and subsequently approved by the Board, it is expected the expected credit loss provisioning has a minimal impact in the financial statement.

2 Summary of significant accounting policies (continued)

HKFRS 15, "Revenue from contracts with customers"

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from investment management contracts.

HKFRS 16, "Leases"

HKFRS 16 will result in almost all lease being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating lease. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$18,003,000 (2016: HK$26,626,000). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

2 Summary of significant accounting policies (continued)

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated into the financial statements from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, the investment in subsidiaries is stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2 Summary of significant accounting policies (continued)

(c) Interest income and expense

Interest income and expense are recognised in the statement of profit and loss and other comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(d) Fee and commission income and expense

Fee and commission income and expense are generally recognised on an accrual basis when the service has been provided.

Service fees represents fees received from customers for custodian services. The fees are calculated based on agreed percentages on the value of client investment portfolio over the servicing period. The fee is recognised on an accrual, time-proportionate basis.

Commission income is recognised on completion of the underlying transactions.

(e) Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, held-to-maturity securities and available-for-sale securities. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables include cash and short-term funds, placements with banks and other financial institutions and advances to customers. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less impairment losses.

2 Summary of significant accounting policies (continued)

(ii) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction cost, and subsequently measured at amortised cost using the effective interest rate method, less any impairment allowance. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

(iii) Available-for-sale securities

Available-for-sale securities are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or not classified in any of the other categories.

Available-for-sale securities are stated at fair value. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income and accumulated separately in equity in the investment revaluation reserve until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in the investment revaluation reserve is recognised in the statement of profit and loss and other comprehensive income. Interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(c).

Purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2 Summary of significant accounting policies (continued)

(f) Impairment of financial assets

(i) Financial assets carried at amortised cost

The Group assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes that asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

2 Summary of significant accounting policies (continued)

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit and loss and other comprehensive income. If the financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, overdue status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit and loss and other comprehensive income.

2 Summary of significant accounting policies (continued)

(ii) Financial assets classified as available-for-sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of profit and loss and other comprehensive income.

(g) Financial liabilities

Financial liabilities are initially recognised at fair value net of transaction costs incurred, and subsequently, carried at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of profit and loss and other comprehensive income over the period of the financial liabilities using the effective interest method.

(h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(i) Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, but are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Fixed assets

Fixed assets are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

2 Summary of significant accounting policies (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged in the statement of profit and loss and other comprehensive income during the financial period in which they are incurred.

Depreciation of fixed assets is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold improvements	over the remaining period of lease
Furniture, fixtures and equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(k) Current and deferred income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2 Summary of significant accounting policies (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investment in subsidiary to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Summary of significant accounting policies (continued)

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are recognised when the absences occur.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes under Mandatory Provident Fund ("MPF") schemes that are available to the Group's employees. Contributions to the schemes by the Group and employees are calculated in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the statement of profit and loss and other comprehensive income as incurred and represent contributions payable by the Group to the schemes.

The assets of the schemes are held in independently-administered funds separate from those of the Group.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(n) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions are recognised directly in the statement of profit and loss and other comprehensive income. Assets and liabilities denominated in foreign currencies are translated at the closing rate at the balance sheet date. The differences arising from translation are recognised in the statement of profit and loss and other comprehensive income except for translation differences on non-monetary items such as debit securities classified as available for-sale securities are included in the other comprehensive income, and accumulated in investment revaluation reserve in equity.

2 Summary of significant accounting policies (continued)

(o) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the statement of profit and loss and other comprehensive income on a straight-line basis over the period of the lease.

(p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When the inflow is virtually certain, it will be recognised as an asset.

(q) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash and balances with banks and other financial institutions.

2 Summary of significant accounting policies (continued)

(r) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

   (i) has control or joint control over the Group;

   (ii) has significant influence over the Group; or

   (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

   (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

   (iii) Both entities are joint ventures of the same third party.

   (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

   (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

   (vi) The entity is controlled or jointly controlled by a person identified in (a).

   (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

   (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(s) Fiduciary activities

The Group commonly acts in a fiduciary capacity that results in the holding or placing of assets on behalf of individuals and other institutions. These assets and income arising thereon are excluded from the consolidated financial statements, as they are not assets of the Group.

3 Financial and operational risk management

The Group's activities are principally related to the use of financial instruments. It accepts deposits from customers, seeks to earn interest margins by investing these funds in high-quality assets and obtaining above-average margins through lending to commercial borrowers.

The Group's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk and interest rate risk) and liquidity risk. Information related to the risk the Group is exposed to and its management and control of the primary risk associated with the use of financial instruments are set out below:

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk arising from the possibility that borrowing customers or counterparties in a transaction may default on their payment obligations. It arises from the lending, other activities undertaken by the Group.

The Group has no significant concentrations of credit risk on individual customer. Due to nature of the business of the Group, the Group has geographical concentration of advances to customers (Note 3.1 (b)(ii)). Policies and procedures for credit evaluation, approval, documentation, implementation, safekeeping, servicing, administration, collection, and impairment allowances are formalised and approved by the Board of Directors of the Company. Compliance with these policies/procedures is independently reviewed by Group's internal auditors with formal reporting on the results of examinations to Board of Directors of the Company. Risk Management Committee ("RMC") is responsible for the monitoring of the Company's credit risk.

(a) Maximum exposures to credit risk before collateral held or other enhancements are summarised as follows:

	2017 HK$'000	*2016* HK$'000
On-balance sheet assets		
Short-term funds	122,734	152,542
Placements with banks and other financial institutions maturing between one and twelve months	188,005	124,057
Held-to-maturity securities	19,491	29,662
Advances and other accounts	24,439	24,606
Available-for-sale securities	104,230	93,734
Off-balance sheet items		
Loan commitment and contingent liabilities	31,453	34,577
	490,352	459,178

3 Financial and operational risk management (continued)

The maximum exposure is a worst case scenario of credit risk exposure to the Group without taking account of any collateral held or other credit enhancements. For on-balance sheet assets, the maximum exposure to credit risk equals their carrying amount. For loan commitment and other credit related liabilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The nature of the collateral held and other credit enhancements and their financial effect to the different classes of the Group's financial assets are as follows:

(i) Short term funds and placements with banks and other financial institutions maturing between one and twelve months

These exposures are generally considered to be low risk due to the nature of the counterparties and take into account of credit quality. Collateral is generally not sought on these assets.

(ii) Held-to-maturity securities and available-for-sale securities

Collateral is generally not sought on debt securities.

(iii) Advances and other accounts, loan commitments and contingent liabilities

The general types of collateral are investment securities and cash deposits. Advances and other accounts, loan commitments are collateralised to the extent considered appropriate by the Group taking account of the risk assessment of individual exposures. The advances to customers are fully collateralised at all time. The Group monitors the market value of the investment securities and ensure that the loan to value ratio is within pre-set limits. The components and nature of contingent liabilities and commitments are disclosed in Note 22. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would assess the necessity to withdraw the credit line in case where the credit quality of a borrower deteriorates. Accordingly, these commitments do not expose the Group to significant credit risk.

(b) Gross advances to customers

(i) Gross advances by customer type

	2017 HK$'000	*2016* HK$'000
Personal loans	17,754	17,986

As at balance sheet date, there are no loans and advances to customers which are past due or impaired. There are no rescheduled advances as at 31 December 2017 and 2016.

3 Financial and operational risk management (continued)

(ii) Geographical concentration of gross advances to customers

The following geographical analysis of gross advances to customers is based on the country of residence of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

	2017 HK$'000	2016 HK$'000
The Philippines	17,754	17,986

(c) Debt securities that are neither past due nor impaired

The table below presents an analysis of debt securities by rating agency designation at 31 December, based on the Moody's ratings or their equivalent that the Group has used in relation to credit risk exposures. Refer to Notes 12 and 14 for the analysis on the debt securities by type of issuers.

2017	*Available-for-sale securities* HK$'000	*Held-to-maturity securities* HK$'000	*Total* HK$'000
Aaa	7,789	15,458	23,247
Aa1 to Aa3	14,218	-	14,218
A1 to A3	41,187	-	41,187
Below A3 and above C	41,036	4,033	45,069
	104,230	19,491	123,721

2016	*Available-for-sale securities* HK$'000	*Held-to-maturity securities* HK$'000	*Total* HK$'000
Aaa	23,145	-	23,145
Aa1 to Aa3	20,858	-	20,858
A1 to A3	23,984	16,107	40,091
Below A3 and above C	24,130	13,555	37,685
Unrated	1,617	-	1,617
	93,734	29,662	123,396

There are no overdue debt securities as at 31 December 2017 (2016: nil).

3 Financial and operational risk management (continued)

3.2 Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Group's exposures to market risk for the non-trading portfolios primarily arise from the interest rate management of the Group's assets and liabilities. Non-trading portfolios also consist of foreign exchange and credit risks arising from the Group's held-to-maturity and available-for-sale investments. Analysis of the Group's currency risk and interest rate risk are stated in Note 3.2(a) and 3.2(b) below, respectively.

(a) Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Except to cover transactional requirements, the Group does not hold positions for trading purposes.

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December. Included in the tables are the Group's assets and liabilities at carrying amounts in Hong Kong dollar equivalent, categorised by the original currency.

	2017			
	HKD	*USD*	*Other*	*Total*
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Cash and short-term funds	58,078	63,225	1,431	122,734
Placements with banks and other financial institutions maturing between one and twelve months	17,407	144,039	26,559	188,005
Held-to-maturity securities	-	19,491	-	19,491
Advances and other accounts	3,955	20,384	100	24,439
Current tax assets	-	-	-	-
Available-for-sale securities	-	102,974	1,256	104,230
Fixed assets	185	-	-	185
Deferred tax assets	1	-	-	1
Total assets	79,626	350,113	29,346	459,085
Liabilities				
Deposits from customers	257	230,263	29,173	259,693
Other payables	2,728	7,445	3	10,176
Tax payable	175	-	-	175
Total liabilities	3,160	237,708	29,176	270,044
Net on-balance sheet position	76,466	112,405	170	189,041
Credit commitments	-	31,453	-	31,453

3 Financial and operational risk management (continued)

	2016			
	HKD	*USD*	*Other*	*Total*
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Cash and short-term funds	31,483	117,729	3,330	152,542
Placements with banks and other financial institutions maturing between one and twelve months	26,814	75,296	21,947	124,057
Held-to-maturity securities	16,107	13,555	-	29,662
Advances and other accounts	3,765	20,749	92	24,606
Current tax assets	828	-	-	828
Available-for-sale securities	-	85,734	8,000	93,734
Fixed assets	631	179	-	810
Deferred tax assets	202	-	-	202
Total assets	79,830	313,242	33,369	426,441
Liabilities				
Deposits from customers	257	203,182	33,173	236,612
Other payables	3,733	2,058	5	5,796
Tax payable	585	-	-	585
Total liabilities	4,575	205,240	33,178	242,993
Net on-balance sheet position	75,255	108,002	191	183,448
Credit commitments	-	34,577	-	34,577

(b) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of change in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movement arise. The Assets and Liabilities Committee ("ALCO") regularly meets to review historical information and make forecasts. Once a month, a formal report of average rates of interest income and expenses are presented to the senior management of the Group.

