BPI INTERNATIONAL FINANCE LIMITED

BANKING DISCLOSURE STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (UNAUDITED)

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-securitization exposures and BIA approach in calculating its operational risk. The group is exempted to compute its market risk.

Key capital ratio

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

Capital Ratio

The calculation of the capital adequacy ratio as at 31st December 2017 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.

	Footnotes	**31 December 2017 %**
Common Equity Tier 1 ("CET1") capital ratio	1	95.43%
Tier 1 Capital Ratio	2	95.43%
Total Capital Ratio	3	96.24%
		HK$'000
CET1 Capital		187,349
Tier 1 Capital		187,349
Total Capital		188,949
Total Risk-weighted assets		196,325

1 Common Equity Tier 1 ('CET1') capital ratio equals to CET1 capital divided by Total risk-weighted assets

2 Tier 1 capital ratio equals to Tier 1 capital divided by Total risk-weighted assets

3 Total capital ratio equals to Total capital divided by Total risk-weighted assets

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 as at 31 December 2017.

	Footnotes	**31 Dec 2017** **%**
Leverage Ratio	1	40.53%
Capital and leverage ratio exposure measure		**HK$'000**
Tier 1 Capital		187,349
Total Exposure Measure		462,230

1 Leverage ratio equals to Tier 1 capital divided by Total exposure measure

The leverage ratio as at 31 December 2017 is the same with as at 30 September 2017.

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 structure (see Figure 1: Three Lines of Defense*Figure 1*), 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.

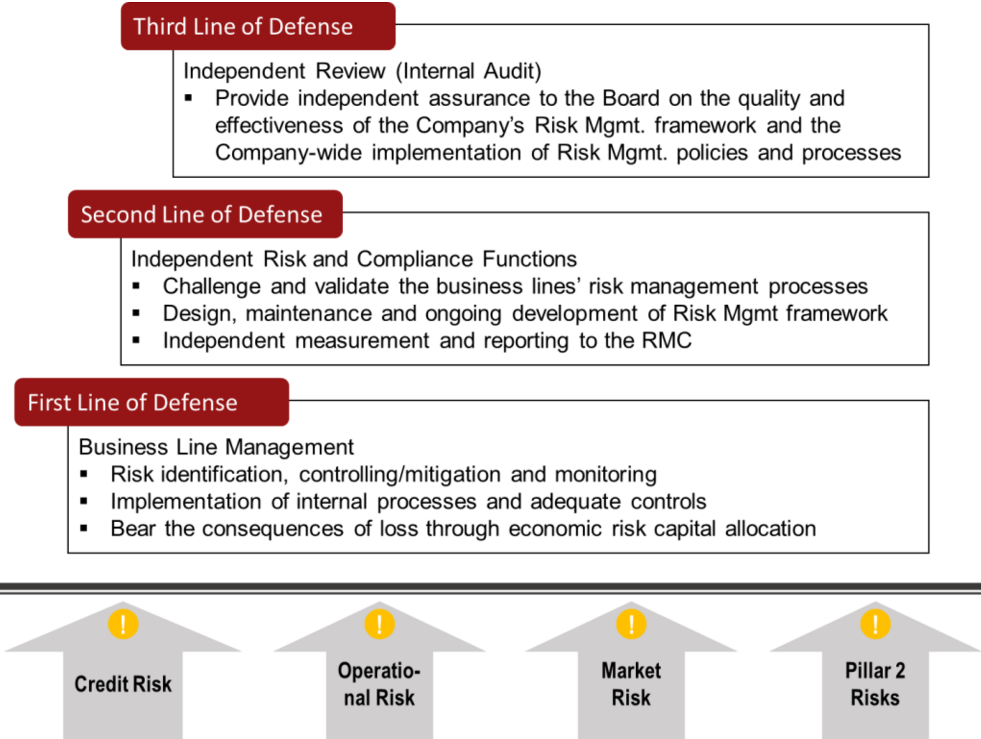

Figure 1: Three Lines of Defense

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

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

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.

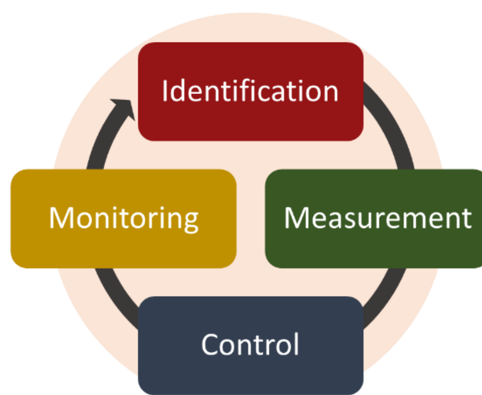

Figure 2: Risk management process

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 standardized 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.

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.

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**
1	**Credit risk for non-securitisation exposures**	**127,975**	**133,730**	**10,238**
2	- Of which STC approach	-	-	-
2a	- Of which BSC approach	*127,975*	*133,730*	*10,238*
3	- Of which IRB approach	-	-	-
4	**Counterparty credit risk**	**-**	**-**	**-**
5	- Of which SA-CCR	-	-	-
5a	- Of which CEM	-	-	-
6	- Of which IMM (CCR) approach	-	-	-
7	**Equity positions in the banking book under the market-based approach**	**-**	**-**	**-**
8	CIS exposures – LTA	-	-	-
9	CIS exposures – MBA	-	-	-
10	CIS exposures – FBA	-	-	-
11	**Settlement risk**	**-**	**-**	**-**
12	**Securitization exposures in banking book**	**-**	**-**	**-**
13	- Of which IRB(S) approach – ratings-based method	-	-	-
14	- Of which IRB(S) approach – supervisory formula method	-	-	-
15	- Of which STC(S) approach	-	-	-
16	**Market risk**	**-**	**-**	**-**
17	- Of which STM approach	-	-	-
18	- Of which IMM approach	-	-	-
19	**Operational risk**	**68,350**	**66,638**	**5,468**
20	- Of which BIA approach	*68,350*	*66,638*	*5,468*
21	- Of which STO approach	-	-	-
21a	- Of which ASA approach	-	-	-
22	- Of which AMA approach	*N/A*	*N/A*	*N/A*
23	**Amounts below the thresholds for deduction (subject to 250% RW)**	**-**	**-**	**-**

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 4.0M 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 1.7M.

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.

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

		(a)	(b)	(c)	(d)	(e)
		Total	Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	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 represents the undrawn portion of committed facilities that are unconditionally cancellable without prior notice.

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 standardized 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.

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. 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 Parent, but confirmed at the Company's Board level. This credit system allows for credit risk aggregation, 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 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 Risk Office 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 Board-level Risk Management Committee ("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.

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.

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 recognized.

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.

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.

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.

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*	42
5	**Total**	**451**

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**

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 standardized 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%).

CR3: Overview of recognized credit risk mitigation

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

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

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

The following table illustrates the effect of any recognized CRM on the calculation of capital requirements as at 31 December 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	.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	6.00%
9	Significant exposures to commercial entities	-	-	-	-	-	-
10	**Total**	459,085	31,453	459,085	-	127,975	27.87%

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

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

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.

CCR2: CVA capital charge

		(a)	(b)
		EAD post CRM	RWA
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	-	-
4	Total	-	-

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

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

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

The Group has no default risk exposures in respect of derivative contracts and SFT’s.

CCR5: Composition of collateral for counterparty default risk exposures

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

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

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.

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.

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 (BSC).