BPI INTERNATIONAL FINANCE LIMITED

BANKING DISCLOSURE STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (UNAUDITED)

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Basis of Preparation

The key prudential ratios related to regulatory capital and buffers, leverage ratio and liquidity ratios of BPI International Finance Limited (the "Company") is calculated in accordance with the Banking (Capital) Rules ("BCR") and Banking (Liquidity) Rules ("BLR") respectively.
The regulatory capital ratios represent the solo/combined ratio of the Company in accordance with section 3C(1) of the BCR . The Company uses the basic approach (BSC) in calculating its credit risk of its non-securitization exposures and BIA approach in calculating its operational risk. The Company is exempted to compute its market risk.

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

Table 1 - KM1: Key prudential ratios

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

		(a)	(b)	(c)	(d)	(e)
		31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017
	Regulatory capital (amount)(HK$'000)					
1	Common Equity Tier 1 (CET1)	163,049	167,435	155,272	155,220	155,955
2	Tier 1	163,049	167,435	155,272	155,220	155,955
3	Total capital	164,871	169,232	156,893	156,898	157,464
	RWA (amount)(HK$'000)					
4	Total RWA	210,677	194,873	170,572	175,186	161,424
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	77.39%	85.92%	91.03%	88.60%	96.61%
6	Tier 1 ratio (%)	77.39%	85.92%	91.03%	88.60%	96.61%
7	Total capital ratio (%)	78.26%	86.84%	91.98%	89.56%	97.55%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	1.875%	1.875%	1.875%	1.875%	1.25%
9	Countercyclical capital buffer requirement (%)	0	0	0	0	0
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	N/A	N/A	N/A	N/A	N/A
11	Total AI-specific CET1 buffer requirements (%)	1.875%	1.875%	1.875%	1.875%	1.25%
12	CET1 available after meeting the AI's minimum capital requirements (%)	64.51%	73.09%	78.23%	75.81%	83.80%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure (HK$'000)	455,644	425,138	448,727	429,846	429,477

		(a)	(b)	(c)	(d)	(e)
		31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017
14	LR (%)	35.78%	39.38%	34.60%	36.11%	36.31%
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	N/A
16	Total net cash outflows	N/A	N/A	N/A	N/A	N/A
17	LCR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2 institution only:					
17a	LMR (%)	403.64%	431.03%	333.68%	349.25%	289.50%
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	N/A	N/A	N/A	N/A	N/A
19	Total required stable funding	N/A	N/A	N/A	N/A	N/A
20	NSFR (%)	N/A	N/A	N/A	N/A	N/A
	Applicable to category 2A institution only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

All figures in 2018 are presented in accordance with the Hong Kong Financial Reporting Standard 9 (“HKFRS 9”) while figures in 2017 are presented in accordance with the Hong Kong Accounting Standard 39 (“HKAS 39”).

Except for the LMR, all figures presented from 31 Dec 2017 to 30 Sept 2018 are reinstated to show the solo/combined figures of the Company following the divestment of a subsidiary in 24 Oct 2018.

The Basel III Leverage ratio disclosures in 2018 are taken from the Return of Leverage Ratio submitted to HKMA under Part 1C of the BCR and the Leverage ratio disclosures in 2017 are taken from the Quarterly Template on Leverage Ratio submitted to HKMA.

The Company is categorized as category 2 institution thus Liquidity Coverage Ratio (‘LCR”), Net Stable Funding Ratio (‘NSFR”) and Core Funding Ratio (“CFR”) are not applicable.

The Company computes its Liquidity Maintenance Ratio (“LMR”) on a Hong Kong office basis as required under rule 10(1)(a) of the Banking Liquidity Rules. The Liquidity Maintenance Ratios are calculated based on the average value of the LMR for each calendar month as reported in the liquidity position return submitted to the Hong Kong Monetary Authority (“HKMA”)

Increased in CET1, Tier 1 and Total Capital in the third quarter of 2018 was due to a dividend received from a subsidiary in July. The Company recorded a gain on disposal of a subsidiary in the last quarter of 2018 which led to an increased in the RWA’s resulted to a decreased in the Capital Ratio.