3 Financial and operational risk management (continued)

The tables below summarise the Group's exposure to interest rate risk as at 31 December. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates (other than non-interest bearing balances).

	2017						
	Up to 1 month HK$'000	*1-3 months* HK$'000	*3 - 12 months* HK$'000	*1- 5 years* HK$'000	*Over 5 years* HK$'000	*Non-interest bearing* HK$'000	*Total* HK$'000
Assets							
Cash and short-term funds	122,244	-	-	-	-	490	122,734
Placements with banks and other financial institutions maturing between one and twelve months	-	169,091	18,914	-	-	-	188,005
Held-to-maturity securities	-	-	15,458	4,033	-	-	19,491
Advances and other accounts	2,744	3,945	11,065	-	-	6,685	24,439
Current tax assets							
Available-for-sale securities	8,039	10,191	14,150	68,004	3,846	-	104,230
Fixed assets						185	185
Deferred tax assets	-	-	-	-	-	1	1
Total assets	133,027	183,227	59,587	72,037	3,846	7,361	459,085
Liabilities							
Deposits from customers	75,940	174,631	9,122	-	-	-	259,693
Other payables	-	-	-	-	-	10,176	10,176
Tax payable	-	-	-	-	-	175	175
Total liabilities	75,940	174,631	9,122	-	-	10,351	270,044
Interest sensitivity gap	57,087	8,596	50,465	72,037	3,846		

3 Financial and operational risk management (continued)

	2016						
	Up to 1 month HK$'000	*1-3 months* HK$'000	*3 - 12 months* HK$'000	*1- 5 years* HK$'000	*Over 5 years* HK$'000	*Non-interest bearing* HK$'000	*Total* HK$'000
Assets							
Cash and short-term funds	152,207	-	-	-	-	335	152,542
Placements with banks and other financial institutions maturing between one and twelve months	-	96,407	27,650	-	-	-	124,057
Held-to-maturity securities	9,529	8,580	7,526	4,027	-	-	29,662
Advances and other accounts	3,811	3,954	10,221	-	-	6,620	24,606
Current tax assets	-	-	-	-	-	828	828
Available-for-sale securities	4,709	11,639	31,125	45,471	790	-	93,734
Fixed assets	-	-	-	-	-	810	810
Deferred tax assets	-	-	-	-	-	202	202
Total assets	170,256	120,580	76,522	49,498	790	8,795	426,441
Liabilities							
Deposits from customers	44,809	130,323	61,480	-	-	-	236,612
Other payables	-	-	-	-	-	5,796	5,796
Tax payable	-	-	-	-	-	585	585
Total liabilities	44,809	130,323	61,480	-	-	6,381	242,993
Interest sensitivity gap	125,447	(9,743)	15,042	49,498	790		

(c) Market risk sensitivity analysis

(i) Currency risk

As at 31 December 2017 and 2016, the Group's foreign currency exposure is mainly to US dollar. As HK dollar and USD dollar are pegged, it is expected that any movements in the exchange rate will have minimal impact to the earnings of the Group.

(ii) Interest rate risk

The Group's interest rate risk mainly arises from the timing differences in the repricing of interest bearing assets, liabilities and off-balance sheet positions.

The Group is principally exposed to HK dollar, US dollar, and Australian dollar in terms of interest rate risk. At 31 December 2017, if HK dollar, US dollar, and Australia dollar market interest rates had been 50 basis point lower/higher with other variables held constant, earnings of the Group over the next 12 months would be reduced/increased by HK$56,394 (2016: HK$242,952).

3 Financial and operational risk management (continued)

3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and other creditors and fulfil commitments to lend.

(a) Liquidity risk management process

The liquidity condition of the Group 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 liquidity management processes are as below:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met.
- Performing periodic liquidity stress testing on Company's liquidity position by assuming a faster rate of withdrawals in its deposit base.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flows.
- Monitoring liquidity gaps against internal and regulatory requirements.

3 Financial and operational risk management (continued)

(b) Maturity analysis

The tables below analyse assets and liabilities of the Group as at 31 December into relevant maturity groupings based on the remaining period at 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 Group manages the inherent liquidity risk based on expected undiscounted cash flows.

	2017							
	Repayable on demand HK$'000	*Up to 1month* HK$'000	*1 - 3 months* HK$'000	*3-12 months* HK$'000	*1-5 years* HK$'000	*Over 5 years* HK$'000	*Undated* HK$'000	*Total* HK$'000
Assets								
Cash and short-term funds	122,734	-	-	-	-	-	-	122,734
Placements with banks and other financial institutions maturing between one and twelve months	-	33	169,455	19,220	-	-	-	188,708
Held-to-maturity securities	-	-	-	15,630	4,323	-	-	19,953
Advances and other accounts	2,774	3,157	4,103	13,927	656	-	35	24,652
Current tax assets								
Available-for-sale securities	-	7,833	10,175	14,369	71,276	4,795	-	108,448
Fixed assets	-	-	-	-	-	-	185	185
Deferred tax assets	-	-	-	-	-	-	1	1
Total assets	125,508	11,023	183,733	63,146	76,255	4,795	221	464,681
Liabilities								
Deposits from customers	-	75,965	174,837	9,155	-	-	-	259,957
Other payables	824	7,443	1,172	270	467	-	-	10,176
Tax payable	-	-	-	175	-	-	-	175
Total liabilities	824	83,408	176,009	9,600	467	-	-	270,308
Net liquidity gap	124,684	(72,385)	7,724	53,546	75,788	4,795	221	194,373

3 Financial and operational risk management (continued)

	2016							
	Repayable on demand HK$'000	*Up to 1month* HK$'000	*1 - 3 months* HK$'000	*3-12 months* HK$'000	*1-5 years* HK$'000	*Over 5 years* HK$'000	*Undated* HK$'000	*Total* HK$'000
Assets								
Cash and short-term funds	66,669	85,918	-	-	-	-	-	152,587
Placements with banks and other financial institutions maturing between one and twelve months	-	-	96,599	27,967	-	-	-	124,566
Held-to-maturity securities	-	9,552	8,595	7,623	4,455	-	-	30,225
Advances and other accounts	-	4,158	4,031	13,357	624	-	2,661	24,831
Current tax assets	-	-	-	-	-	-	828	828
Available-for-sale securities	-	4,716	11,658	31,505	48,165	937	-	96,981
Fixed assets	-	-	-	-	-	-	810	810
Deferred tax assets	-	-	-	-	-	-	202	202
Total assets	66,669	104,344	120,883	80,452	53,244	937	4,501	431,030
Liabilities								
Deposits from customers	-	44,823	130,434	61,778	-	-	-	237,035
Other payables	2,037	2,394	-	815	467	-	83	5,796
Tax payable	-	-	-	-	-	-	585	585
Total liabilities	2,037	47,217	130,434	62,593	467	-	668	243,416
Net liquidity gap	64,632	57,127	(9,551)	17,859	52,777	937	3,833	187,614

(c) Off-balance sheet items

Loan commitments

The contractual amounts of the Group's off-balance sheet financial instruments as at 31 December 2017 that commit it to extend credit to customers and other facilities amounted to HK$31,453,240 (2016: HK$34,577,055) and mature within 1 year.

3.4 *Fair value of financial assets and liabilities*

(a) Financial Instrument carried at other than fair value

The financial assets and liabilities not presented at fair value in the Group's consolidated statement of financial position are estimated as follows:

(i) Balances and placements with banks

The maturities of these financial assets are within one year and the carrying value approximates fair value.

(ii) Advances and other accounts

The maturities of most of the advances and other accounts are within one year and their carrying value approximates fair value.

3 Financial and operational risk management (continued)

(iii) Deposits from customers

All the deposits from customers mature within one year from balance sheet date and their carrying value approximates fair value.

(iv) Other payables

The carrying amount of other payables, which are normally repayable within one year, approximate to their fair value.

The following table summarises the carrying amounts and fair values of the financial assets and liabilities, apart from those disclosed above, not presented on the Group's consolidated statement of financial position at their fair value.

The Group

	Carrying value		*Fair value*	
	2017	*2016*	*2017*	*2016*
	HK$'000	HK$'000	HK$'000	HK$'000
Held-to-maturity securities	19,491	29,662	19,474	29,723

Fair value for held-for-maturity securities is based on quoted market prices or broker/ dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(b) Financial instruments measured at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter market) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

3 Financial and operational risk management (continued)

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2017.

	2017			
	Level 1 HK$'000	*Level 2* HK$'000	*Level 3* HK$'000	*Total* HK$'000
Financial assets				
Available-for sale securities				
- Debt securities	65,196	39,034	-	104,230
Total	65,196	39,034	-	104,230

	2016			
	Level 1 HK$'000	*Level 2* HK$'000	*Level 3* HK$'000	*Total* HK$'000
Financial assets				
Available-for sale securities				
- Debt securities	19,999	73,735	-	93,734
Total	19,999	73,735	-	93,734

There were no transfers between levels 1 and 2 during the year.

Level 1 fair value of debt securities have been determined based on regular trading activity on exchange and active over the counter broker market. Level 2 fair values of debt securities have been determined based on quotes from brokers supported by observable inputs.

3 Financial and operational risk management (continued)

3.5 Capital management

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of statement of financial position, are:

- To comply with the capital requirements under the Banking (Capital) Rule of the Hong Kong Banking Ordinance;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To allocate capital in an efficient and risk based approach to optimize risk adjusted return to the shareholders; and
- To maintain a strong capital base to support the development of its business.

For the Company's funding requirements, it relies principally on time deposits from customers and parent bank as well as internally generated capital. The Company adopts a prudent policy on capital management and the funding position is monitored and reviewed regularly to ensure it is at a reasonable cost.

The Hong Kong Banking Ordinance requires each authorized institution to maintain a ratio of total regulatory capital to the risk-weighted assets (the capital adequacy ratio) at or above the minimum of 8%.

During the year ended 31 December 2017 and 2016, the Company complied with the capital requirements under the Hong Kong Banking Ordinance.

3.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external sources. Operational risk management (ORM) involves the management of all business processes, employees and manual and automated systems to minimise the adverse effects of these risks.

The Group has put in place an internal control process that requires the establishment of policies and procedures for key business activities. Proper segregation of duties and authorisation are the fundamental principles followed by the Group. It is the duty of every employee to manage the risks inherent to his functions. The supervisors have the primary responsibility to monitor compliance with existing ORM policies, standards, guidelines and procedures.

Business continuity plans are in place to support business operations in the event of emergency or disaster.

4 Critical accounting estimates and assumptions

The Group makes certain assumptions and estimates in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Held-to-maturity securities

The Group follows the guidance of HKAS 39 on classifying on-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would then be measured at fair value instead of amortised cost.

