Fubon Bank
富邦銀行

Fubon Bank (Hong Kong) Limited

Pillar 3 Regulatory Disclosures

As at 31 December 2017

FUBON BANK (HONG KONG) LIIMITED
PILLAR 3 REGULATORY DISCLOSURES
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This Pillar 3 regulatory disclosures statement is prepared on the Group's consolidated basis of calculating the capital adequacy ratios.

Table OVA: Overview of risk management

In meeting its overall responsibilities to the shareholders, depositors, creditors, employees and other stakeholders, the Board of Directors ("Board") has to ensure that there is a competent executive management capable of running the Bank in a sound, efficient and profitable manner. In particular to risk management, the responsibilities of the Board include establishing, approving and reviewing risk management strategies and policies of the Bank to ensure that the various types of risk inherent with the Bank's operations and business (including credit, market, interest rate, liquidity, operational, reputation, legal and strategic) are regularly identified, measured, monitored and controlled.

The Board has established several Board committees to assist it in carrying out its risk management responsibilities including the Audit Committee, Risk Committee and Executive Credit Committee. In addition, a number of management level committees have been set up by the Board to oversee the effectiveness of the Bank's daily risk management including, Asset and Liability Committee, Internal Control and Compliance Committee and Credit Committee.

(i) Audit Committee

The Audit Committee has to review the Bank's financial reporting process, the systems of internal control, the internal audit function and the risk management process. In particular, the review undertaken by the Audit Committee on the internal audit function includes the Internal Audit Charter and its approval, the annual audit plan, internal audit reports and special investigation reports issued, and ensuring that appropriate management actions are taken following the major audit findings.

(ii) Risk Committee

The Risk Committee ("RC") is to establish the Bank's overall risk appetite and risk management framework, and to oversee Senior Management's implementation of the Bank's risk policies. The RC will annually review and endorse the Bank's risk appetite statement and risk management strategies. It will oversee the establishment and maintenance by Senior Management of appropriate infrastructure, resources and systems for risk management, particularly in relation to compliance with relevant legal and regulatory requirements and adherence to the approved risk appetite and related policies, and the adoption of best practices wherever feasible. The RC is required to ensure that the staff responsible for implementing risk management systems and controls are sufficiently independent of the risk taking units in the Bank.

(iii) Executive Credit Committee

The Executive Credit Committee has the delegated authority to approve credit proposals, credit policies and other credit related matters which require the approval of the Board.

(iv) Asset and Liability Committee

The Asset and Liability Committee ("ALCO") is responsible for providing oversight of the Bank's operations relating to interest rate risk, market risk and liquidity risk (collectively known as "financial risks") as well as capital management. The committee initiates, reviews and endorses for the RC or the Board's approval the Bank's policies on financial risks and capital management. It approves guidelines relating to such policies, reviews and approves all major financial risk management reports. ALCO also oversees the Bank's investment activities by establishing investment strategies within policies laid down by the RC and reviews actual performance.

Table OVA: Overview of risk management (continued)

(v) Internal Control and Compliance Committee

The Internal Control and Compliance Committee ("ICC") is to provide oversight of the Bank's exposure to operational and legal risks, overseeing the Bank's regulatory compliance and anti-money laundering ("AML") activities, ensuring the Bank has in place an effective internal control and compliance framework, assisting the RC in establishing a sound internal control and monitoring system to ensure overall compliance within the Bank.

To ensure an effective internal control and compliance framework is in place, the ICC reviews policies and approves guidelines relating to control and regulatory compliance risks, receives and discusses reports submitted by various risk management units and promotes internal control and compliance culture. To maintain the Bank's overall regulatory compliance standards, the ICC and its sub-committee review and discuss major regulatory compliance or AML or operational risk events, latest developments in statutory or regulatory requirements applicable to the Bank, progress of implementation of new statutory or regulatory compliance requirements and progress of rectification of audit findings.

(vi) Credit Committee

The Credit Committee ("CC") reviews and endorses credit policies and credit risk profile of the Bank for the Executive Credit Committee ("ECC")'s approval, and reviews and approves credit related guidelines. The committee also reviews and approves requests for credit facilities that are within the CC's authority as delegated by the Board, and reviews and endorses requests for credit facilities before their submission to the ECC for approval.

The CC will also conduct on-going reviews on the market environment and make necessary policy recommendations to the ECC to ensure the credit risk profile of the Bank is within the established risk appetite. In this regard, the CC will provide periodic and timely credit related management and stress testing reports to the ECC for review.