OVA: Overview of risk management

Our risk management framework

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

The Company has established an effective risk governance and management framework in line with the requirements set out by the HKMA and other regulators. Risk metrics are established in line with the Company's business strategy and are aligned with regulatory requirements. These are approved by the Board or by the Risk 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.

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

Risk culture

The Company recognized the importance of 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 Measurement and Reporting Systems

The Company adheres to all applicable regulatory guidelines, both local and global, and various industry-recognized and accepted risk metrics. The Company's risk measurement systems effectively and efficiently capture the types and levels of risks inherent to the Company's business activities, both quantitatively and qualitatively. Other features include standardized risk and control categories, linkages to compliance and audit reports, and continuous monitoring processes to ensure any weaknesses are addressed. These systems are designed to cater to the Company's unique business requirements 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").

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.

Table 2 - 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.

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		31 Dec 2018 HK$'000	30 Sep 2018 HK$'000	31 Dec 2018 HK$'000
1	Credit risk for non-securitization exposures	145,779	143,773	11,662
2	Of which STC approach	-	-	-
2a	Of which BSC approach	145,779	143,773	11,662
3	Of which foundation IRB approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	-	-	-
7	Of which SA-CCR*	N/A	N/A	N/A
7a	Of which CEM	-	-	-
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	-	-	-
10	CVA risk	-	-	-
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA*	N/A	N/A	N/A
13	CIS exposures – MBA*	N/A	N/A	N/A
14	CIS exposures – FBA*	N/A	N/A	N/A
14a	CIS exposures – combination of approaches*	N/A	N/A	N/A

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		31 Dec 2018 HK$'000	30 Sep 2018 HK$'000	31 Dec 2018 HK$'000
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which SEC-IRBA	-	-	-
18	Of which SEC-ERBA	-	-	-
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-
20	Market risk	-	-	-
21	Of which STM approach	-	-	-
22	Of which IMM approach	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	N/A	N/A	N/A
24	Operational risk	65,400	51,600	5,232
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	502	500	40
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	502	500	40
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital			
27	Total	210,677	194,873	16,854

Increased in RWA's from the last quarter was due to a gain on disposal of a subsidiary in the last quarter of 2018 by HKD19.1 million.

Part II: Linkages between financial statements and regulatory exposures

Table 3 - PV1: Prudent valuation adjustments

- Prudent value adjustments are for assets measured at fair value (marked to market or mark to model) and for which PVA are required. The Company has taken the concentration of covering liquidity adjustment on bonds of valuation adjustment into consideration and makes adjustments, if any, in accordance with the Company's valuation process. Currently, there is no valuation adjustment on the bond portfolio.
- Other elements of valuation adjustment are considered either not applicable or insignificant (if any) in the process of making valuation adjustments.

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

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

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Assets							
Cash and short term funds	142,594	142,810	142,810	-	-	-	2
Placement with banks and other financial institutions maturing between one and twelve months	173,163	173,388	173,388	-	-	-	-
Financial Assets designated at amortised cost	19,285	19,302	19,302	-	-	-	-
Advances and other accounts	51,274	51,274	51,274	-	-	-	2,642
Financial Assets designated at fair value through other comprehensive income	69,911	69,911	69,911	-	-	-	-
Fixed Assets	224	224	224	-	-	-	-
Total assets	456,451	456,909	456,909	-	-	-	2,644
Liabilities							
Time Deposits from customers	288,016	288,016	-	-	-	-	288,016
Other payables	3,694	3,694	-	-	-	-	3,694
Total liabilities	291,710	291,710	-	-	-	-	291,710

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

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

		(a)	(b)	(c)	(d)	(e)
			Items subject to:			
		Total	credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	456,909	456,909	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	291,710	-	-	-	-
3	Total net amount under regulatory scope of consolidation	165,199	-	-	-	-
4	Off-balance sheet amounts	8,847	8,847	-	-	-
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	174,046	465,756	-	-	-

LIA: Explanations of differences between accounting and regulatory exposure amounts

The difference between the carrying values between the accounting and regulatory exposure is the ECL provision on the financial assets. The off-balance sheet amounts subject to credit risk framework represents the undrawn portion of committed facilities.