(b) Impairment assessment on investments in debt securities included in the available-for-sale and held-to-maturity

The Group has conducted assessment of its investments in debt securities included in the available-for-sale ("AFS"), and held-to-maturity ("HTM") categories as of the end of the year and up to the date of the approval of the consolidated financial statements of the Group. Assessment for any impairment, on individual basis, is determined based on judgement and judgement is made with reference to the financial strength and credit rating of each issuer, and industry development and market conditions. The Group has concluded that there are no objective or specific indications that any of its AFS, and HTM securities is impaired.

(c) Income taxes

When applying the relevant tax rules, there are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. In these circumstances, judgement is involved in determining the group-wide provision for income taxes. The Group recognises liabilities for expected tax issues based on reasonable estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5 Interest income

	2017 HK$'000	*2016* HK$'000
Interest income on investments in securities	2,497	2,741
Interest income on placements with banks	2,919	1,751
Interest income from advances to customers	438	525
	5,854	5,017

6 Other operating income

	2017 HK$'000	*2016* HK$'000
Service fees and commission income	17,955	14,513
Foreign exchange gains from customer transactions	14,701	12,626
Net gain from dealing in securities	4,946	5,581
Net gain on redemption/disposal of available-for-sale securities	27	-
Other income	7	6
	37,636	32,726

7 Operating expenses

	2017 HK$'000	*2016* HK$'000
Staff costs:		
- Wages and salaries	14,580	13,236
- Unutilised Annual Leaves	191	233
- Pension costs - defined contribution plans	467	342
- Other benefits and allowance	3,549	3,533
Rental of premises	6,744	6,301
Depreciation (Note 16)	972	1,330
Auditor's remuneration	1,008	933
Telecommunication and postage	893	885
Other operating expenses	5,944	5,490
	34,358	32,283

Staff costs include directors' emoluments (Note 8).

8 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2017 HK$'000	*2016* HK$'000
Salaries	2,209	1,226
Housing allowance	-	285
Employer's contribution to a retirement scheme	-	8
	2,209	1,519

9 Income tax expense

Hong Kong profits tax has been calculated at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year.

The amount of taxation charged to profit or loss represents:

	2017 HK$'000	*2016* HK$'000
Current income tax		
– Hong Kong profits tax	1,200	1,045
– Adjustment in respect of prior years	-	(99)
Deferred taxation relating to the origination and reversal of temporary differences (Note 17)	-	(147)
Write-off of deferred tax assets recognised in prior years (Note 17)	223	-
Net charge to profit or loss	1,423	799

The taxation on the Group's profits before taxation differs from the theoretical amount that would arise using the taxation rate in Hong Kong as follows:

	2017 HK$'000	*2016* HK$'000
Profit before taxation	7,276	3,609
Calculated at a taxation rate of 16.5% (2016: 16.5%)	1,201	595
Income not subject to taxation	(3)	(2)
Expenses not deductible for taxation purpose	43	37
Adjustment in respect of prior years	(41)	(99)
Unused tax loss not recognised	-	268
Write-off of deferred tax assets recognised in prior years	223	-
	1,423	799

The tax credit relating to components of other comprehensive income is as follows:

	2017			*2016*		
	Before tax HK$'000	*Tax debit* HK$'000	*After tax* HK$'000	*Before tax* HK$'000	*Tax debit* HK$'000	*After tax* HK$'000
Change in value of available-for-sale investment	(282)	22	(260)	370	(60)	310
Other comprehensive income	(282)	22	(260)	370	(60)	310
Deferred tax asset/(liabilities) (Note 17)		22			(60)	

10 Cash and short-term funds

	2017 HK$'000	*2016* HK$'000
Cash in hand	490	335
Cash and balances with banks and other financial institutions	70,011	66,334
Placements with banks and other financial institutions maturing within one month	52,233	85,873
	122,734	152,542

11 Placements with banks and other financial institutions maturing between one and twelve months

	2017 HK$'000	*2016* HK$'000
Placements with banks and other financial institutions		
- maturing between 1 and 3 months	169,091	96,408
- maturing between 3 and 12 months	18,914	27,649
	188,005	124,057

12 Held-to-maturity securities

	2017 HK$'000	*2016* HK$'000
Debt securities		
– Unlisted and issued by banks and other financial institutions	-	16,106
– Listed outside Hong Kong and issued by banks and other financial institutions	4,033	13,556
– Listed outside Hong Kong and issued by central government	15,458	-
	19,491	29,662
Fair value of unlisted securities	-	16,103
Fair value of listed securities	19,548	13,620
	19,548	29,723

13 Advances and other accounts

	2017 HK$'000	*2016* HK$'000
Advances to customers	17,754	17,986
Other accounts	6,685	6,620
	24,439	24,606

14 Available-for-sale securities

	2017 HK$'000	*2016* HK$'000
At fair value:		
Debt securities		
- Listed outside Hong Kong and issued by banks and other financial institutions	61,615	31,827
- Listed inside Hong Kong and issued by banks and other financial institutions	11,069	7,912
- Listed outside Hong Kong and issued by corporate entities	2,002	1,552
- Listed inside Hong Kong and issued by corporate entities	6,286	7,885
- Listed outside Hong Kong and issued by central government	23,258	37,681
- Unlisted and issued by banks and other financial institutions	-	6,877
	104,230	93,734

15 Subsidiary

The following is a list of the principal subsidiary at 31 December 2017:

Name	*Proportion of ordinary shares directly held by the company (%)*	*Proportion of ordinary shares held by the Group (%)*	*Proportion of ordinary shares held by non-controlling interests (%)*	*Proportion of preference shares held by the Group (%)*
BPI Remittance Centre (HK) Limited	100.00%	100.00	-	-

The following is a list of the principal subsidiaries at 31 December 2016:

Name	*Proportion of ordinary shares directly held by the company (%)*	*Proportion of ordinary shares held by the Group (%)*	*Proportion of ordinary shares held by non-controlling interests (%)*	*Proportion of preference shares held by the Group (%)*
BPI Nominees Limited	50.00%	100.00%	-	-
BPI Remittance Centre (HK) Limited	99.99%	100.00%	-	-
Begara Company Limited	100.00%	100.00%	-	-
Hilldale Company Limited	100.00%	100.00%	-	-

Begara Company Limited and Hilldale Company Limited have been deregistered on 13 January 2017. BPI Nominees Limited has been deregistered on 15 September 2017.

16 Fixed assets

	Leasehold improvements HK$'000	*Furniture, fixtures and equipment* HK$'000	*Total* HK$'000
At 1 January 2016			
Cost	2,677	1,635	4,312
Accumulated depreciation	(1,373)	(917)	(2,290)
Net book amount	1,304	718	2,022
Year ended 31 December 2016			
Opening net book amount	1,304	718	2,022
Additions	39	80	119
Written off	-	(1)	(1)
Depreciation charge	(895)	(435)	(1,330)
Closing net book amount	448	362	810
At 31 December 2016 and 1 January 2017	448	362	810
Cost	2,716	1,691	4,407
Accumulated depreciation	(2,268)	(1,329)	(3,597)
Net book amount	448	362	810
Year ended 31 December 2017			
Opening net book amount	448	362	810
Additions	99	248	347
Depreciation charge	(547)	(425)	(972)
Closing net book amount	-	185	185
At 31 December 2017			
Cost	2,814	1,847	4,661
Accumulated depreciation	(2,814)	(1,662)	(4,476)
Net book amount	-	185	185

17 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2016: 16.5%).

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2017 HK$'000	*2016* HK$'000
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	1	224
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	-	22

The movement on the deferred tax assets/(liabilities) are as follows:

	2017 HK$'000	*2016* HK$'000
Deferred tax assets		
At 1 January	224	115
Charged to statement of profit and loss and other comprehensive income (Note 9)	(223)	147
Credit directly to equity	-	(38)
At 31 December	1	224
Deferred tax liabilities		
At 1 January	22	-
Charged directly to equity	(22)	22
At 31 December	-	22

As at 31 December 2017, deferred tax assets on the consolidated statement of financial position is comprised of temporary differences from accelerated tax depreciation.

17 Deferred taxation (continued)

	Investment revaluation reserve for available-for-sale securities		*Accelerated tax depreciation*		*Total*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Deferred tax assets						
At 1 January	-	38	224	77	224	115
Recognised in the statement of profit and loss and other comprehensive income	-	(38)	(223)	147	(223)	109
At 31 December	-	-	1	224	1	224
Deferred tax liabilities						
At 1 January	22	-	-	-	22	-
Recognised in the statement of profit and loss and other comprehensive income	(22)	22	-	-	(22)	22
At 31 December	-	22	-	-	-	22

18 Share capital

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	*Share capital* HK$'000
At 1 January 2016, 31 December 2016 and 31 December 2017	75,000	75,000

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Group do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group. All ordinary shares rank equally with regard to the Group's residual assets.

19 Reserves

The Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 11 of the consolidated financial statements.

As at 31 December 2017, an amount of HK$1,691,649(2016: HK$1,691,649) was earmarked from retained earnings as a regulatory reserve. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve, if any, are made directly through retained earnings following consultation with the Hong Kong Monetary Authority.

20 Lease commitments

At 31 December the future aggregate minimum lease payment under non-cancellable operating leases in respect of the premises is as follows:

	2017 HK$'000	*2016* HK$'000
No later than one year	11,877	11,649
Later than one year and no later than five years	6,127	14,977
	18,004	26,626

21 Off-balance sheet exposures

Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment as at 31 December:

	2017 HK$'000	*2016* HK$'000
Loan commitments with an original maturity of under 1 year or which are unconditionally cancellable	31,453	34,577
	31,453	34,577

22 Loans to officers

There is no loan made to officers as pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32).

23 Related party transactions

Following transaction was carried out with related parties:

(a) Transaction amount during the year with related parties:

	2017 HK$'000	*2016* HK$'000
Interest income generated from the cash and placement with the ultimate holding company	38	19
System services charge from ultimate holding company	2,026	1,405
	2,064	1,424

System service charge represents charges for usage of ultimate holding company's remittance system. Charges are calculated based on a fixed fee per remittance transaction executed though the system.

(b) Year-end balances with related parties:

	Note	*2017* HK$'000	*2016* HK$'000
Bank balance held in ultimate holding company	(a)	12,804	4,035
Accounts payable to ultimate holding company	(b)	-	996
Other payable to ultimate holding company	(c)	131	129
		12,935	5,160

(a) The bank balance held with the ultimate holding company which is a bank in the Republic of the Philippines. The balance are unsecured in nature and interest-bearing at commercial rate.

(b) The accounts payables to ultimate holding company arise mainly from remittance transaction for customer. The payables are repayable within the next working day in the Philippines.

(c) The other payables to ultimate holding company represents fees payable for usage of remittance system owned by the ultimate holding company. The payables are repayable on demand.

23 Related party transactions (continued)

(c) Key management compensation:

Key management includes director, heads of departments. The compensation paid or payable to key management for employee services is shown below:

	2017 HK$'000	*2016* HK$'000
Salaries and other short-term employee benefits	8,222	8,115

Director compensation is also disclosed in note 8 to the financial statements.