Table OVA: Overview of risk management (continued)

The Bank has established policies and procedures to identify and measure these risks, to set appropriate risk limits as derived from its risk appetite statements and risk appetite indicators and control measures, and to monitor the risks and limits continuously by means of reliable and up-to-date management and information systems. These policies and procedures, including limit excess follow-up procedures, are distributed to the relevant risk taking and risk management units for execution and monitoring. Regular training courses are conducted in order to ensure that all staff are familiar with the key principles of the Bank's code of conduct. The Bank continuously modifies and enhances its risk management policies and measurement and reporting systems to reflect changes in markets, products and best practice risk management processes. The key features of the risk measurement systems include measuring risks by multi-layer of early warning indicators and limits, stress testings on a timely manner. Internal audit also perform regular audits to ensure compliance with the Bank's policies and procedures.

The Bank has established an organizational structure such that risk management functions are independent of risk taking units. The risk management functions independently measure and provide key risk information, including asset quality, liquidity profile, capital adequacy ratio and the risk exposures, and limit monitoring results to the RC and to senior management on a regular basis.

Stress testing

Stress-testing is an essential risk management tool to assess the Bank's vulnerability in "stressed" business conditions and the Bank's capacity in withstanding the impact under stressed situations in terms of profitability, liquidity and capital adequacy. The Bank's stress-testing programme will include various regular stress tests on individual risk areas and portfolios, and also the Bank-wide Stress Test which will use an integrated approach to produce stress test on a legal entity basis and on a consolidated basis, providing a spectrum of perspectives at product-, business- and entity-specific levels, where applicable.

A range of stress testing methods, including quantitative and qualitative techniques, range from sensitivity tests to scenario analyses and reverse stress tests will be used. Stress-testing will be conducted under different scenarios along a spectrum of events and severity levels for all relevant risk factors of the Bank, as well as the interactions among such risk factors. Relevant management committees reviews results of stress tests and any potential risks and vulnerabilities identified on a timely basis, discuss and decide any necessary management actions required.

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Template OV1: Overview of RWA

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		As at 31 December 2017 HK$'000	As at 30 September 2017 HK$'000	As at 31 December 2017 HK$'000
1	Credit risk for non-securitization exposures	57,326,700	56,288,700	4,586,136
2	Of which STC approach	57,326,700	56,288,700	4,586,136
2a	Of which BSC approach	-	-	-
3	Of which IRB approach	-	-	-
4	Counterparty credit risk	1,270,032	1,368,592	101,603
5	Of which SA-CCR	-	-	-
5a	Of which CEM	1,270,032	1,368,592	101,603
6	Of which IMM(CCR) approach	-	-	-
7	Equity exposures in banking book under the market-based approach	-	-	-
8, 9 and 10	CIS exposures	259,808	270,856	20,785
11	Settlement risk	41,913	107,950	3,353
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	48,775	67,938	3,902
17	Of which STM approach	48,775	67,938	3,902
18	Of which IMM approach	-	-	-
19	Operational risk	2,982,013	2,914,550	238,561
20	Of which BIA approach	2,982,013	2,914,550	238,561
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)	2,192,393	2,155,123	175,391
24	Capital floor adjustment	-	-	-
24a	Deduction to RWA	1,404,195	1,246,270	112,336
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	1,404,195	1,246,270	112,336
25	Total	62,717,439	61,927,439	5,017,395

N/A: Not applicable in the case of Hong Kong

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

	As at 31 December 2017 HKD'000						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	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	5,133,534	5,133,534	5,133,534	-	-	-	-
Balances with banks and other financial institutions	558,348	558,348	558,348	-	-	-	-
Trading assets	1,846,823	1,846,823	-	-	-	1,846,823	-
Derivative financial instruments	705,165	705,165	-	705,165	-	414	-
Advances to customers less impairment allowances	47,583,317	47,583,317	46,028,214	1,688,171	-	-	(133,068)
Trade bills	880,255	880,255	880,255	-	-	-	-
Accrued interest and other assets	1,436,269	1,391,279	1,345,146	38,682	-	-	7,451
Available-for-sale financial assets	32,243,660	32,243,660	32,243,660	-	-	-	-
Held-to-maturity investments	1,561,796	1,561,796	1,561,796	-	-	-	-
Interests in associates	2,390,809	1,399,442	806,218	-	-	-	593,224
Investment in subsidiaries	-	16,162	9,337	-	-	-	6,825
Amounts due from subsidiaries	-	89,113	51,338	-	-	-	37,775
Fixed assets	4,100,320	4,100,320	4,100,320	-	-	-	-
Assets held for sale	43,900	43,900	43,900	-	-	-	-
Deferred tax assets	6	-	-	-	-	-	-
Total assets	**98,484,202**	**97,553,114**	**92,762,066**	**2,432,018**	**-**	**1,847,237**	**512,207**

