CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED

Regulatory Disclosures

For the year ended 31 December 2017

(Unaudited)

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CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED
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As at 31 December 2017
(Expressed in thousands of Hong Kong Dollars)

Key capital ratios

The following disclosures are prepared in a consolidated basis and made in accordance with the Banking (Disclosure) Rules.

Capital Adequacy Ratios

The capital adequacy ratios as at 31 December 2017 were compiled in accordance with the Banking (Capital) Rules.

	As at 31 December 2017
Capital	
Common Equity Tier 1	48,625,898
Tier 1	56,438,098
Total	65,516,482
Total risk-weighted assets (RWAs)	367,439,731
Capital Adequacy Ratios	
Common Equity Tier 1	13.23%
Tier 1	15.36%
Total	17.83%

Leverage Ratio

The leverage ratio as at 31 December 2017 was compiled in accordance with the Leverage Ratio Framework issued by the Hong Kong Monetary Authority ("HKMA").

	As at 31 December 2017
Capital and Total exposures	
Tier 1 capital	56,438,098
Total exposures	547,117,610
Leverage Ratio	10.32%

OVA: Overview of Risk Management

China Construction Bank (Asia) Corporation Limited ("the Bank") and its subsidiaries (together referred to as "the Group") have effective risk governance and management framework in placed to comply with the requirements set out by the HKMA and other regulators. This framework is built around a structure that enables the Board and senior management to discharge their risk management-related responsibilities with appropriate delegation and controls. These risk management-related responsibilities are discharged by means of properly defined risk appetite in accordance with the Group's business strategies and objectives, formulated risk policies that govern the execution of those strategies, and established procedures and limits for the approval, control, monitoring, and remedy of risks.

The Board has primary responsibility for risk governance of the Group. For effective management, the Board has delegated authority to several Board-level committees to carry out risk management tasks. The Board-level committees include Audit Committee, Nomination and Remuneration Committee, Executive Committee, Risk Committee, Compliance Sub-Committee, and Strategy and Corporate Governance Committee. The Risk Committee, which is chaired by an independent non-executive director, is responsible for examine the Group's key risk management policies according to the overall strategy of the Group, and supervise and evaluate implementation and effect of these policies. It also reviews and recommends the risk appetite framework and statement to the Board of Directors.

Senior management has established several functional committees including Asset and Liability Committee, Information Technology Committee, Product Innovation and Approval Committee, Credit Committee, Risk Management Committee, and Internal Control, Compliance and Operations Committee. The functional committees and senior management are delegated with authority by the Board to oversee the Group's corporate governance and provide oversight of specific risk areas.

The Group adopts HKMA's Eight Types of Inherent Risk approach in managing risk, with principal risks include credit risk, market risk, interest rate risk, liquidity risk, operational risk, reputation risk, legal risk and strategic risk.

The Group has maintained effective risk management tools to ensure our business and operations are conducted under a sound and well-controlled environment. Such tools refer to relevant policies, procedures, and limits to identify, measure, monitor and control the various types of risk. The functional committees approve policies and procedures formulated by various working committees and functional management to identify, analyze, manage and control the risks through the use of reliable and up-to-date management and information systems. The Group has adopted a "Three Lines of Defense" risk management concept to ensure that roles within the organization are clearly defined in regard to risk management. The internal auditors perform risk-based audits to ensure the soundness of the governance and compliance with the relevant policies and procedures. The internal control of the Group is supervised and evaluated by Board-level Audit Committee through the assessment report from internal auditor and external auditor.

The Group is committed to fostering strong risk culture embedded with risk ownership, accountability and awareness of all staff. The risk policies and procedures are accessible by all staff through the Group's internal electronic platform. On the other hand, all staff are required to adhere to risk policies, procedures and limits, and to avoid excessive risk-taking. This is monitored by regular information reporting on different risk areas to the functional committees, Board-level Committees and the Board.

OVA: Overview of Risk Management (continued)

The Group maintains risk management systems to measure and monitor exposures, identify areas of high risk, and ensure that the magnitude of risk is within the tolerance level. In particular, the credit, market and operational risk management systems are also used for assessing the capital adequacy. Their features are as follows:

(a) Credit risk measurement system
The Group has established policies, procedures, and rating systems to identify, measure, monitor, control, and report on credit risk. In this connection, guidelines for management of credit risk have been laid down in the Group's respective credit policies and procedures. These policies and procedures stipulate delegated lending authorities, credit underwriting criteria, credit control and monitoring process, internal rating structure, credit recovery procedures and provisioning practices. They are reviewed and enhanced on an ongoing basis to cater for market changes, statutory requirements, and best practices in risk management processes.