24 Note to the cash flow statement

Reconciliation of profit before taxation to net cash inflow from operating activities:

	2017 HK$'000	*2016* HK$'000
Profit before taxation	7,276	3,609
Net interest income	(3,998)	(3,166)
Depreciation of fixed assets	972	1,330
Net gain on disposal of available-for-sale securities	(27)	-
Written off of fixed assets	-	1
Interest received	6,066	6,776
Interest paid	(1,830)	(1,878)
Operating cash inflow before changes in operating assets and liabilities	8,459	6,672
Change in placements with banks and other financial institutions with original maturity over three months	8,735	(4,269)
Change in advances and other accounts	166	22,431
Change in deposits from customers	23,055	(14,307)
Change in other payables	4,380	(1,069)
Net cash inflow from operating activities	44,795	9,458

25 Immediate and ultimate holding company

The immediate and ultimate holding company is Bank of the Philippine Islands, a bank incorporated and listed in the Republic of the Philippines. This entity produces consolidated financial statements available for public use.

26 Statement of financial position and reserve movement of the Company

Statement of financial position of the Company

	2017 HK$'000	*2016* HK$'000
Assets		
Cash and short-term funds	90,354	124,672
Placements with banks and other financial institutions maturing between one and twelve months	188,005	124,057
Held-to-maturity securities	19,491	29,662
Advances and other accounts	23,582	23,757
Current tax assets	-	828
Available-for-sale securities	104,230	93,734
Investment in subsidiaries	500	500
Fixed assets	170	774
Deferred tax assets	-	201
Total assets	426,332	398,185
Liabilities		
Deposits from customers	259,693	236,612
Other payables	8,992	3,434
Total liabilities	268,685	240,046
Equity		
Share capital	75,000	75,000
Retained earnings	82,796	83,028
Investment revaluation reserve	(149)	111
	157,647	158,139
Total equity and liabilities	426,332	398,185

The statement of financial position of the Company was approved by the Board of Directors on 23 APR 2018 and was signed on its behalf

Joseph Albert L. Gotuaco
Director

Archie Lin
Director

26 Statement of financial position and reserve movement of the Company (continued)

Reserve movement of the Company

	Retained earnings HK$'000	*Investment revaluation reserve* HK$'000	*Total* HK$'000
At 1 January 2016	85,603	(199)	85,404
Loss for the year	(2,575)	-	(2,575)
Change in fair value of available-for-sale securities, net of tax	-	310	310
At 31 December 2016	83,028	111	83,139
At 1 January 2017	83,028	111	83,139
Loss for the year	(232)	-	(232)
Change in fair value of available-for-sale securities, net of tax	-	(260)	(260)
At 31 December 2017	82,796	(149)	82,647

27 Approval of financial statements

The financial statements were approved by the board of directors on 23 APR 2018

BPI International Finance Limited
Unaudited Supplementary Information

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements.

1 Liquidity Position

	2017	*2016*
Average liquidity maintenance ratio	503.03%	643.92%

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 HKMA.

Liquidity risk management process

The liquidity condition of the Group is monitored on a daily basic 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.

2 Other than functional currency concentrations

	EUR HK$'000	*US$* HK$'000	*GBP* HK$'000	*AUD* HK$'000	*PHP* HK$'000	*Total* HK$'000
Equivalent in Hong Kong dollars 2017						
Spot assets	30	350,113	31	29,176	108	379,458
Spot liabilities	-	(237,709)	-	(29,172)	(3)	(266,884)
Net long position	30	112,404	31	4	105	112,574
Net structural position		-				-
Equivalent in Hong Kong dollars 2016						
Spot assets	405	313,242	51	32,838	75	346,611
Spot liabilities	(384)	(205,240)	-	(32,788)	(6)	(238,418)
Net long position	21	108,002	51	50	69	108,193
Net structural position		-				-

3 Non-Bank Mainland China Exposures

The analysis of mainland activities exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the Hong Kong Monetary Authority ("HKMA") under the Banking (Disclosure) Rules with reference to the HKMA Return of Mainland activities. This includes the mainland activities exposures extended by the Bank and its mainland banking subsidiary.

2017	*On-balance sheet exposure*	*Off-balance sheet exposure*	*Total exposure*
1. Central government, central government-entities and their subsidiaries and JVs	6,286	-	6,286
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
	6,286	-	6,286
Total assets after provision	424,640		
On-balance sheet exposures as percentage of total assets	1.48%		

3 Non-Bank Mainland China Exposures (continued)

2016	*On-balance sheet exposure*	*Off-balance sheet exposure*	*Total exposure*
1. Central government, central government-entities and their subsidiaries and JVs	6,269	-	6,269
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
	6,269	-	6,269
Total assets after provision	396,515		
On-balance sheet exposures as percentage of total assets	1.58%		

4 Capital structure and adequacy

The calculation of the capital adequacy ratio as at 31 December 2017 and 2016 is based on the Banking (Capital) Rules ("BCR"). The capital adequacy ratio represent the consolidated ratio of the Company and BPI Remittance Centre (HK) Limited computed in accordance with section 3C(1) of the BCR.

4 Capital structure and adequacy (continued)

The table below presents the statement of financial position based on the accounting scope of consolidation and the regulatory scope of the consolidation respectively as at 31 December 2017.

	As at 31 December 2017	
	Consolidated statement of financial position as in published consolidated financial statements HK$'000	*Under regulatory scope of consolidation* HK$'000
Assets		
Cash and short-term funds	122,734	122,734
Placements with banks and other financial institutions maturing between one and twelve months	188,005	188,005
Held-to-maturity securities	19,491	19,491
Advances and other accounts	24,439	24,439
Current tax assets	-	-
Available-for-sale securities	104,230	104,230
Investment in associate	-	-
Fixed assets	185	185
Deferred tax assets	1	1
Total assets	459,085	459,085
Liabilities		
Time deposits from customers	259,693	259,693
Other payables	10,176	10,176
Tax payable	175	175
Total liabilities	270,044	270,044
Shareholders' Equity		
Equity attributable to shareholders	189,041	189,041
Non-controlling interests	-	-
Total shareholders' equity	189,041	189,041
Total liabilities and shareholders' equity	459,085	459,085

4 Capital structure and adequacy (continued)

The table below shows the reconciliation of the capital components from statement of financial position based on regulatory scope of the consolidation to the Capital Disclosures Template.

	As at 31 December 2017		
	Consolidated balance sheet as in published consolidated financial statements HK$'000	*Under regulatory scope of consolidation* HK$'000	*Cross reference to definition of capital components*
Assets			
Cash and short-term funds	122,734	122,734	
Placements with hanks and other financial institutions maturing between one and twelve months	188,005	188,005	
Held-to-maturity securities	19,491	19,491	
Advances and other accounts	24,439	24,439	
Current tax assets	-	-	
Available-for-sale securities	104,230	104,230	
Investment in associate	-	-	
Fixed assets	185	185	
Deferred tax assets	1	1	
of which: deferred tax assets	1	1	(1)
Total assets	459,085	459,085	
Liabilities			
Time deposits from customers	259,693	259,693	
Other payables	10,176	10,176	
Tax payable	175	175	
Total liabilities	270,044	270,044	

4 Capital structure and adequacy (continued)

	As at 31 December 2017		
	Consolidated balance sheet as in published consolidated financial statements HK$'000	*Under regulatory scope of consolidation* HK$'000	*Cross reference to definition of capital components*
Shareholders' Equity			
Equity attributable to shareholders	189,041	189,041	
of which: paid-in share capital	75,000	75,000	(2)
retained earnings	114,190	114,190	(3)
of which: Regulatory reserve for general banking risk	1,692	1,692	(4)
disclosed reserve	(149)	(149)	(5)
Non-controlling interests	-	-	
Total shareholders' equity	189,041	189,041	
Total liabilities and shareholders' equity	459,085	459,085	

The Company has already applied full capital deductions under the BCR. The Capital Disclosure Template as at 31 December 2017 is shown as below:

		Component of regulatory capital reported by bank	*Cross-referenced to balance sheet under regulatory scope of consolidation*
	CET1 capital: instruments and reserves		
(1)	Directly issued qualifying CET1 capital instruments plus any related share premium	75,000	
(2)	Retained earnings	114,190	
(3)	Disclosed reserves	(149)	
(4)	*Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)*	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 deductions	189,041	

4 Capital structure and adequacy (continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
	CET1 capital: regulatory deductions		
7	Valuation adjustments		
8	Goodwill (net of associated deferred tax liability)		
9	Other intangible assets (net of associated deferred tax liability)		
10	Deferred tax assets net of deferred tax liabilities	1	
11	Cash flow hedge reserve		
12	Excess of total EL amount over total eligible provisions under IRB approach		
13	Gain-on-sale arising from securitization transactions		
14	Gains and losses due to changes in own credit risk on fair 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 statement of financial position)		
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 regulatory consolidation (amount above 10% threshold)		
19	Significant capital investments in CET1 capital instruments by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the common stock of financial sector entities	Not applicable	
24	of which: mortgage servicing rights	Not applicable	
25	of which: deferred tax assets arising from temporary differences	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	1,692	
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	1,692	
26c	Securitization exposures specified in a notice given by the Monetary Authority		

4 Capital structure and adequacy (continued)

		Component of regulatory capital reported by bank	*Cross-referenced to balance sheet under regulatory scope of consolidation*
	CET1 capital: regulatory deductions (continued)		
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 CETI capital due to insufficient AT1 capital and Tier 2 capital to cover deductions		
28	Total regulatory deductions to CET1 capital	1,692	
29	CET1 capital	187,349	
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 arrangementsfromAT1 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		
37	Investments in own AT1 capital instruments		
38	Reciprocal cross-holdings in AT1 capital instruments		
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation		
41	National specific regulatory adjustments applied to AT1 capital		
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions		
43	Total regulatory deductions to AT1 capital		
44	AT1 capital		
45	Tier 1 capital (Tier 1 = CET1 + AT1)	187,349	

4 Capital structure and adequacy (continued)

		Component of regulatory capital reported by bank	*Cross-referenced to balance sheet under regulatory scope of consolidation*
	AT1 capital: regulatory deductions		
	Tier 2 capital: instruments and provision		
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 impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,692	
51	Tier 2 capital before regulatory deductions	1,600	
	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		
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 deductions to Tier 2 capital	-	
58	Tier 2 capital	1,600	
59	Total capital (Total capital = Tier 1 +Tier 2)	188,949	
60	Total risk weighted assets	196,325	

4 Capital structure and adequacy (continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
	Capital ratios (as a percentage of risk weighted assets)		
61	CET1 capital ratio	95.43%	
62	Tier 1 capital ratio	95.43%	
63	Total capital ratio	96.24%	
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3B of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	10.23%	
65	*of which: capital conservation buffer requirement*	1.25%	
66	*of which: bank specific countercyclical buffer requirement*	0%	
67	*of which: G-SIB or D-SIB buffer requirement*	Not applicable	
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3B of the BCR	82.49%	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	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	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	1	
	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 basic approach and the standardized (credit risk) approach (prior to application of cap)	Not applicable	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	Not applicable	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRE approach (prior to application of cap)	Not applicable	
79	Cap for inclusion of provisions in Tier 2 under the IRE approach	Not applicable	

4 Capital structure and adequacy (continued)

		Component of regulatory capital reported by bank	*Cross-referenced to balance sheet under regulatory scope of consolidation*
	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	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	
82	*Current cap on AT1 capital instruments subject to phase out arrangements*	Not applicable	
83	*Amount excluded. from AT1 capital due to cap (excess over cap after redemptions and maturities)*	Not applicable	
84	*Current cap on Tier 2 capital instruments subject to phase out arrangements*	Not applicable	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	Not applicable	

Notes to the template:

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*	*Basel III basis*
10	Deferred tax assets net of deferred tax liabilities	1	-

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 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 and other credit exposures to connected companies) under Basel III.