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

	As at 31 December 2017 HKD'000						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items: subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Liabilities							
Deposits and balances of banks and other financial institutions	11,207,295	11,207,295	-	9,181,147	-	-	2,026,148
Deposits from customers	62,067,793	62,067,793	-	-	-	-	62,067,793
Trading liabilities	1,846,819	1,846,819	-	-	-	1,846,819	-
Certificates of deposit issued	3,311,457	3,311,457	-	-	-	-	3,311,457
Debt securities issued	1,179,009	1,179,009	-	-	-	-	1,179,009
Derivative financial instruments	228,216	228,216	-	228,216	-	3,401	-
Other liabilities	2,074,503	2,067,492	-	67,043	-	-	2,000,449
Amounts due to subsidiaries	-	141,677	-	-	-	-	141,677
Deferred tax liabilities	643,338	616,338	-	-	-	-	616,338
Subordinated notes issued	1,557,472	1,557,472	-	-	-	-	1,557,472
Total liabilities	**84,115,902**	**84,223,568**	**-**	**9,476,406**	**-**	**1,850,220**	**72,900,343**

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

		As at 31 December 2017 HKD'000				
		(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)**	**97,040,907**	**92,762,066**	**-**	**2,432,018**	**1,847,237**
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	11,323,225	-	-	9,476,406	1,850,220
3	Total net amount under regulatory scope of consolidation	85,717,682	92,762,066	-	(7,044,388)	(2,983)
4	Off-balance sheet amounts	28,906,382	1,489,800	-	-	-
5	Reclassification of other liabilities	3,785	3,785	-	-	-
N	**Exposure amounts considered for regulatory purposes**	**114,627,849**	**94,255,651**	**-**	**(7,044,388)**	**(2,983)**

Table LIA: Explanations of differences between accounting and regulatory exposure amounts

(a) The differences between column (a) and column (b) of Template LI1 are due to difference in consolidation basis by the Bank with its subsidiaries and interests in associates.

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

Table CRA: General information about credit risk

Credit risk is the risk of suffering financial loss in the event that the Group's customers or counterparties fail to fulfil their obligations to the Group. It arises mainly from loans and advances, debt securities held and counterparty credit risk arising from derivative contracts entered into with customers or counterparties. It can also arise from trading and treasury activities.

The Group manages credit risk through a framework of controls to ensure credit risk taking activities are based on sound principles and in line with the overall business objectives of the Group. It has established a set of credit policies and procedures which define credit risk taking criteria, credit approval authorities delegated from the Board, credit monitoring processes, credit rating and scoring systems and loan impairment criteria.

The Board has delegated credit approval authorities to the following committees in descending order of authority: the ECC, the CC and the Wholesale Credit Committee.

The ECC serves as the credit committee of the Board to review and approve credits that require the approval of the Board. In addition, it approves the Group's credit policies and credit risk profile, taking into consideration relevant law and regulations.

The CC is a management level committee that provides management oversight of the Group's credit risk management. It ensures that the Group has in place an effective credit risk management framework and that its credit risks are within the credit policies and credit risk profile as specified by the Board or its delegated committees. The CC reviews and endorses credit policies and credit risk profile for the ECC's approval, and reviews and approves credit related guidelines. It also conducts on-going review of the market environment and makes necessary policy recommendations to the ECC to ensure that the credit risk profile of the Group is within its risk appetite. The CC also reviews and approves credits that are within its authority as delegated by the Board.

The Wholesale Credit Committee reviews and approves corporate credits that are within its authority as delegated by the Board.

The credit risk departments, Enterprise Credit Risk Management and Retail Credit Risk Oversight, provide centralised management of credit risk for corporate credits and retail credits respectively. They are responsible for:

- independent evaluation of corporate credit applications;
- monitoring loan portfolio and conducting regular analysis;
- managing problem corporate credits to achieve the highest recovery;
- recommending loan classification, individual impairment and charge-off; and
- reporting to the CC, ECC and RC regularly on aspects of the loan portfolio.