The Group's credit risk management for the major types of credit risk is further elaborated in the latter section about credit risk.

(b) Market risk measurement system
The Group's market risk framework comprises market risk management policies and control procedures with appropriate delegation of market risk limits.

Market risk is the risk of loss arising from adverse changes in market rates and prices such as foreign exchange rates and interest rates and prices of debt securities. Market risk arises from both the Group's trading and non-trading business. A trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments which are not included in the trading book. The Group's exposure to market risk arises from its day-to-day activities associated with loans, deposits, securities held for liquidity purposes and trading activities.

The Group's trading activities are primarily related to foreign exchange and money market transactions. The Group manages its exposure to market risk through the establishment of various trading limits and the risk exposure is calculated by the Bank system and externally developed risk engine. Trading book position is monitored by both end-of-day and intraday reports. In addition to the overall limits, documented trading policies and procedures define acceptable boundaries within which traders can execute transactions in their assigned markets.

(c) Operational risk measurement system
The Group implements a centralized risk management framework and formulates operational risk management policy to provide a bank-wide definition of operational risks and set out the requirements on the identification, assessment, reporting, monitoring and mitigation of operational risk.

The Group implements the "Three Lines of Defence" in its operational risk management framework. Operational Risk under Risk Management Division, Legal and Compliance Division together with certain units involved in management of internal process, people and system are the second line of defence responsible for the design and implementation of the operational risk management policies, mechanism, tools and methodologies in their responsible areas.

Stress testing is an integral part of the Group's risk management. The Group regularly performs stress-tests on the principal risks, where appropriate, covering the Group's major portfolios such as lending and investments. Various stress testing methodologies and techniques including sensitivity tests, scenario analyses and reverse stress testing are adopted to assess the potential impact of stressed business conditions on the Group's financial positions, in particular, capital adequacy and liquidity. Whenever necessary, a prompt management response will be executed to mitigate potential impacts.

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OV1: Overview of RWA

The following table provides an overview of the capital requirements in terms of detailed breakdown of RWAs for credit risk, market risk and operational risk. Minimum capital requirement means the amount of capital required to be held for that risk based on its risk-weighted amount multiplied by 8%.

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		As at 31 December 2017	As at 30 September 2017	As at 31 December 2017
1	Credit risk for non-securitization exposures	321,556,802	297,043,140	25,724,544
2	Of which STC approach	321,556,802	297,043,140	25,724,544
2a	Of which BSC approach	-	-	-
3	Of which IRB approach	-	-	-
4	Counterparty credit risk	5,444,588	6,744,760	435,567
5	Of which SA-CCR	-	-	-
5a	Of which CEM	3,970,775	5,133,822	317,662
6	Of which IMM(CCR) approach	-	-	-
7	Equity exposures in banking book under the market-based approach	-	-	-
8	CIS exposures – LTA	-	-	-
9	CIS exposures – MBA	-	-	-
10	CIS exposures – FBA	-	-	-
11	Settlement risk	-	-	-
12	Securitization exposures in banking book	-	-	-
13	Of which IRB(S) approach – ratings-based method	-	-	-
14	Of which IRB(S) approach – supervisory formula method	-	-	-
15	Of which STC(S) approach	-	-	-
16	Market risk	26,623,775	27,389,050	2,129,902
17	Of which STM approach	26,623,775	27,389,050	2,129,902
18	Of which IMM approach	-	-	-
19	Operational risk	12,513,538	11,991,363	1,001,083
20	Of which BIA approach	12,513,538	11,991,363	1,001,083
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)	1,301,028	1,301,028	104,082
24	Capital floor adjustment	-	-	-
24a	Deduction to RWA	-	-	-
24b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
24c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-
25	**Total**	**367,439,731**	**344,469,341**	**29,395,178**

During the quarter ended 31 December 2017, total RWAs increased by HK$22,970 million mainly due to increase in RWA for non-securitization credit exposures.