Part IIA: Composition of Regulatory Capital

Table 6 - CC1: Composition of Regulatory Capital

The following table provides the breakdown of regulatory capital according to the scope of regulatory consolidation. The Company has already applied full capital deductions under the BCR. The Capital Disclosure shown below as at 31 December 2018.

		(a)	(b)
		Amount (HK$ '000)	**Cross-reference to Table 7 numbers/letters of the balance sheet under the regulatory scope of consolidation**
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	75,000	[a]
2	Retained earnings	90,180	[b]- [d]
3	Disclosed reserves	(439)	[e]- [f]
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	**CET1 capital before regulatory adjustments**	164,741	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)		
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	

		(a)	(b)
		Amount (HK$ '000)	**Cross-reference to Table 7 numbers/letters of the balance sheet under the regulatory scope of consolidation**
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	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	[c]
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	**Total regulatory deductions to CET1 capital**	1,692	
29	**CET1 capital**	163,049	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Capital instruments subject to phase-out arrangements from AT1 capital*	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
36	**AT1 capital before regulatory deductions**	-	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	-	

		(a)	(b)
		Amount (HK$ '000)	**Cross-reference to Table 7 numbers/letters of the balance sheet under the regulatory scope of consolidation**
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 (T1 = CET1 + AT1)**	163,049	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	*Capital instruments subject to phase-out arrangements from Tier 2 capital*	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	*of which: capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,822	[c +d]-[e]
51	**Tier 2 capital before regulatory deductions**	1,822	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	1,822	

		(a)	(b)
		Amount (HK$ '000)	**Cross-reference to Table 7 numbers/letters of the balance sheet under the regulatory scope of consolidation**
59	**Total regulatory capital (TC = T1 + T2)**	164,871	
60	**Total RWA**	210,677	
	Capital ratios (as a percentage of RWA)		
61	**CET1 capital ratio**	77.39%	
62	**Tier 1 capital ratio**	77.39%	
63	**Total capital ratio**	78.26%	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	1.875%	
65	of which: capital conservation buffer requirement	1.875%	
66	of which: bank specific countercyclical capital buffer requirement	0%	
67	of which: higher loss absorbency requirement	N/A	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	64.51%	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant capital investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	Not applicable	Not applicable
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	Not applicable	Not applicable
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	2,324	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	1,822	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	Not applicable	Not applicable

		(a)	(b)
		Amount (HK$ '000)	**Cross-reference to Table 7 numbers/letters of the balance sheet under the regulatory scope of consolidation**
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	Not applicable	Not applicable
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	Not applicable
82	*Current cap on AT1 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	Not applicable	Not applicable
84	*Current cap on Tier 2 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	-	

Notes:

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

Row No.	*Description*	*Hong Kong basis* (HK$ '000)	*Basel III basis* (HK$'000)
10	Deferred tax assets net of deferred tax liabilities	0	-

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.