Compliance reviews are conducted by an independent unit on an ongoing basis to ensure compliance with applicable laws and regulations, standards, guidelines and codes of practices. The internal audit function of the Group is an independent appraisal function set up with the primary objective of evaluating the internal control system and compliance with laws, regulatory guidelines and internal control policies.

Credit risk limits are set at different levels, including portfolio and individual customer levels, with the consideration of various factors including market situation, capital requirement and the returns.

Credit risk management procedures are designed to promote early detection of customer, industry or product exposures that require special monitoring. Overall portfolio risk is monitored on an on-going basis. Regular risk management reports covering information on large exposures, country exposures, industry exposures, loan quality and loan impairment level are submitted to the CC, ECC and RC.

Table CRA: General information about credit risk (continued)

Specific policies and measures to address different kinds of credit related activities are set out below:

(i) Institutional Banking

Credit risk from Institutional Banking is managed by conducting thorough credit evaluation, credit mitigation through collateral and guarantee, internal credit rating system and post-approval monitoring system. Subject to the size of the credit, value of collateral and the internal credit rating of the customer, different levels of credit approval authority are required. Credit decisions take into account facility structure, tenor, repayment ability of the obligor and credit mitigation through collateral and guarantee.

The Group has established limits for credit exposure to individual industry and customer groups, regardless of whether the credit exposure is funded or non-funded. The Group also undertakes ongoing credit review and monitoring at several levels. The relevant policies and procedures take into account the rules under the Hong Kong Banking Ordinance, regulatory requirements of the HKMA and best market practices.

(ii) Retail Banking

Credit risk from Retail Banking is product driven, arising from retail loan products such as credit cards, unsecured personal loans, merchant receivable financing, mortgage loans and loans secured by wealth management products. Because of the homogeneous nature of these products, credit risk management is primarily based on statistical analyses of risks with respect to different types of product, collateral and customer. The Group determines product terms and desired customer profiles on a regular basis by developing, validating and fine-tuning internal scorecards and stress testing models.

(iii) Counterparty credit risk

Unlike on-balance sheet instruments, where the credit risk is generally represented by the principal value of loans or other financial instruments, credit risk for counterparties of derivatives is the positive replacement cost together with an estimate for the potential future exposure from changes in market value. These credit exposures are managed as part of the overall credit limits to the counterparties. The credit risk exposure on derivatives is disclosed in Note 17(b) to the Group 's financial statements. The Group uses the current exposure method for the purpose of providing capital for such counterparty exposures.

Wrong way risk occurs when the credit exposure to a counterparty is adversely correlated with the credit quality of that counterparty. Credit exposures and potential losses may increase as a result of adverse change in market conditions. The Group has set up policies and procedures to control wrong-way risk.

(iv) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loans to customers. These transactions are, therefore, subject to the same credit application, portfolio management and collateral requirements as for loan transactions.

(v) Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of customers or counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's financial risk exposure is diversified by customer group, industry and product, but is concentrated in Hong Kong.

Template CR1: Credit quality of exposures

		As at 31 December 2017 HK$'000			
		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
1	Loans	189,097	47,683,251	289,031	47,583,317
2	Debt securities	-	35,107,870	-	35,107,870
3	Off-balance sheet exposures	-	3,116,761	-	3,116,761
4	***Total***	***189,097***	***85,907,882***	***289,031***	***85,807,948***

Template CR2: Changes in defaulted loans and debt securities

		As at 31 December 2017
		(a)
		HK$'000
1	**Defaulted loans and debt securities at end of the previous reporting period**	**230,466**
2	Loans and debt securities that have defaulted since the last reporting period	25,379
3	Returned to non-defaulted status	(10,068)
4	Amounts written off	(23,056)
5	Other changes	(33,624)
6	**Defaulted loans and debt securities at end of the current reporting period**	**189,097**

Table CRB: Additional disclosure related to the credit quality of exposures

The Group reported past due exposures for all exposures that have become overdue as of the reporting date for accounting purposes and disclosed in Note 42(a) of the Group's financial statements and this table. For regulatory purposes, the Group reported past due exposures when they come overdue for more than one month, expect for consumer loans that are repayable by regular monthly instalments, where the Group reported past due exposures when they become overdue for more than three months.

The Group classified its exposures in accordance with the loan classification system and considered the exposures as impaired exposures if they are classified as "substandard", "doubtful" or "loss". There are no differences on the definition of impaired exposures between accounting purposes and regulatory purposes.