(Expressed in thousands of Hong Kong Dollars)

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

The following table shows the differences between the carrying values as reported in the Group's financial statements following the scope of accounting consolidation and the carrying values under the scope of regulatory consolidation, with a breakdown into regulatory risk categories of every item of the assets and liabilities reported in financial statements based on the scope of accounting consolidation as at 31 December 2017:

	(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 balances with banks and central banks	81,673,241	81,673,241	81,673,241	-	-	-	-
Placements with banks	17,997,303	17,997,303	17,997,303	-	-	-	-
Advances to banks	262,498	262,498	262,498	-	-	-	-
Advances to customers and trade bills	288,009,874	288,009,874	288,009,874	-	-	-	-
Available-for-sale financial assets	98,956,057	98,956,057	98,956,057	-	-	-	-
Held-to-maturity investments	17,458,857	17,458,857	17,458,857	-	-	-	-
Derivative financial instruments	6,788,337	6,788,337	-	6,788,337	-	6,308,111	-
Investment in subsidiaries	-	516,000	516,000	-	-	-	-
Interest in a joint venture	2,044,996	2,044,996	2,044,996	-	-	-	-
Interest in an associate	199,912	10,411	10,411	-	-	-	-
Deferred tax assets	234,912	234,912	-	-	-	-	234,912
Fixed assets	3,325,095	3,325,062	3,325,062	-	-	-	-
Other assets	4,073,631	4,209,547	4,209,547	-	-	-	-
Total assets	**521,024,713**	**521,487,095**	**514,463,846**	**6,788,337**	-	**6,308,111**	**234,912**

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

	(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 balance of banks	73,223,622	73,223,622	-	-	-	-	73,223,622
Deposits from customers	353,269,333	353,725,314	-	-	-	-	353,725,314
Certificates of deposit and other debt securities issued	14,917,044	14,917,044	-	-	-	-	14,917,044
Derivative financial instruments	6,563,076	6,563,076	-	-	-	6,334,840	-
Current tax payable	167,208	162,804	-	-	-	-	162,804
Deferred tax liabilities	20,902	20,902	-	-	-	-	20,902
Other liabilities	7,733,982	8,081,288	-	-	-	-	8,081,288
Subordinated debts	5,812,111	5,812,111	-	-	-	-	5,812,111
Total liabilities	**461,707,278**	**462,506,161**	**-**	**-**	**-**	**6,334,840**	**455,943,085**

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

The following table shows the main sources of differences between the carrying values in financial statements and the exposure amounts used for the calculation of regulatory capital in respect of the assets and liabilities based on the scope of regulatory consolidation as at 31 December 2017:

		(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)**	521,252,183	514,463,846	-	6,788,337	6,308,111
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	(6,334,840)	-	-	-	(6,334,840)
3	Total net amount under regulatory scope of consolidation	514,917,343	514,463,846	-	6,788,337	(26,729)
4	Off-balance sheet amounts	84,823,295	13,798,441	-	-	-
5	Differences due to consideration of provisions	958,349	958,349	-	-	-
6	Differences due to specific regulatory adjustments and other differences	(9,352,621)	(6,696,786)	-	(2,655,835)	-
7	Differences due to potential exposures for counterparty credit risks	5,888,489	-	-	5,888,489	-
8	**Exposure amounts considered for regulatory purposes**	597,234,855	522,523,850	-	10,020,991	(26,729)

LIA: Explanations of differences between accounting and regulatory exposure amounts

The following table provides qualitative explanations on the differences observed between accounting carrying values (as defined in template LI1) and amounts considered for regulatory capital purposes (as defined in template LI2) under each risk framework.

(a)	Material differences between the amounts in columns (a) and (b) in template LI1
	The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with Section 3C of the Banking (Capital) Rules.
(b)	The main drivers for the differences between accounting values and amounts considered for regulatory purposes shown in template LI2
	The differences are mainly attributable to the following factors: - Off-balance sheet credit exposures for regulatory purposes are derived by multiplying the principal amount of the exposures, after deducting any specific provisions applicable to the exposures, by the CCF; - The carrying values reported in the financial statement are after deduction of collective and individual impairment allowances while the exposure amounts for regulatory purposes are net of individual impairment allowances only; - The exposure amounts for regulatory purposes are after the adjustment for the capital effect of recognized credit risk mitigation on the principal amounts; - Counterparty credit risk exposures for regulatory purposes consist of both the current exposures and the potential future exposures which are derived by applying the credit conversion factor (CCF) to the notional principal of the transactions or contracts.
(c)	Systems and controls applied to valuation estimates
	Please refer to note 8 Financial Risk Management of the consolidated financial statements of China Construction Bank (Asia) Corporation Limited for details.

CRA: General information about credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk exists in the Group's loans, leases, credit cards, trade finance and treasury transactions. There is also credit risk in off-balance sheet financial arrangements such as loan commitments, trade-related contingencies and transaction-related contingencies.