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

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

	(a)	(b)	©
	Balance sheet as in published financial statements as at 31 Dec 2018 HK$'000	**Under regulatory scope of consolidation** As at 31 Dec 2018 HK$'000	**Cross-referenced to definition of Capital Components**
Assets			
Cash and short-term funds	142,594	142,810	
Placements with banks and other financial institutions maturing between one and twelve months	173,163	173.388	
Financial assets designated at amortised cost	19,285	19.302	
Advances and other accounts	51,274	51,274	
Financial investments measured at fair value through other comprehensive income	69,911	69,911	
Fixed assets	224	224	
Total assets	456,451	456,909	
Liabilities			
Time deposits from customers	288,016	288,016	
Other payables	3,694	3,694	
Total liabilities	291,710	291,710	
Shareholders' equity			
Paid-in share capital	75,000	75,000	
of which: amount eligible for CET1	75,000	75,000	[a]
Retained earnings	90,180	90,812	[b]
of which: Regulatory Reserves for general banking risk	1,692	1,692	[c]
of which: Collective provisions under IFRS 9	-	632	[d]
of which: Regulatory reserve for general banking risk and collective provisions excluded from Tier 2 capital due to cap		502	[g]
Accumulated other comprehensive income	(439)	(613)	[e]
of which: ECL provision on financial assets under OCI		174	[f]
Total shareholders' equity	164,741	165,199	

Table 8 – CCA: Main Features of Regulatory Capital Instruments

The table below provides a description on the main features of the CET 1 instruments as at 31 December 2018.

		(a)
		Quantitative / qualitative information
1	Issuer	BPI International Finance Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N.A.
3	Governing law(s) of the instrument	Hong Kong
	Regulatory treatment	
4	Transitional Basel III rules[1]	N.A.
5	Post-transitional Basel III rules[2]	Common Equity Tier 1
6	Eligible at solo / group / solo and group	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HK$ 75 Million
9	Par value of instrument	N.A.
10	Accounting classification	Shareholders' equity
11	Original date of issuance	16 August 1974
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N.A.
16	Subsequent call dates, if applicable	N.A.
	Coupons / dividends	
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	N.A.
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N.A.
25	If convertible, fully or partially	N.A.
26	If convertible, conversion rate	N.A.
27	If convertible, mandatory or optional conversion	N.A.
28	If convertible, specify instrument type convertible into	N.A.
29	If convertible, specify issuer of instrument it converts into	N.A.
30	Write-down feature	No

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

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

		(a)
		Quantitative / qualitative information
31	If write-down, write-down trigger(s)	N.A.
32	If write-down, full or partial	N.A.
33	If write-down, permanent or temporary	N.A.
34	If temporary write-down, description of write-up mechanism	N.A.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	N.A.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N.A.

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

Part IIB: Macroprudential supervisory measures

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

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

		(a)	(c)	(d)	(e)
	Geographical breakdown by Jurisdiction (J)	**Applicable JCCyB ratio in effect (%)**	**RWA used in computation of CCyB ratio (HK$'000)**	**AI-specific CCyB ratio (%)**	**CCyB amount**
1			-		
2			-		
3			-		
N+1	Sum		-		
N+2	Total		40,765	0%	0

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

Part IIC: Leverage Ratio

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

The table below represents the reconciliation of the total assets in the published financial statements to the Leverage Ratio exposure measure as at 31 Dec 2018.

		(a)
	Item	**Value under the LR framework** (HK$ '000)
1	Total consolidated assets as per published financial statements	456,451
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4	Adjustments for derivative contracts	-
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	885
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	
7	Other adjustments	(1,692)
8	**Leverage ratio exposure measure**	455,644

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

Table 11 – LR2: Leverage Ratio ("LR")

The table below provides a detailed breakdown of the components of the Leverage ratio denominator as at 31 December 2018.

		(a)	(b)
		HK$ '000	
		31 Dec 2018	30 Sep 2018
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	457,083	426,663
2	Less: Asset amounts deducted in determining Tier 1 capital	1,692	1,692
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	455,391	424,971
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-
5	Add-on amounts for PFE associated with all derivative contracts	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	**Total exposures arising from derivative contracts**	-	-
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	8,847	7,719
18	Less: Adjustments for conversion to credit equivalent amounts	(7,962)	(6,947)
19	**Off-balance sheet items**	885	772
Capital and total exposures			
20	**Tier 1 capital**	163,049	167,435
20a	**Total exposures before adjustments for specific and collective provisions**	456,276	425,743
20b	**Adjustments for specific and collective provisions**	(632)	(605)
21	**Total exposures after adjustments for specific and collective provisions**	455,644	425,138

		(a)	(b)
		HK$ '000	
		31 Dec 2018	30 Sep 2018
Leverage ratio			
	Leverage ratio	35.78%	39.38%

The leverage ratio was down by 3.6% mainly driven by a decrease in Tier 1 capital and an increase in total exposures.