Loans and advances that are past due for more than 90 days but are not impaired amounted to HKD1,793,000 as of 31 December 2017. The Group considered such exposures is not impaired as all outstanding principal and accrued interest are fully secured by collateral

The carrying amount of the Group's assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any objective evidence that assets are impaired includes observable data that has an impact on the future cash flows of assets comes to the attention of the Group, the carrying amount is generally reduced to the estimated recoverable amount by means of a charge to profit or loss. For available-for-sale financial assets, the carrying amount is reduced to the fair value.

The approach and treatment of impairment allowance of different types of assets are elaborated in the Group's impairment allowance policy.

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group.

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

Breakdown of exposures by geographical areas

	As at 31 December 2017 HK$'000			
	Hong Kong	China	Others	Total
Loans	39,888,508	7,180,337	803,503	47,872,348
Debt securities	11,953,742	7,902,213	15,251,915	35,107,870
Off-balance sheet exposures	2,627,681	347,940	141,140	3,116,761
Total	***54,469,931***	***15,430,490***	***16,196,558***	***86,096,979***

Breakdown of exposures by industry

	As at 31 December 2017 HK$'000						
	Banking sector	Purchase of residential properties	Property development	Property investment	Financial concerns	Others	Total
Loans	-	9,873,111	5,191,890	8,465,107	4,119,506	20,222,734	47,872,348
Debt securities	15,938,525	-	3,666,618	-	3,705,979	11,796,748	35,107,870
Off-balance sheet exposures	-	-	970,286	-	202,350	1,944,125	3,116,761
Total	***15,938,525***	***9,873,111***	***9,828,794***	***8,465,107***	***8,027,835***	***33,963,607***	***86,096,979***

Breakdown of exposures by residual maturity

	As at 31 December 2017 HK$'000						
	1 month or less (include overdue exposures)	Over 1 month but within 3 months	Over 3 months but within 6 months	Over 6 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Loans	11,267,031	3,827,436	2,118,888	3,751,319	14,052,829	12,854,845	47,872,348
Debt securities	2,651,464	2,247,195	933,662	2,193,197	23,660,310	3,422,042	35,107,870
Off-balance sheet exposures	448,550	655,583	81,193	367,525	1,523,538	40,372	3,116,761
Total	***14,367,045***	***6,730,214***	***3,133,743***	***6,312,041***	***39,236,677***	***16,317,259***	***86,096,979***

Breakdown of exposures by geographical areas and industry is disclosed for segment which constitutes more than 10% of the Group's total RWA for credit risk only. Other segments which constitutes less than 10% of the Group's total RWA for credit risk are disclosed on an aggregate basis under the category "others".

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

Breakdown of impaired exposures by geographical areas

	As at 31 December 2017 HK$'000		
	Hong Kong	China	Total
Loans	129,988	57,316	187,304
Debt securities	-	-	-
Off-balance sheet exposures	-	-	-
Total	***129,988***	***57,316***	***187,304***

Breakdown of impaired exposures by industry

	As at 31 December 2017 HK$'000				
	Wholesale and retail trade	Manufacturing	Property investment	Others	Total
Loans	88,815	57,316	26,482	14,691	187,304
Debt securities	-	-	-	-	-
Off-balance sheet exposures	-	-	-	-	-
Total	***88,815***	***57,316***	***26,482***	***14,691***	***187,304***

Breakdown of allowances of impaired exposures by geographical areas

	As at 31 December 2017 HK$'000		
	Hong Kong	China	Total
Loans	98,647	57,316	155,963
Debt securities	-	-	-
Off-balance sheet exposures	-	-	-
Total	***98,647***	***57,316***	***155,963***

Breakdown of allowances of impaired exposures by industry

	As at 31 December 2017 HK$'000			
	Wholesale and retail trade	Manufacturing	Others	Total
Loans	88,772	57,316	9,875	155,963
Debt securities	-	-	-	-
Off-balance sheet exposures	-	-	-	-
Total	***88,772***	***57,316***	***9,875***	***155,963***

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

Aging analysis of accounting past due exposures

	As at 31 December 2017 HK$'000			
	Overdue 3 months or less	Overdue 6 months or less but over 3 months	Overdue 1 year or less but over 6 months	Total
Loans	364,879	-	1,793	366,672
Debt securities	-	-	-	-
Off-balance sheet exposures	-	-	-	-
Total	***364,879***	-	***1,793***	***366,672***

Breakdown of restructured exposures, between impaired and not impaired exposures

	As at 31 December 2017 HK$'000		
	Impaired exposures	Non-impaired exposures	Total restructured exposures
Loans	7,993	-	7,993
Debt securities	-	-	-
Off-balance sheet exposures	-	-	-
Total	***7,993***	-	***7,993***