4 Capital structure and adequacy (continued)

The amount of the 10% / 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the BCR.

Abbreviations:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

4 Capital structure and adequacy (continued)

The table below presents the statement of financial position based on the accounting scope of consolidation and the regulatory scope of the consolidation respectively as at 31 December 2016.

	As at 31 December 2016	
	Consolidated statement of financial position as in published consolidated financial statements HK$'000	*Under regulatory scope of consolidation* HK$'000
Assets		
Cash and short-term funds	152,542	152,542
Placements with banks and other financial institutions maturing between one and twelve months	124,057	124,057
Held-to-maturity securities	29,662	29,662
Advances and other accounts	24,606	24,606
Current tax assets	828	828
Available-for-sale securities	93,734	93,734
Investment in associate	-	-
Fixed assets	810	810
Deferred tax assets	202	202
Total assets	426,441	426,441
Liabilities		
Time deposits from customers	236,612	236,612
Other payables	5,796	5,796
Tax payable	585	585
Total liabilities	242,993	242,993
Shareholders' Equity		
Equity attributable to shareholders	183,448	183,448
Non-controlling interests	-	-
Total shareholders' equity	183,448	183,448
Total liabilities and shareholders' equity	426,441	426,441

4 Capital structure and adequacy (continued)

The table below shows the reconciliation of the capital components from statement of financial position based on regulatory scope of the consolidation to the Capital Disclosures Template.

	As at 31 December 2016		
	Consolidated balance sheet as in published consolidated financial statements HK$'000	*Under regulatory scope of consolidation* HK$'000	*Cross reference to definition of capital components*
Assets			
Cash and short-term funds	152,542	152,542	
Placements with hanks and other financial institutions maturing between one and twelve months	124,057	124,057	
Held-to-maturity securities	29,662	29,662	
Advances and other accounts	24,606	24,606	
Current tax assets	828	828	
Available-for-sale securities	93,734	93,734	
Investment in associate	-	-	
Fixed assets	810	810	
Deferred tax assets	202	202	
of which: deferred tax assets	*202*	*202*	(1)
Total assets	426,441	426,441	
Liabilities			
Time deposits from customers	236,612	236,612	
Other payables	5,796	5,796	
Tax payable	585	585	
Total liabilities	242,993	242,993	

4 Capital structure and adequacy (continued)

	As at 31 December 2016		
	Consolidated balance sheet as in published consolidated financial statements HK$'000	*Under regulatory scope of consolidation* HK$'000	*Cross reference to definition of capital components*
Shareholders' Equity			
Equity attributable to shareholders	183,448	183,448	
of which: paid-in share capital	75,000	75,000	(2)
retained earnings	108,337	108,337	(3)
of which: Regulatory reserve for general banking risk	1,692	1,692	(4)
disclosed reserve	111	111	(5)
Non-controlling interests	-	-	
Total shareholders' equity	183,448	183,448	
Total liabilities and shareholders' equity	426,441	426,441	

The Company has already applied full capital deductions under the BCR. The Capital Disclosure Template as at 31 December 2016 is shown as below:

		Component of regulatory capital reported by bank	*Cross-referenced to balance sheet under regulatory scope of consolidation*
	CET1 capital: instruments and reserves		
(1)	Directly issued qualifying CETI capital instruments plus any related share premium	75,000	(2)
(2)	Retained earnings	108,337	(3)
(3)	Disclosed reserves	111	(5)
(4)	*Directly issued capital subject to phase out from CETI capital(only applicable to non-joint stock companies)*	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 deductions	183,448	

4 Capital structure and adequacy (continued)

		Component of regulatory capital reported by bank	*Cross-referenced to balance sheet under regulatory scope of consolidation*
	CET1 capital: regulatory deductions		
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liability)	-	
9	Other intangible assets (net of associated deferred tax liability)	-	
10	Deferred tax assets net of deferred tax liabilities	202	(1)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under IRB approach	-	
13	Gain-on-sale arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair 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 statement of financial position)	-	
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 regulatory consolidation (amount above 10% threshold)	-	
19	Significant capital investments in CET1 capital instruments by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the common stock of financial sector entities	Not applicable	
24	of which: mortgage servicing rights	Not applicable	
25	of which: deferred tax assets arising from temporary differences	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	1,692	
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	1,692	(4)
26c	Securitization exposures specified in a notice given by the Monetary Authority	-	

4 Capital structure and adequacy (continued)

		Component of regulatory capital reported by bank	*Cross-referenced to balance sheet under regulatory scope of consolidation*
	CET1 capital: regulatory deductions (continued)		
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 CETI capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	Total regulatory deductions to CET1 capital	1,894	
29	CET1 capital	181,554	
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 arrangementsfromAT1 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	-	
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	Total regulatory deductions to AT1 capital	-	
44	AT1 capital	-	
45	Tier 1 capital (Tier 1 = CET1 + AT1)	181,554	

4 Capital structure and adequacy (continued)

		Component of regulatory capital reported by bank	*Cross-referenced to balance sheet under regulatory scope of consolidation*
	ATI capital: regulatory deductions		
	Tier 2 capital: instruments and provision		
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 impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,692	
51	Tier 2 capital before regulatory deductions	1,552	
	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	-	
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 deductions to Tier 2 capital	-	
58	Tier 2 capital	1,552	
59	Total capital (Total capital = Tier 1 +Tier 2)	183,106	
60	Total risk weighted assets	184,976	

4 Capital structure and adequacy (continued)

		Component of regulatory capital reported by bank	*Cross-referenced to balance sheet under regulatory scope of consolidation*
	Capital ratios (as a percentage of risk weighted assets)		
61	CET1 capital ratio	98.15%	
62	Tier 1 capital ratio	98.15%	
63	Total capital ratio	98.99%	
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3B of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	8.98%	
65	*of which: capital conservation buffer requirement*	0.625%	
66	*of which: bank specific countercyclical buffer requirement*	0.086%	
67	*of which: G-SIB or D-SIB buffer requirement*	Not applicable	
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3B of the BCR	89.17%	
	National minima (if different from Basel 3 minimum)		
69	National CETI minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant capital investments in CET1 capital instruments, ATI capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	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	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	202	
	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 basic approach and the standardized (credit risk) approach (prior to application of cap)	Not applicable	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	Not applicable	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRE approach (prior to application of cap)	Not applicable	
79	Cap for inclusion of provisions in Tier 2 under the IRE approach	Not applicable	

4 Capital structure and adequacy (continued)

		Component of regulatory capital reported by bank	*Cross-referenced to balance sheet under regulatory scope of consolidation*
	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	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	
82	*Current cap on AT1 capital instruments subject to phase out arrangements*	Not applicable	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	Not applicable	
84	*Current cap on Tier 2 capital instruments subject to phase out arrangements*	Not applicable	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	Not applicable	

Notes to the template:

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*	*Basel III basis*
10	Deferred tax assets net of deferred tax liabilities	202	1

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 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 and other credit exposures to connected companies) under Basel III.

4 Capital structure and adequacy (continued)

The amount of the 10% / 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the BCR.

Abbreviations:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

(a) *Risk-weighted amount for credit risk*

The Group uses the basic approach for calculation of credit risk.

	2017 HK$'000	*2016* HK$'000
Sovereign exposures	17,794	16,851
Public Sector Entity exposures	2,002	-
Bank exposures	80,620	75,666
Other exposures	27,559	31,554
Total risk-weighted amount for on-balance sheet exposures	127,975	124,071
Transaction-related contingencies	-	-
Trade-related contingencies	-	-
Total risk-weighted amount for off-balance sheet exposures	-	-
Total risk-weighted amount for credit risk	127,975	124,071

(b) *Risk-weighted amount for market risk*

The Group is exempted from the calculation of market risk in 2017 and 2016.

(c) *Risk-weighted amount for operational risk*

The Group uses the basic indicator approach for calculation of operational risk.

	2017 HK$'000	*2016* HK$'000
Risk-weighted amount for operational risk	68,350	60,788

4 Capital structure and adequacy (continued)

The main Features Template as at 31 December 2017 and 2016 is shown below:

1	Issuer	BPI International Finance Limited
2	Unique identifier (eg CUSIP, !SIN or Bloomberg identifier for private placement)	N.A.
3	Governing law(s) of the instrument *Regulatory treatment*	Hong Kong
4	Transitional Basel III rules•	N.A.
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$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	Noncumulative or cumulative	Noncumulative
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)	N.A.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N.A.

Footnote:

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

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

* Include solo-consolidated

N.A. Not applicable

5 Leverage Ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based backstop limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and management errors. The ratio is a volume-based measure calculated as Basel III tier 1 capital divided by total on-and off-balance sheet exposure. Basel III provides for a transitional period for the introduction of this ratio, comprising a supervisory monitoring period that started in 2011 and a parallel run period from January 2013 to January 2017. The parallel run will be used to access whether the proposed minimum ratio of 3% is appropriate, with a view to migrating to a Pillar 1 requirement from 1 January 2018.