Part IID: Liquidity

LIQA: Liquidity Risk Management

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

Liquidity risk is managed within the framework of policies and limits that are approved by senior management in Asset-Liability Committee (ALCO) and in compliance with local regulatory standard. Senior management receives report on risk exposure and performance against approved limits. The ALCO provide senior management oversight of liquidity risk.
Liquidity risk is measured and managed on a projected cash flow basis with daily monitoring and reporting to senior management together with regular stress-testing. The Company also employs liquidity early warning indicators and trigger points to detect early any emerging liquidity risk.
The Company perform liquidity stress testing on a regular basis, to evaluate the effect of both industry-wide and bank specific disruptions on the Company's liquidity position. The liquidity stress tests consider the effect on changes of the market value of liquid assets. The stress testing results to be reported to senior management in ALCO for considered in making liquidity management decisions.
Contingency plan are in place to identify potential liquidity crisis using a series of warning indicators. The Company also maintain a certain percentage of its liability base in the form of liquid assets as a buffer against unforeseen liquidity requirement. The main objective are to honor all cash outflow commitments on an on-going basis and to satisfy statutory liquidity requirement.

Liquidity position

	31 December 2018	31 December 2017
Average liquidity maintenance ratio	379.40%	503.03%

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

The Company is categorized as Category 2 institution by HKMA thus Liquidity Coverage Ratio ('LCR'), Net Stable Funding Ratio ('NSFR') and Core Funding Ratio ('CFR') are not applicable.

Maturity analysis

The tables below analyses assets and liabilities of the Company 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 Company manages the inherent liquidity risk based on expected undiscounted cash flows.

	2018							
	Repayable on demand	Up to 1month	1 - 3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets								
Cash and short-term funds	56,783	85,899	-	-	-	-	-	142,682
Placements with banks and other financial institutions maturing between one and twelve months	-	-	173,831	-	-	-	-	173,831
Financial assets designated at amortised cost	-	-	-	15,664	4,024	-	-	19,688
Advances and othe accounts	3,103	2,802	4,270	42,109	2	-	47	52,333
Financial assets designated at fair value through other comprehensive income	-	4,383	6,613	28,136	28,231	3,008	-	70,371
Fixed assets	-	-	-	-	-	-	224	224
Total assets	59,886	93,084	184,714	85,909	32,257	3,008	271	459,129
Liabilities								
Deposits from customers	-	74,882	195,966	17,733	-	-	-	288,581
Other payables	-	170	2,338	1,058	-	-	128	3,694
Total liabilities	-	75,052	198,304	18,791	-	-	128	292,275
Net liquidity gap	59,886	18,032	(13,590)	67,118	32,257	3,008	143	166,854

Part III: Credit Risk for Non-securitization exposures

CRA: General information about credit risk

Overview

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

The Company's credit risk 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.

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.

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.

Credit Risk Management

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

- To facilitate the proper evaluation and management of risk exposures to achieve risk-adjusted returns on capital consistent with the Company's objectives
- To establish identifiable procedures/uniform mechanism to properly assess the Company's risk-taking activities
- To integrate marketing, policy formulation and risk limits monitoring into a matrix of 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, 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 Risk Management Department. The credit risk profile is regularly reported to the RMC or the Board, as necessary.

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

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

Table 12 - CR1: Credit Quality of Exposures

The following table provides an overview of the credit quality of on- and off-balance sheet exposures as at 31 December 2018.