Table CRC: Qualitative disclosures in relation to credit risk mitigation

The Group's credit evaluation focuses primarily on the obligor's repayment ability from its cash flow and financial condition. In addition, the Group employs various credit risk mitigation techniques such as appropriate facility structuring, posting of collateral and/or third party support as well as transfer of risk to other third parties, which form an integral part of the credit risk management process. There is immaterial credit and market risk concentration within the credit risk mitigations used by the Group. The most commonly used credit risk mitigation measures are provided below:

Collateral

The Group holds collateral against its credit exposures to customers mainly in the form of cash deposits, marketable securities, mortgage interests over properties and guarantees. The Group also has in place policies and procedures that govern the assessment, acceptance and the periodic valuation of the collateral. Collateral taken to secure credit exposures is revalued periodically ranging from daily to annually depending on the type of collateral. For treasury operations, collateral management is based on daily marked-to-market positions.

Master netting agreements

Collateral generally is not held over credit exposures to banks, except for securities held as part of reverse repurchase and securities borrowing activities. However, where applicable, the Group manages its credit exposures to banks by entering into master netting arrangements whenever it is appropriate and feasible to do so. The netting arrangement results in the settlement of counterparty exposure on a net basis in the event a default occurs.

The Group's preferred agreement for documenting derivative activity is the ISDA Master Agreement which covers the contractual framework within which dealing activity across a full range of over-the-counter derivative products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by such agreement if either party defaults or upon the occurrence of other pre-agreed termination events.

It is also common for the Group to execute a Credit Support Annex with counterparties in conjunction with the ISDA Master Agreement to mitigate the market risk inherent in derivative transactions.

Other credit risk mitigation measures

The Group may also employ other types of credit mitigation, such as guarantees and letters of credit, mainly for corporate exposures. As the value of these types of collateral is conditional upon other credit related factors, their financial effect has not been quantified.

Template CR3: Overview of recognized credit risk mitigation

		As at 31 December 2017 HKD'000				
		(a)	(b1)	(b)	(d)	(f)
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	43,090,271	4,493,046	289,546	4,203,500	-
2	Debt securities	33,195,597	1,912,273	-	1,912,273	-
3	**Total**	**76,285,868**	**6,405,319**	**289,546**	**6,115,773**	**-**
4	Of which defaulted	157,408	31,689	31,689	-	-

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

The Group uses credit ratings from Moody's Investors Service and Standard and Poor's Rating Services to determine the risk-weight of the following exposure classes for credit risk under STC approach according to Part 4 of the Banking (Capital) Rules:

(i) Sovereign;
(ii) Public sector entity;
(iii) Bank;
(iv) Securities firm;
(v) Corporate; and
(vi) Collective investment scheme.

An exposure under exposure classes (i) to (vi) that consist of a debt obligation issued or undertaken by any person or an interest in a collective investment scheme, where the exposure has one or more than one ECAI issue specific rating, the Group:

(a) if the exposure has only one ECAI issue specific rating, uses that rating;
(b) if the exposure has two or more ECAI issue specific ratings the use of which would result in the allocation of different risk-weights to the exposure, uses any one of those ratings except the one which would result in the allocation of the lowest of those different risk-weights.

Table CRD: Qualitative disclosures on the use of ECAI ratings under the STC approach (continued)

Where an exposure under exposure classes (i) to (v) do not have an ECAI issue specific rating, and the person to whom the Group has the exposure has an ECAI issuer rating but does not have a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the person, the Group:

(a) uses the ECAI issuer rating if the use of the ECAI issuer rating would result in the allocation of a risk-weight to the exposure that would be equal to, or higher than, the risk-weight allocated to the exposure on the basis that the person has neither an ECAI issuer rating nor an ECAI issue specific rating assigned to a debt obligation issued or undertaken by the person. The ECAI issuer rating is only applicable to unsecured exposures to the person as an issuer that are not subordinated to other exposures to that person; and the exposure to the person ranks equally with, or is subordinated to, the unsecured exposures referred to above;

(b) uses the ECAI issuer rating if the use of the ECAI issuer rating would result in the allocation of a risk-weight to the exposure that would be lower than the risk-weight allocated to the exposure on the basis that the person has neither an ECAI issuer rating nor an ECAI issue specific rating assigned to a debt obligation issued or undertaken by the person. The ECAI issuer rating is only applicable to unsecured exposures to the person as an issuer that are not subordinated to other exposures to that person; and the exposure to the person is not subordinated to other exposures to the person as an issuer.