The Group has appointed the intermediate holding company, China Construction Bank Corporation, as its credit adviser. Risk Management Division is responsible for providing centralized management and control of different types of risks including credit risk. Whereas credit approval matters are handled by the Credit Division, both divisions are independent of the business units, and supervised by the Deputy Chief Executive overseeing Risk Management. In addition, functional committees, namely Risk Management Committee and Credit Committee are set up under the Executive Committee and the Risk Committee to provide guidance in the respective risk areas. The Risk Management Committee is a central forum for overseeing the Group's overall asset quality as well as resolving all the important risk or governance issues on credit risk. It is chaired by the Deputy Chief Executive overseeing Risk Management, and the other members are the Group's President and Executive Director, the Head of Risk Management, the Head of Legal and Compliance and the Head of Market Risk. The Credit Committee is responsible for loan quality maintenance, authority delegation, credit related policymaking and maintenance, credit approval and credit risk management issues. It is chaired by the Deputy Chief Executive overseeing Risk Management, and the other members are the Head of Risk Management, the Head of Credit, the Deputy Head of Risk and Credit Management and designated individual credit approver(s).

Overall, credit risks of the Group are managed through the following processes:

- Ensuring the Group's risk profile is in line with the risk appetite and strategies set by the Bank.

- Establishing credit policies and procedures of the Group and issuing lending and monitoring guidelines to credit officers and business units. Credit policies and procedures are constantly revisited and updated whenever warranted to accommodate portfolio development, market changes and regulatory requirements.

- Making appropriate lending authority delegation via the Credit Committee according to the risk, size and nature of the transactions.

- Maintaining the internal risk rating system for measurement of credit risk exposures. The Group adopts a two dimensional risk rating methodology for the corporate portfolio, for which risk ratings are assigned to the obligor and facility separately. This system provides granularity in the rating scale and hence more refined risk differentiation for better risk and reward analysis and enhanced risk quantification. For a certain part of the consumer portfolio, in-house scoring models are also adopted to measure the credit risk involved.

- Monitoring and controlling large exposures, connected lending, product and industry concentration based on established policies and internal risk limits to ensure prudent credit decisions are made and that the Group complies with statutory requirements and supervisory guidelines.

- Monitoring criticized loans and managing recoveries of problem assets. Collection and problem asset management are separately handled by specialized teams with the relevant experience and expert knowledge.

- Assessing collective and individual loan impairment losses and allowances regularly to ensure the adequacy of impairment allowances.

CRA: General information about credit risk (continued)

- Managing and monitoring the Group's loan quality.

- Supervising the stress-testing programme to provide a forward-looking assessment of the Group's risk exposures under stressed conditions, and enable the Group to project tail risks on a bank-wide basis, to quantify such potential losses and the impact on the Bank in terms of profitability, liquidity and capital adequacy.

- Coordinating and driving credit related initiatives throughout the Group to ensure compliance with regulatory requirements.

(a) Credit risk for advances

In addition to underwriting standards, the Group manages credit risks through an effective and prudent credit approval process. In making credit recommendations and decisions, only officers with appropriate banking experience and product knowledge are delegated credit approval authorities. There is a post-approval review process where applicable to ensure quality of the credit decisions made, to identify negative trends which need attention or actions, and to ensure adherence to existing policies and procedures.

In the approval process, the credit officers assess the purpose and structure of the loan, the ability of a particular borrower or counterparty to service the proposed facilities, as well as the nature of the underlying collateral where applicable. Credit approval guidelines are issued from time to time to enhance the credit acceptance process as appropriate.

The Group categorizes its loans and leases into either consumer or corporate and commercial credits and monitors their risks separately as discussed below:

Consumer credits are grouped by products and their risk attributes for purposes of evaluating credit risk, and on-going monitoring of asset quality. Standard credit underwriting criteria are established and exceptional approvals for deviations from such criteria are required and monitored.

Corporate and commercial credits are evaluated for customers' default risk, taking into consideration the related credit enhancements. To support the credit assessment, internal risk ratings will be assigned to customers. These risk ratings are monitored regularly and updated upon any changes in the borrower's or counterparty's financial position, repayment ability and the related credit enhancements.

(b) Credit risk for treasury transactions

The credit risk of the Group's investment in debt securities and treasury hedging transactions is managed by the use of both internal and external credit ratings and credit limits set on individual counterparties. Internal and external credit ratings, and news on each counterparty are closely tracked and monitored.