The leverage summary comparison table of the Group as at 31 December 2017 and 2016 are shown as below:

	Leverage ratio framework	
	2017	*2016*
	HK$'000	HK$'000
1. Total consolidated assets as per published financial statements	459,085	426,441
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 statement of financial position pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-
4. Adjustment for derivative financial instruments	-	-
5. Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-	-
6. Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	3,145	3,458
7. Other adjustments	-	-
8. Leverage ratio exposure	462,230	429,899

5 Leverage Ratio (continued)

The leverage ratio common disclosure template of the Group as at 31 December 2017 and 2016 are shown as below:

	Leverage ratio framework	
	2017	*2016*
	HK$'000	HK$'000
On-balance sheet exposures		
1. On-balance sheet items (excluding derivatives and SFTs, but including collateral)	459,085	426,441
2. (Asset amounts deducted in determining Basel III Tier 1 capital)		-
3. Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	459,085	426,441
Derivative exposures		
4. Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-	-
5. Add-on amounts for PFE associated with all derivatives transactions	-	-
6. Gross-up for derivatives collateral provided where deducted from the statement of financial position's assets pursuant to the operative accounting framework	-	-
7. (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8. (Exempted CCP leg of client-cleared trade exposures)	-	-
9. Adjusted effective notional amount of written credit derivatives	-	-
10. (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11. Total derivative exposures (sum of lines 4 to 10)	-	-
Securities financing transactions exposures		
12. Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13. (Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14. CCR exposure for SET assets	-	-
15. Agent transaction exposures	-	-
16. Total securities financing transaction exposures (sum of lines 12 to 15)	-	-

5 Leverage Ratio (continued)

The leverage ratio common disclosure template of the Group as at 31 December 2017 and 2016 are shown as below:

	Leverage ratio framework	
	2017	*2016*
	HK$'000	HK$'000
Other off-balance sheet exposures		
17. Off-balance sheet exposure at gross notional amount	31,453	34,577
18. (Adjustments for conversion to credit equivalent amounts)	(28,308)	(31,119)
19. Off-balance sheet items (sum of lines 17 and 18)	3,145	3,458
Capital and total exposures		
20. Tier 1 capital	187,349	181,554
21. Total exposures (sum of lines 3, 11, 16 and 19)	462,230	429,899
Leverage ratio		
22. Basel III leverage ratio	40.53%	42.23%

6 Segmental 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

	2017	*2016*
	HK$'000	HK$'000
Loans for use in Hong Kong		
- Individuals - others	-	-
Loans for use outside Hong Kong	17,754	17,986
	17,754	17,986

6 Segmental information (continued)

Gross advances to customers by geographical area

	2017 HK$'000	*2016* HK$'000
Residential status of customers:		
The Philippines	17,754	17,986

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

(iii) 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 Group's total international claims.

2017			*Non-Bank Private Sector*			
	Banks HK$'000	*Official Sector* HK$'000	*Of which: Non-bank financial institution* HK$'000	*Of which: non-financial private sector* HK$'000	*Other* HK$'000	*Total* HK$'000
1. Developed Countries						
of which Australia	7,000	-	-	-	-	7,000
of which United Kingdom	16,000	-	-	6,000	-	22,000
of which United States	25,000	23,000	-	-	-	48,000
of which Japan	8,000	-	-	-	-	8,000
2. Offshore Centers						
of which Cayman Island	-	-	-	-	-	-
of which Singapore	-	-	-	-	-	-
of which Hong Kong	273,000	-	-	-	-	273,000
3. Developing Africa and Middle East						
of United Arab Emirates	8,000	-	-	-	-	8,000
4. Developing Asia and Pacific						
of which Philippines	7,000	3,000	-	22,000	-	32,000
of which Indonesia	-	-	-	14,000	-	14,000
of which South Korea	-	-	11,000	-	-	11,000

6 Segmental information (continued)

2016	*Banks* HK$'000	*Official Sector* HK$'000	*Non-Bank Private Sector* — *Of which: Non-bank financial institution* HK$'000	*Non-Bank Private Sector* — *Of which: non-financial private sector* HK$'000	*Other* HK$'000	*Total* HK$'000
1. Developed Countries						
of which Australia	8,000	-	-	-	-	8,000
of which United Kingdom	30,000	-	-	6,000	-	36,000
of which United States	15,000	23,000	-	-	-	38,000
of which Japan	4,000	-	-	-	-	4,000
2. Offshore Centers						
of which Cayman Island	-	-	-	2,000	-	2,000
of which Singapore	4,000	-	-	-	-	4,000
of which Hong Kong	231,000	-	-	2,000	-	233,000
3. Developing Africa and Middle East						
of United Arab Emirates	2,000	-	-	-	-	2,000
4. Developing Asia and Pacific						
of which Philippines	18,000	-	-	18,000	-	36,000
of which Indonesia	-	15,000	-	-	-	15,000
of which South Korea	-	-	12,000	-	-	12,000

(iv) By class of business

The Company is primarily engaged in Retail and Corporate business, and Treasury activities.

Retail and Corporate business mainly covers deposit taking, consumer finance and securities services.

Treasury activities relate to the managing of capital, liquidity, interest rate and foreign exchange positions of the Company in addition to proprietary trades.

6 Segmental information (continued)

Business segments

2017	Retail and Corporate business HK$'000	Treasury HK$'000	Others HK$'000	Group HK$'000
Interest income - external	3,357	2,497	-	5,854
Interest expense - external	(1,856)	-	-	(1,856)
Net interest income	1,501	2,497	-	3,998
Net fees and commission income	17,507	-	-	17,507
Other operating income	20,129	-	-	20,129
Operating income	39,137	2,497	-	41,634
Operating expenses	(34,358)	-	-	(34,358)
Profit before taxation	4,779	2,497	-	7,276
Depreciation and amortisation charge	-	-	973	973
Segment assets				
Total assets	328,494	123,721	6,870	459,085
Segment liabilities				
Total liabilities	259,693	-	10,351	270,044

6 Segmental information (continued)

2016	*Retail and Corporate business* HK$'000	*Treasury* HK$'000	*Others* HK$'000	*Group* HK$'000
Interest income - external	2,276	2,741	-	5,017
Interest expense - external	(1,851)	-	-	(1,851)
Net interest income	425	2,741	-	3,166
Net fees and commission income	14,513	-	-	14,513
Other operating income	18,213	-	-	18,213
Operating income	33,151	2,741	-	35,892
Operating expenses	(32,283)		-	(32,283)
Profit before taxation	868	2,741	-	3,609
Depreciation and amortisation charge	-	-	1,330	1,330
Segment assets				
Total assets	294,585	123,396	8,460	426,441
Segment liabilities				
Total liabilities	236,612	-	6,381	242,993

7 Overdue and rescheduled loans

There were no overdue and rescheduled loans and repossessed assets as at 31 December 2017 (2016: Nil).

8 Countercyclical Capital Buffer Ratio

The countercyclical capital buffer ("CCyB") ratio is calculated-according to the countercyclical capital buffer report submitted to the Hong Kong Monetary Authority ("HKMA"). The standard disclosure on CCyB ratio is effective since 31 March 2016, hence no comparative figure is disclosed.

The Group countercyclical capital buffer ratio is 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.

8 Countercyclical Capital Buffer Ratio (continued)

Geographical breakdown of risk-weighted amounts in relation to private sector credit exposures

As 31 December 2017

	a	b	c	d
Jurisdiction (J)	*Applicable JCCyB Ratio in effect* %	*Total RWA used in computation of CCyB ratio of AI* HK$'000	*CCyB ratio of AI* %	*CCyB amount of AI* HK$'000
1 Hong Kong	-	-	-	-
2 China	0.00%	6,286	-	-
3 Philippines	0.00%	14,403	-	-
TOTAL		20,689	0.00%	-

As 31 December 2016

	a	b	c	d
Jurisdiction (J)	*Applicable JCCyB Ratio in effect* %	*Total RWA used in computation of CCyB ratio of AI* HK$'000	*CCyB ratio of AI* %	*CCyB amount of AI* HK$'000
1 Hong Kong	0.625%	3,169	-	-
2 China	0.000%	6,269	-	-
3 Philippines	0.000%	13,753	-	-
TOTAL		23,191	0.085%	20

9 Corporate Governance

The Company has fully complied with the requirements set out in the guideline on "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority.

Board of Directors

The Board of Directors is ultimately responsible for the operations and the financial soundness of the Company. The ultimate goal of which is to meet its overall responsibility to all its shareholders, depositors, creditors, employees and other stakeholders. The responsibilities include the following:

(a) Ensure competent management

- Appoint a chief executive with integrity, technical competence, and experience in banking business which enables him/her to administer the Company's affairs effectively and prudently.
- Oversee the appointment of other senior executives such as the division heads.
- Approve the management succession policy of the Company.
- Effectively supervise senior management's performance on an ongoing basis.

(b) Approve objectives, strategies and business plans

- The Company shall establish its objectives and draw up a business strategy for achieving them.
- Consistent with the Company's objectives, business plans shall be established to direct the on-going activities of the Company.
- The Board of Directors shall approve these objectives, strategy and business plans, and ensure that performance against plan is regularly reviewed.
- The Board of Directors shall approve annual budgets and review performance against these budgets.

(c) Ensure that the operations of the Company are conducted prudently, and within the framework of applicable laws and policies

- The Board of Directors shall ensure that the internal control systems of the Company are effective and that the Company's operations are properly controlled and comply with policies approved by the Board as well as with laws and regulations.
- The Board of Directors are ultimately responsible for ensuring that the Company complies with laws and regulations, in particular the Hong Kong Banking Ordinance.

9 Corporate Governance (continued)

(d) Ensure and monitor that the Company conducts its affairs with a high degree of integrity

- The Board of Directors shall ensure that the Company observes a high standard of integrity in its dealings with the public.
- Particular case shall be taken to comply with laws and regulations of statutory bodies in order to ensure the Company conducts its affairs with a high degree of integrity.
- The Board of Directors shall ensure that the Company's remuneration policy is consistent with its ethical values, objectives, strategies and control environment.
- The Board of Directors shall approve a set of ethical values which are communicated throughout the Company such as code of conduct.
- The Board of Directors shall establish policies and procedures to ensure compliance with ethical values.

Audit Committee

The Group's internal audit functions are subject to the direct supervision of the audit committee of the Company's ultimate holding company, Bank of the Philippine Islands.

Other Specialised Committees

The following committees have been established by the Company:

(a) Executive Committee

The Board of Directors of the Company serves as the Executive Committee of the Company.

It executes resolutions adopted in any stockholders' meetings, while the Company adopts business direction from the Board of Directors of the Company.

(b) Credit Committee

Credit Committee ensures that the Company's lending policy is adequate and lending activities are conducted in accordance with established policies and relevant laws and regulations. It also ensures that the Company's credit approval process is properly proceeded.

The Credit Committee of the Company currently composed of the Office of Chief Executive (CE, COO) Head of Product and Head of Operations. All credit approvals are subsequently presented and confirmed by the Board of Directors during Regular Board Meetings.

9 Corporate Governance (continued)

(c) Assets and Liability Committee

The Asset and Liability Committee (ALCO) manages the Company's assets and liabilities. Specifically, its objective is to plan, direct and control the levels, mix, volume and spreads on the various balance sheet and off balance sheet accounts. Aside from developing balance sheet strategies, the ALCO reviews and updates existing policies and guidelines and makes the necessary adjustments as needed to adapt to the changing financial environment.

This committee meets on a regular basis to discuss market developments, financial performance and risk and compliance issues and other matters relevant to the Company's business of managing house and clients' funds.

The ALCO members are: Office of the Chief Executive, the Treasury Head, and the Compliance/Risk Management Head.

(d) Risk Management Committee

The Risk Management Committee (RMC) oversees and manages the Company's exposures to risks and monitor the Company's regulatory and internal capital adequacy via these exposures to risks.

RMC monitors the credit risk, market risk and operational and IT risks by

- reviewing the existing credit exposure to monitor the exposure portfolio quality and credit concentration risk
- reviewing stress test and sensitivity analysis for the exposure portfolio
- reviewing the defined risk limits
- monitoring completeness and relevance of management and operating manual including business continuity plans
- overseeing the implementation of a sound business continuity management framework

The RMC members are appointed by the Board of Directors and composed of at least two non-executive Directors of the Company with the relevant experience in risk management and compliance and the Company's Risk and Compliance officer.