Template CR4: Credit risk exposure and the effects of recognized credit risk mitigations

		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 HK$'000	Off-balance sheet amount HK$'000	On-balance sheet amount HK$'000	Off-balance sheet amount HK$'000	RWA HK$'000	RWA density %
1	Sovereign exposures	2,009,530	-	3,489,366	-	77,687	2.23
2	PSE exposures	660,469	-	776,439	-	155,288	20.00
2a	Of which: domestic PSEs	660,469	-	776,439	-	155,288	20.00
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	2,040,540	-	2,040,540	-	-	-
4	Bank exposures	20,576,654	-	22,561,411	-	8,506,878	37.71
5	Securities firm exposures	813,315	-	813,315	-	406,658	50.00
6	Corporate exposures	41,231,785	8,523,139	37,740,405	1,379,579	33,226,223	84.93
7	CIS exposures	-	-	-	-	-	-
8	Cash items	160,516	-	415,896	-	33,024	7.94
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-
10	Regulatory retail exposures	5,266,885	20,212,793	5,239,605	24,996	3,948,451	75.00
11	Residential mortgage loans	12,921,515	-	12,662,167	-	4,998,013	39.47
12	Other exposures which are not past due exposures	5,992,733	-	5,934,798	-	5,934,798	100.00
13	Past due exposures	37,016	-	37,016	-	39,680	107.20
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	**Total**	**91,710,958**	**28,735,932**	**91,710,958**	**1,404,575**	**57,326,700**	**61.57**

Template CR5: Credit risk exposures by asset classes and by risk weights

		As at 31 December 2017 HK$'000										
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
	Exposure class / Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	3,100,933	-	388,433	-	-	-	-	-	-	-	3,489,366
2	PSE exposures	-	-	776,439	-	-	-	-	-	-	-	776,439
2a	Of which: domestic PSEs	-	-	776,439	-	-	-	-	-	-	-	776,439
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	2,040,540	-	-	-	-	-	-	-	-	-	2,040,540
4	Bank exposures	-	-	9,246,089	-	13,315,322	-	-	-	-	-	22,561,411
5	Securities firm exposures	-	-	-	-	813,315	-	-	-	-	-	813,315
6	Corporate exposures	-	-	267,695	-	11,359,211	-	27,493,078	-	-	-	39,119,984
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	250,778	-	165,118	-	-	-	-	-	-	-	415,896
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	5,264,601	-	-	-	-	5,264,601
11	Residential mortgage loans	-	-	-	11,497,434	-	763,287	401,446	-	-	-	12,662,167
12	Other exposures which are not past due exposures	-	-	-	-	-	-	5,934,798	-	-	-	5,934,798
13	Past due exposures	-	-	-	-	-	-	31,689	5,327	-	-	37,016
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**5,392,251**	**-**	**10,843,774**	**11,497,434**	**25,487,848**	**6,027,888**	**33,861,011**	**5,327**	**-**	**-**	**93,115,533**

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

Unlike on-balance sheet instruments, where the credit risk is generally represented by the principal value of loans or other financial instruments, credit risk for counterparties of derivatives is the positive replacement cost together with an estimate for the potential future exposure from changes in market value. These credit exposures are managed as part of the overall credit limits to the counterparties. The credit risk exposure on derivatives is disclosed in Note 17(b) to the Bank's financial statements. The Group uses the current exposure method for the purpose of providing capital for such counterparty exposures.

Wrong way risk occurs when the credit exposure to a counterparty is adversely correlated with the credit quality of that counterparty. Credit exposures and potential losses may increase as a result of adverse change in market conditions. The Group has set up policies and procedures to control wrong-way risk.

The counterparty credit risk mitigation refers to Table CRC.

Under the terms of our current collateral obligations under derivative contracts, we estimate based on the positions as at 31 December 2017 and 31 December 2016 that the Bank would be required to post additional collateral of HK$11.7 million and HK$5.5 million, respectively, in the event of one notch downgrade in the Bank's credit ratings.