		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
1	Loans	-	43,408	-	43,408
2	Debt securities	-	89,212	-	89,212
3	Off-balance sheet exposures	-	8,847	-	8,847
4	***Total***	**-**	**141,467**	**-**	**141,467**

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

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

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

CRB: Additional disclosure related to credit quality of exposures

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

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

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

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

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

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

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

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

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

There is no past due for the Loans and advances as at 31st December, 2018 and all client loans are over 100% collateralized, and such there is no ECL provision for loans and advances to customer as at 31st December 2018.

1. Exposures by Geographic Location

Table 1: Credit Exposures as at end-December 2018, grouped by geographic location

	Country	Gross Carrying Amounts in HK$ Mn
1	Japan	134
2	United States of America	79
3	Singapore	133
4	Philippines	60
5	Others*	52
6	**Total**	**458**

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

2. Exposures by Industry

Table 2: Credit Exposures as at end-December 2018, grouped by industry

	Industry	Gross Carrying Amounts in HK$ Mn
1	Financial Institutions	374
2	Sovereigns	30
3	Architectural Services	25
4	Others*	29
5	**Total**	**458**

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

3. Exposures by Maturity

Table 3: Credit Exposures as at end-December 2018, grouped by maturity

	Maturity	Gross Carrying Amounts in HK$ Mn
1	Less than one year	423
2	One to five years	32
3	Over 5 years	3
4	**Total**	**458**

**Segments constituting less than 10% of the Company's total Credit Risk-Weighted Assets are aggregated as "Over 5 years".*

CRC: Qualitative disclosures related to credit risk mitigation

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

The Company currently does not have netting arrangements as it does not engage in derivative or securities financing transactions ("SFTs"). For its loan exposures, the Company utilizes standardized loan documentation 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.

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.

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

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

Table 14 - CR3: Overview of recognized credit risk mitigation

The following table discloses the extent of credit risk exposures covered by different types of recognized CRM as at 31 December 2018.

		(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	-	43,408	43,408	-	-
2	Debt securities	89,212	-	-	-	-
3	**Total**	89,212	43,408	43,408	-	-
4	Of which defaulted	-	-	-	-	-

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

The following table illustrates the effect of any recognized CRM on the calculation of capital requirements as at 31 December 2018.

		(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	29,828	-	29,828	-	16,072	3.45%
2	PSE exposures	1,850	-	1,850	-	1,850	.40%
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	373,731	-	373,731	-	77,959	16.74%
5	Cash items	2,644	-	2,644	-	-	-
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	48,856	8,847	48,856	8,847	49,898	10.71%
9	Significant exposures to commercial entities	-	-	-	-	-	-
10	**Total**	456,909	8,847	456,909	8,847	145,779	31.30%

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

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

The following table presents the breakdown of credit risk exposures by asset classes and by risk weights as of 31 December 2018.

		(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	-	15,284	-	-	-	14,544	-	-	29,828
2	PSE exposures	-	-	-	-	-	1,850	-	-	1,850
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	369,714	-	-	4,017	-	-	373,731
5	Cash items	2,644	-	-	-	-	-	-	-	2,644
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	3,639	-	5,208	-	-	48,856	-	-	57,703
9	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-
10	¤ **Total**	6,283	15,284	374,922	-	-	69,267	-	-	465,756

Part IV: Counterparty Credit Risk

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

Counterparty credit risk is defined by the Banking (Capital) Rules as counterparty default risk and credit valuation adjustment ("CVA") risk. Counterparty default risk is, in relation to a derivative contract or a securities financing transaction ("SFT") entered into with a counterparty, is the risk that the counterparty could default before the final settlement of the cash flows of the contract or transaction. On the other hand, credit valuation adjustment is the adjustment made to the valuation of a netting set with a counterparty to reflect the market value of the credit risk of that counterparty. Hence, CVA risk is the risk of 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.