This committee meets on a monthly basis. Special meeting could be convened by any member of the Committee or the RMC Chairperson anytime as the need arises.

9 Corporate Governance (continued)

(e) Anti-Money Laundering and Counter Financing of Terrorism Committee

The Anti-Money Laundering and Counter Financing of Terrorism Committee (AML/CFT committee) is responsible for the consistent and effective implementation of AML/CFT guidelines. And is responsible in conducting a regular risk analysis and ensuring that AML/CFT systems are capable of addressing the risks identified.

The members of the AML/CFT committee are: Compliance Officer, Money Laundering Reporting Officer, Office of the Chief Executive and Legal Head.

The committee meets on a monthly basis to oversee, manage, evaluate and approve the standards of the suspicious transaction to ensure the appropriate actions are observed.

Remuneration

The Company adopts the remuneration policy and practices formulated by its parent bank, Bank of the Philippine Islands (BPI).

The objective of the Company's remuneration policy is to encourage employee behavior that supports the Company's risk tolerance, risk management framework and long-term financial soundness. It is in line with the objectives, business strategies and long-term goals of the Company and structured in a way that will not encourage excessive risk-taking by employees but allows the Company to attract and retain employees with relevant skills, knowledge and expertise to discharge their specific functions.

In response to the Hong Kong Monetary Authority's Supervisory Policy Manual, "Guideline on a Sound Remuneration System" (Revised) (the "Guideline") issued in March 2015, the Company conducted a review of the BPI's existing remuneration policy, and which study was certified by the Company's Board, in its December 2010 meeting, as substantially in compliance with the guideline. On 4 December 2012, the parent bank's Human Resources Head issued a certification on the Company's compliance with the Guideline on Sound Remunerations System. This certification was submitted to the HKMA.

Below are some relevant Policies:

- Governance

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

9 Corporate Governance (continued)

- Remuneration Structures

  No variable remuneration and special payouts are provided to the Company's employees. A fixed monthly salary is paid instead.

- Performance Measurement

  A Performance & Planning Review (PPR) is conducted annually. This review includes all employees of the Company. A PPR is prepared and finalised by all employees at the beginning of year and approved by each employee's supervisor. The PPR details the employees' key result areas or expected deliverables for the year described in quantifiable terms. The PPR is used to evaluate the performance of each employee for the past year ending in June of each year. The PPR rating is the basis for the Company's annual merit increase.

- Senior Management and Key Personnel Compensation

  The aggregate fixed income payouts of the senior management and key personnel of the Company (in accordance with the disclosure requirement of 3.2.3 of the Guideline) were HK$8,222,000 for 2017 (2016: HK$8,115,000).

  There were no variable remuneration and deferred remuneration for 2017.

10 Capital requirements and RWAs

Basis of Preparation

The regulatory capital or the capital charge of the group is calculated in accordance with the Banking (Capital) Rules. The Group uses the basic approach (BSC) in calculating its credit risk of its non-securitisation exposures and basic indicator approach (BIA) in calculating its operational risk. The Group is exempted to compute its market risk.

Capital requirements and RWAs

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

OVA: Overview of risk management

Risk Management Objectives and Policies

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

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 Management Committee (the "RMC", 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 RMC.

Risk Governance Structure

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.

10 Capital requirements and RWAs (continued)

Third Line of Defense

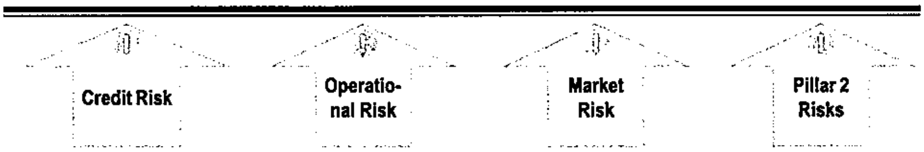
Independent Review (Internal Audit)
- Provide independent assurance to the Board on the quality and effectiveness of the Company's Risk Mgmt. framework and the Company-wide implementation of Risk Mgmt. policies and processes

Second Line of Defense

Independent Risk and Compliance Functions
- Challenge and validate the business lines' risk management processes
- Design, maintenance and ongoing development of Risk Mgmt framework
- Independent measurement and reporting to the RMC

First Line of Defense

Business Line Management
- Risk identification, controlling/mitigation and monitoring
- Implementation of internal processes and adequate controls
- Bear the consequences of loss through economic risk capital allocation



Risk Culture

The Company values the need for a 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 resource policies such as those concerning personal development and continuous professional training.

All policies are approved by the Board (or a Board-level committee such as the RMC), and are disseminated to all employees on 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 which is reinforced and supported by the Company's senior management.

Risk Management Systems

The Company adheres to all applicable regulatory guidelines, both local and global, and various industry-recognised 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 standardised 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 but remain aligned with the overall risk management framework of the Company's parent, Bank of the Philippine Islands, and its subsidiaries (the "BPI Group").

10 Capital requirements and RWAs (continued)

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.

Stress Testing

Overseen by the Company's risk office, the Company conducts regular stress testing activities 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 case of a capital or liquidity shortfall.

Risk Management Processes

The Company adheres to the risk management process of identification, measurement, control and monitoring.

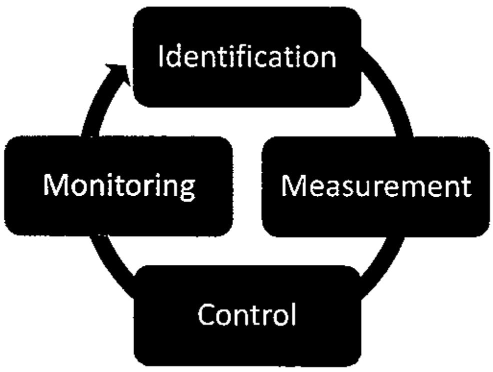


Figure 1: Risk management process

Identification of risk exposures is generally conducted in tandem with the development of the Company's business strategy. For any new or changes to existing business processes, activities, products or system, a risk assessment is conducted using standardised group-wide risk assessment templates. This is led by the business lines in cooperation with the risk office. Each new process or product is mapped to a standard list of business lines, and the risks are taken from an internally-maintained list of risks. Once the risks are identified, inherent risks are measured in terms of impact and likelihood. Impact is assessed using a standard risk rating scale assessing impact on operations, employees, clients, regulators, financials and reputation. Likelihood is also assessed using a standard rating scale.

10 Capital requirements and RWAs (continued)

Existing controls are then identified and assessed based on effectiveness of performance (e.g., whether the control is always performed) and design (e.g., whether the control is sufficient). Once controls are rated, the residual risks are assessed and additional controls are indicated depending on the results of the assessments. Residual risks rated 'low' or 'very low' are generally accepted, while higher ratings should be given additional mitigating controls, or the new product or process are recommended to be discontinued. Risk assessments are monitored and assessed on an annual basis. In particular, the effectiveness of the identified controls is re-assessed.

All processes and controls are reviewed by Internal Audit annually and any findings are reported to the BPI Group Audit Committee. In coordination with the BPI Group's Risk Management Office, the Company's risk office reviews the risk management system annually, and the results are presented to the RMC.

10 Capital requirements and RWAs (continued)

OV1: Overview of RWAs

The following table provides an overview of the capital requirement in terms of 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.

	RWAs		Minimum Capital Requirements
	31 Dec 2017	30 Sep 2017	31 Dec 2017
	HK$'000	HK$'000	HK$'000
Credit risk for non-securitisation exposures	**127,975**	**133,730**	**10,238**
- Of which STC approach	-	-	-
- Of which BSC approach	*127,975*	*133,730*	*10,238*
- Of which IRB approach	-	-	-
Counterparty credit risk	-	-	-
- Of which SA-CCR	-	-	-
- Of which CEM	-	-	-
- Of which IMM (CCR) approach	-	-	-
Equity positions in the banking book under the market-based approach	-	-	-
CIS exposures – LTA	-	-	-
CIS exposures – MBA	-	-	-
CIS exposures – FBA	-	-	-
Settlement risk	-	-	-
Securitization exposures in banking book	-	-	-
- Of which IRB(S) approach – ratings-based method	-	-	-
- Of which IRB(S) approach – supervisory formula method	-	-	-
- Of which STC(S) approach	-	-	-
Market risk	-	-	-
- Of which STM approach	-	-	-
- Of which IMM approach	-	-	-
Operational risk	**68,350**	**66,638**	**5,468**
- Of which BIA approach	*68,350*	*66,638*	*5,468*
- Of which STO approach	-	-	-
- Of which ASA approach	-	-	-
- Of which AMA approach	*N/A*	*N/A*	*N/A*
Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-

10 Capital requirements and RWAs (continued)

Overview of RWAs - continued

		RWAs		Minimum Capital Requirements
		31 Dec 2017	30 Sep 2017	31 Dec 2017
		HK$'000	HK$'000	HK$'000
24	**Capital floor adjustment**	-	-	-
24a	**Deduction to RWA**	-	-	-
24b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
24c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-
25	**Total**	**196,325**	**200,368**	**15,706**

During the 4th quarter of 2017, the total Risk Weighted Assets (RWAs) has a net decrease of HKD 4 million which was attributed to the new assets purchased during the last quarter were of higher credit ratings compared to those that matured, thus lower RWA's and increase in operational risk by HKD 1.7 million.

10 Capital requirements and RWAs (continued)

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/ 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 short term funds	122,734	122,734	-	-	-	-
Placement with banks and other financial institutions maturing between one and twelve months	188,005	188,005	-	-	-	-
Held to maturity securities	19,491	19,491	-	-	-	-
Advances and other accounts	24,439	24,439	-	-	-	-
Available for sale securities	104,230	104,230	-	-	-	-
Fixed Assets	185	-	-	-	-	-
Deferred tax assets	1	-	-	-	-	1
Total assets	459,085	458,899	-	-	-	1
Liabilities						
Time Deposits from customers	259,693	-	-	-	-	-
Other payables	10,176	-	-	-	-	-
Tax payable	175	-	-	-	-	-
Total liabilities	270,044	-	-	-	-	-

The carrying values as reported in published financial statements are the same with the value under the scope of regulatory consolidation.

10 Capital requirements and RWAs (continued)

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
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	459,085	458,899	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	270,044	-	-	-	-
3	Total net amount under regulatory scope of consolidation	189,041	-	-	-	-
4	Off-balance sheet amounts	31,453	31,453	-	-	-
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	220,494	490,352	-	-	-

The off–balance sheet amounts subject to credit risk framework represent the undrawn portion of committed facilities that are unconditionally cancellable without prior notice.

10 Capital requirements and RWAs (continued)

CRA: General information about credit risk

Business model and credit risk profile

As a deposit-taking company, the Company's credit exposures primarily arise from activities to profitably and prudently manage its capital and the liabilities it takes in (i.e., deposits). Given this business model, credit risks mainly emanate from the short-term loan facilities that the Company extends to its clients, with the remaining investible resources either maintained in highly liquid assets with accredited financial institutions to support day-to-day business operations, or invested in interbank placements and debt securities to enhance overall portfolio yield, manage liquidity and duration. 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.