Template CCR1: Analysis of counterparty default risk exposure (other than those to CCPs) by approach

		As at 31 December 2017					
		(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
		HK$'000	HK$'000			HK$'000	HK$'000
1	SA-CCR (for derivative contracts)	-	-		-	-	-
1a	CEM	692,470	319,858		N/A	524,030	171,170
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					2,152,057	1,063,601
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	**Total**						**1,234,771**

<u>Template CCR2: CVA capital charge</u>

		As at 31 December 2017	
		(a)	(b)
		EAD post CRM	RWA
		HK$'000	HK$'000
	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	524,030	35,262
4	**Total**	**524,030**	**35,262**

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Template CCR3: Counterparty default risk exposures (other than those to CCPs) by asset class and by risk weights

		As at 31 December 2017 HK$'000										
		(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
	Exposure class / Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	809,377	-	135,886	-	-	-	-	-	945,263
5	Securities firm exposures	-	-	4,710	-	1,403,365	-	-	-	-	-	1,408,075
6	Corporate exposures	-	-	-	-	-	-	36,290	-	-	-	36,290
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	81,687	-	-	-	-	81,687
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-
11	Significant exposures to commercial entities	-	-	-	-	-	-	204,772	-	-	-	204,772
12	**Total**	**-**	**-**	**814,087**	**-**	**1,539,251**	**81,687**	**241,062**	**-**	**-**	**-**	**2,676,087**

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

	As at 31 December 2017 HK$'000					
	(a)	(b)	(c)	(d)	(e)	(f)
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	23,127	-	-	-	-	-
Cash - other currencies	197,267	-	-	-	9,181,147	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	2,409	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**222,803**	-	-	-	**9,181,147**	-

Table MRA: Qualitative disclosures related to market risk

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and other derivative instruments, as well as from the statement of financial position or structural positions. The Group transacts in the money market, foreign exchange market, equity market and capital market giving rise to market risk exposures. Positions are taken as a result of the execution of customers' orders, and market making activities, and offsetting transactions taken in order to hedge the Group's open position. The Group does not engage in significant proprietary trading.

The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the Group's exposure to the volatility inherent in financial instruments.

The Board reviews and approves policies for the management of market risks including dealing authorities and limits. The Board has delegated the responsibility for ongoing general market risk management to the ALCO. This committee articulates the interest rate view of the Group and decides on future business strategy with respect to interest rates. It also reviews and sets funding policy and ensures adherence to risk management objectives.

The Group has also established clear market risk policies, including limits, reporting lines and control procedures, which are reviewed regularly and approved by the Board. Market risk is managed within various limits approved by the Board. These limits are determined for each financial instrument and include limits on product volume, gross and net positions, position concentrations, mark to market limits, stop loss limits and risk position limits. These limits are reviewed and endorsed by ALCO and approved by the Board at least annually. The regular limit monitoring is performed daily and the result is reported to ALCO members. The risk exposures are also reported to the RC at least monthly.

Table MRA: Qualitative disclosures related to market risk (continued)

The sale of derivatives to customers as risk management products and the subsequent use of derivatives to manage the resulting position is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. The Group also purchases exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other positions.

One of the tools used by the Group to monitor and limit market risk exposure is Value-at-risk (VAR). VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The calculation uses the historical simulation method as the means to estimate the statistical confidence level.

The Group augments its VAR limits with other positions and sensitivity limit structures. Additionally, the Group applies a wide range of sensitivity analysis and stress testing, both on individual portfolios and on the Group's consolidated positions to assess the potential impact on the Group's earnings as a result of extreme movements in market prices.

Template MR1: Market risk under STM approach

		As at 31 December 2017 HK$'000
		(a)
		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	8,638
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	40,137
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	**Total**	**48,775**

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Abbreviations

AMA	Advanced measurement approach
ASA	Alternative standardised approach
AT1	Additional tier 1
Bank/Group	Fubon Bank (Hong Kong) Limited
BIA	Basic indicator approach
Board	Board of Directors
BSC	Basic approach
CCF	Credit conversion factor
CCP	Central counterparty
CEM	Current exposure method
CIS	Collective investment scheme
CRM	Credit risk mitigation
CVA	Credit valuation adjustment
EAD	Exposure at default
HKMA	Hong Kong Monetary Authority
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China
IRB	Internal ratings-based approach
IRB(s)	Internal ratings-based (securitisation) approach
IMM	Internal models approach
IMM(CCR)	Internal models (counterparty credit risk) approach
N/A	Not applicable
PSE	Public sector entity
RWA	Risk-weighted asset/risk-weighted amount
SA-CCR	Standardised approach for counterparty
SFT	Securities financing transaction
STC	Standardised (credit risk) approach
STC(S)	Standardised (securitisation) approach
STM	Standardised (market risk) approach
STO	Standardised (operational risk) approach
VaR	Value at risk