As at 31st December 2018, the Company does not engage in derivatives, securities financing transactions, nor enter into any bilateral netting arrangements for counterparty exposures, hence does not incur counterparty credit risk exposures and wrong way risks. Given its 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

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

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

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

Table 18 - CCR2: CVA capital charge

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

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

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

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

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

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

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

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

Table 21 -CCR6: Credit –related derivative contracts

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

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

Table 22 - CCR8: Exposures to CCPs

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

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

Part V: Securitization Exposures

SECA: Qualitative disclosures related to securitization exposures

SEC1: Securitization exposures in banking book

SEC2: Securitization exposures in trading book

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

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

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

Part VI: Market Risk

MRA: Qualitative disclosures related to market risk

The Institution 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 Company for the reason that it is under Basic Approach (BSC).

Part VII: Interest Rate Risk in Banking Book

Interest rate risk in the banking book ("IRRBB") is the potential adverse impact of changes in interest rate on earnings and capital.

In determining the level of interest rate risk, assessments are made for the repricing risk, basis risk, options risk, and yield curve risk. The Company manages the interest rate risk on the banking book primarily by re-pricing gap.

The Company uses sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income and economic value change. The EVE sensitivity and earning impact shown below is based on the scenarios and assumptions prescribed by HKMA applying a standardized 200 bps parallel rate shock. All positions captured by this return are slotted into the appropriate time bands according to the earliest interest repricing date.

Sensitivity limits are set to control the Company's interest rate risk exposure under both earnings and economic value perspectives.

Sensitivity Analysis for 2018

As at 31 Dec 2018	Major currencies			
HK$(m)	Total	HKD	USD	AUD
Economic Impact (1)	(1.88)	(0.07)	(1.81)	(0.01)
Earning Impact	0.89	0.43	0.49	(0.03)

Total Capital Base (2) ***164.87***

1. The EVE sensitivity is reported on solo basis according to the Return of Interest Rate Risk Exposures (MA(BS)12) submitted to the HKMA

2. The Total Capital Base is as of 31 December 2018

Part VIII: Remuneration

REMA: Remuneration Policy

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

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

Below are some relevant Policies:

- Governance

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

- Remuneration Structures

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

- Performance Measurement

  A Performance & Planning Review (PPR) is conducted annually. Individual employee's goal and key performance index should be set at the beginning of a year and to be agreed with his/her manager. Mid-year review is highly recommended. Under the PPR process, employees are required to prepare and approve by their manager on current year objective and expected deliverables which can be quantifiable. The PPR is a base to evaluate the performance of each employee for previous year.

Senior Management and Key personnel

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

Key personnel are employees whose duties or activities in the course of their employment involve the assumption of taking material risk on behalf of the Company. There were 12 members of senior management and key personnel in 2018.

Table 23 - REM1: Remuneration awarded during financial year

Due to the sensitivity of the information as the Company is composed of less than 30 employees, the figures shown below is the aggregate remuneration of the Senior Management and key personnel as at 31 December 2018.

			(a)/(b)
Remuneration amount and quantitative information			Senior management/ Key personnel
1	Fixed remuneration	Number of employees	12
2		Total fixed remuneration	7,548,019
3		Of which: cash-based	7,548,019
4		Of which: deferred	-
5		Of which: shares or other share-linked instruments	-
6		Of which: deferred	-
7		Of which: other forms	-
8		Of which: deferred	-
9	Variable remuneration	Number of employees	12
10		Total variable remuneration	800,000
11		Of which: cash-based	800,000
12		Of which: deferred	-
13		Of which: shares or other share-linked instruments	-
14		Of which: deferred	-
15		Of which: other forms	-
16		Of which: deferred	-
17	**Total remuneration**		**8,348,019**

Table 24 - REM2: Special payments

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

The Company has no special payments for 2018.

Table 25 - REM3: Deferred remuneration

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

The Company has no deferred remuneration for 2018.