Credit risk management policy

The Company's credit risk 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 HKMA's Supervisory Policy Manuals, (ii) the credit risk management framework of its parent, Bank of the Philippine Islands, and (iii) the Company's risk appetite, set by its Board of Directors and reviewed annually. In its credit risk 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. To facilitate proactive control and monitoring, internal buffer/trigger limits are put in place above regulatory limits. This allows the Company to identify potential breaches early, and therefore appropriately respond and perform the necessary actions to manage the identified credit risks.

Credit exposures involving short term loans and facilities granted to the Company's clients undergo a standardised process involving information gathering, borrower evaluation, loan approval and on-going monitoring. The Company has developed a risk rating system that assigns a credit score based on borrower and market information. This model takes into account both qualitative and quantitative elements about a borrower's character, capacity, capital and credit enhancements such as collateral. This also includes market data analysis such as an evaluation of stage of the economic cycle and current credit conditions.

10 Capital requirements and RWAs (continued)

The performance of all client loans and facilities is monitored daily and reported to the Board quarterly. Collateral values are likewise evaluated regularly to ensure the underlying collateral remains sufficient to cover any outstanding obligation. In terms of performance, the Company classifies Client loans and facilities in accordance with the HKMA's loan classification system, i.e., Pass, Special Mention, Substandard, Doubtful and Loss.

Credit risk management governance structure

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 complimentary 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 in the Company's annual capital plan.

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 limit, 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 confirmation.

10 Capital requirements and RWAs (continued)

The Company's credit risk structure works as an independent function but is operated closely with the parent's credit risk management system 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 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. Back room functions are responsible for these controls such as (i) operations responsible for 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) accounting and reports responsible for the valuation of collateral, execution of hold-out and lien on assets, and preparation of relevant reports, and (iii) Middle Office responsible for handling loan documentation.

The second line of defense involves the independent oversight of the Company's risk office and compliance. The BIA designs and implements an effective credit risk management program, and regularly measures, monitors and evaluates credit risk within the Company. The credit risk profile is regularly reported to the RMC or the Board, as necessary. Compliance is primarily responsible for ensuring adherence to regulations, laws and internal policies.

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.

Reporting of credit risk exposures

Reports on credit risk exposures cover all regulatory and internal limits. This is generated on a daily basis by the Accounting and Reports team, and is reviewed by the risk office. Breaches in limits are escalated to senior management and the RMC.

In addition, all credit exposures every month-end are reported to the management-level Assets and Liabilities Committee ("ALCO"), composed of the Treasury Head, Compliance and Risk Head and the Office of the Chief Executive. These are reported to the Board quarterly.

10 Capital requirements and RWAs (continued)

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 2017.

		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
1	Loans	-	17,754	-	17,754
2	Debt securities	-	123,721	-	123,721
3	Off-balance sheet exposures	-	31,453	-	31,453
4	***Total***	-	***172,928***	-	**172,928**

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

10 Capital requirements and RWAs (continued)

CRB: Additional disclosure related to credit quality of exposures

I. Qualitative disclosures

Past due and impaired exposures

The Company follows the standards set forth in the Hong Kong Accounting Standards 39 ("HKAS 39") *Financial Instruments: Recognition and Measurement in impairment measurement*. Under the standard, an exposure is classified as impaired, and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events ("loss event") that occurred after the initial recognition of the asset and that loss event (or events) has a negative impact on the estimated future cash flows that can be reliably estimated. This method is an incurred loss model. Losses expected as a result of future events, no matter how likely, are not recognised.

The Banking (Capital) Rules defines a past due exposure as an exposure which is either overdue for more than 90 days, or has been rescheduled. A rescheduled exposure is an on-balance sheet exposure wherein the original terms of repayment have been revised due to the inability of the obligor to meet the original repayment terms, not including those wherein the revised repayment terms have been met continuously for not less than 6 months for exposures with monthly payments, or 12 months.

Defaulted exposures are not defined in either HKAS 39 or Hong Kong regulations.

Exposures which are Past Due but not Impaired

The Company currently does not have any exposure classified as past due or impaired.

Impairment Method

Under HKAS 39, losses are incurred once an objective evidence of impairment is observed. Losses are measured based on how assets are booked.

10 Capital requirements and RWAs (continued)

a. Assets carried at Amortised Cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are

individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised in profit or loss.

b. Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset . Such impairment losses shall not be reversed.

c. Available-for-sale assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity other comprehensive income shall be removed reclassified from equity and recognised into profit or loss as a reclassification adjustment even though the financial asset has not been derecognised.

10 Capital requirements and RWAs (continued)

The amount of the cumulative loss that is removed from equity and recognised in profit or loss reclassified from equity to profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

Restructured Exposures

The Company adopts BPI Group's definition of a restricted loan, described as a loan where the principal terms and conditions have been modified in accordance with a restructuring agreement, setting forth a new plan of payment or a schedule of payment on a periodic basis. The modification may include, but is not limited to, change in maturity, interest rate, collateral or increase in the face amount of the debt resulting from the capitalization of accrued interest / accumulated charges.

10 Capital requirements and RWAs (continued)

II. Qualitative exposures

Distribution of Exposures by Segment

a. Exposures by Geographic Location

Table 1: Credit Exposures as at 31 December 2017, grouped by geographic location

	Country	Gross Carrying Amounts in HK$ Mn
1	Japan	122
2	United States of America	78
3	Singapore	72
4	Australia	65
5	Philippines	60
6	India	14
7	China	13
8	Others*	27
9	**Total**	**451**

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

b. Exposures by Industry

Table 2: Credit Exposures as at 31 December 2017, grouped by industry

	Industry	Gross Carrying Amounts in HK$ Mn
1	Financial Institutions	355
2	Sovereigns	39
3	Architectural Services	16
4	Others*	41
5	**Total**	**451**

c. Exposures by Maturity

Table 3: Credit Exposures as at 31 December 2017, grouped by maturity

	Maturity	Gross Carrying Amounts in HK$ Mn
1	Less than one year	375
2	One to five years	72
3	Others*	4
4	**Total**	**451**

10 Capital requirements and RWAs (continued)

Impaired Exposures

The Company does not have any impaired exposures as at 31 December 2017.
Aging Analysis of Past Due Exposures

The Company has not held any past due exposures for the period covering 2013-2017.
Restructured Exposures

The Company does not have any restructured exposures as at 31 December 2017.

CRC: Qualitative disclosures related to credit risk mitigation

Netting of On- and Off-Balance Sheet Exposures

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 standardised loan documentation which govern the Company's rights to the collateral and include the right to set-off or the realization of the collateral to repay the outstanding obligation should the client default on their obligations.

Revaluation and Management of Collateral

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 BPI IFL. Securities held as collateral are marked-to-market daily using the previous day's bid price. 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 borrower's quality becomes substandard. All securities pledged by loan clients as collateral are held by the Company through a third party custodian for safekeeping. Collateral hold-out reports are generated daily and delivered to the business lines to ensure that charged securities held as collateral are not sold, disposed or re-pledged by the borrower.

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

Market or Credit Risk Concentration of Collateral

Approximately 90% of the loan portfolio is secured by debt securities, with the remaining 10% is covered by client time deposits placed with the Company. Securities held as collateral are mainly concentrated in Philippine bonds (80% of the total principal value), with the remaining in Hong Kong (12%), Australia (4%), Indonesia (2%) and Vietnam (2%). These are also distributed across 10 issuers in five industries – four holding firms (27% of the total principal value), one from the services sector (22%), two from the industrial sector (19%), three sovereigns (17%) and two financial institutions (15%).

10 Capital requirements and RWAs (continued)

CR3: Overview of recognised credit risk mitigation

The following table discloses the extent of credit risk exposures covered by different types of recognised CRM as at 31 December 2017.

		(a)	(b1)	(b)	(d)	(f)
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognised collateral	Exposures secured by recognised guarantees	Exposures secured by recognised credit derivative contracts
1	Loans	-	17,754	17,754	-	-
2	Debt securities	123,721	-	-	-	-
3	**Total**	123,721	17,754	17,754	-	-
4	Of which defaulted	-	-	-	-	-

10 Capital requirements and RWAs (continued)

CR4: Credit risk exposures and effects of recognised credit risk mitigation (BSC approach)

The following table illustrates the effect of any recognised CRM on the calculation of capital requirements as at 31 December 2017.

		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	38,716	-	38,716	-	17,794	3.87%
2	PSE exposures	2,002	-	2,002	-	2,002	0.44%
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	386,966	-	386,966	-	80,620	17.56%
5	Cash items	3,842	-	3,842	-	-	-
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	27,559	31,453	27,559	-	27,559	6.05%
9	Significant exposures to commercial entities	-	-	-	-	-	-
10	**Total**	459,085	31,453	459,085	-	127,975	27.87%

The Group currently does not recognise collateral in calculating risk-weighted assets. Hence, the exposures pre-CRM and post-CRM are equivalent.

10 Capital requirements and RWAs (continued)

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 2017.

		(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	-	23,247	-	-	-	15,469	-	-	38,716
2	PSE exposures	-	-	-	-	-	2,002	-	-	2,002
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	382,933	-	-	4,033	-	-	386,966
5	Cash items	3,842	-	-	-	-	-	-	-	3,842
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	-	-	-	-	-	27,559	-	-	27,559
9	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-
10	**Total**	3,842	23,247	382,933	-	-	49,063	-	-	459,085

10 Capital requirements and RWAs (continued)

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

Counterparty Credit Risk Policies

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 mark-to-market losses in the transaction arising from a change in the CVA for the counterparty. Specific wrong-way risk which 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.

Consistent with its current business direction, the Company does not engage in derivatives, securities financing transactions, nor enter into any netting arrangements for counterparty exposures, hence does not incur counterparty credit risk exposures and wrong way risks. Given its simple 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

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

10 Capital requirements and RWAs (continued)

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 standardised CVA method	-	-
4	Total	-	-

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

10 Capital requirements and RWAs (continued)

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)
	Risk Weight Exposure class	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 Group has no default risk exposure in respect of derivative contracts and SFT's.

10 Capital requirements and RWAs (continued)

CCR5: Composition of collateral for counterparty default risk exposures

	(a)	(b)	(c)	(d)	(e)	(f)
	Derivative contracts				SFTs	
	Fair value of recognised collateral received		Fair value of posted collateral		Fair value of recognised 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 Group has no collateral posted and recognised collateral received in the context of derivative contracts or SFTs.

10 Capital requirements and RWAs (continued)

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 Group has no derivative contracts exposure for the reporting period.

10 Capital requirements and RWAs (continued)

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 Group has no exposures to products requiring CCP's.

10 Capital requirements and RWAs (continued)

CCR8: Exposures to CCPs (continued)

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

Above disclosure sections are not applicable to the Group for the reason that it has no securitization exposures.

MRA: Qualitative disclosures related to market risk

The Group is exempt to compute 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

Above disclosure sections are not applicable to the Group for the reason that it is under Basic Approach.