(c) Credit-related commitments

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

(Expressed in thousands of Hong Kong Dollars)

CRA: General information about credit risk (continued)

(d) Collateral and other credit enhancements

The Group obtains collateral in respect of loans advanced to mitigate the credit risk of the transactions and has established policies and guidelines on the eligibility and valuation of collateral and other credit enhancements. However, the approval of credits will be based on the assessment of debt servicing ability rather than solely dependent on collateral or other credit enhancements. The main collateral types and credit enhancements include charges over properties, standby letters of credit issued by banks, securities, deposits, account receivables, vehicles and guarantees.

(e) Risk concentration

The Group sets various risk limits to control exposure to countries, individual counterparties, industries, intra-group exposures and loan portfolios to avoid excessive risk concentration.

The Group has adopted a “Three Lines of Defense” risk management concept to ensure that roles within the organization are clearly defined in regard to credit risk management. The internal auditors conduct periodic reviews and independent audits of the Group’s credit portfolio and credit risk management process. The purpose is to ensure due compliance with established credit policies and procedures, and to evaluate the effectiveness of the credit management process and control mechanism. The results of these reviews and audits are regularly reported to the Board level Audit Committee for effective oversight and monitoring.

CR1: Credit quality of exposures

The table below provides an overview of the credit quality of on- and off-balance sheet exposures as at 31 December 2017:

		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
1	Loans	339,894	391,574,463	(1,315,570)	390,598,787
2	Debt securities	-	117,278,329	(9,058)	117,269,271
3	Off-balance sheet exposures	-	32,278,712	-	32,278,712
4	**Total**	**339,894**	**541,131,504**	**(1,324,628)**	**540,146,770**

(Expressed in thousands of Hong Kong Dollars)

CR2: Changes in defaulted loans and debt securities

The table below provides information on the changes in defaulted loans and debt securities, including any changes in the amount of defaulted exposures, movements between non-defaulted and defaulted exposures, and reductions in the defaulted exposures due to write-offs as at 31 December 2017 and 30 June 2017 respectively:

		(a)
		Amount
1	**Defaulted loans and debt securities at end of the previous reporting period**	294,131
2	Loans and debt securities that have defaulted since the last reporting period	69,295
3	Returned to non-defaulted status	(10,502)
4	Amounts written off	(13,030)
5	Other changes	-
6	**Defaulted loans and debt securities at end of the current reporting period**	**339,894**

CRB: Additional disclosure related to credit quality of exposures

This section provides additional qualitative and quantitative information on the credit quality of exposures to supplement the quantitative information provided under templates CR1 and CR2.

Credit risk exposures by geographical areas:

Geographical areas	**As at 31 December 2017**
Hong Kong	283,623,753
China	223,199,813
Others	34,647,832
Total	541,471,398

Credit Risk exposures by residual maturity:

Residual maturity	**As at 31 December 2017**
Less than 1 year	272,264,772
Between 1 and 5 years	209,431,693
More than 5 years	59,183,153
Undated	591,780
Total	541,471,398

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

The credit quality of credit exposures can be analyzed as follows:

Analysis of exposures that are "neither past due nor impaired", "past due but not impaired" and "impaired":

Credit exposures	As at 31 December 2017
Neither past due nor impaired	535,539,049
Past due but not impaired	5,094,854
Impaired	837,495
Total	541,471,398

Aging analysis of exposures which were past due but not impaired:

Exposures that are past due but not impaired	As at 31 December 2017
Overdue 3 months or less	5,094,854
Overdue more than 3 months	-
Total	5,094,854

Breakdown of restructured exposures between impaired and not impaired exposures:

Restructured exposures	As at 31 December 2017
Not impaired	-
Impaired	63,538
Total	63,538

Impaired exposures by geographical areas:

Impaired exposures	Gross impaired exposures	Individually assessed impairment allowances
Hong Kong	790,548	366,356
Others	46,947	2,272
Total	837,495	368,628

Impaired exposures by industry sectors:

Impaired exposures	As at 31 December 2017
Property development	421,978
Others	415,517
Total	837,495

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

The Group has laid down guidelines for determining the impairment loss allowances.

At each of the reporting period end, the carrying amount of the Group's assets are reviewed to determine whether there is objective evidence of impairment. If internal and external sources of information indicate such evidence exists, the carrying amount is reduced to the estimated recoverable amount and an impairment loss is recognized in the income statement.

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

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due. The original loan that is renegotiated is derecognized and a new financial asset is recognized at fair value if the original loan agreement is cancelled and a new agreement made on substantially different terms.

CRC: Qualitative disclosures related to credit risk mitigation

The Group obtains collateral in respect of loans advanced to mitigate the credit risk of the transactions and has established policies and guidelines on the eligibility and valuation of collateral and other credit enhancements. However, the approval of credits will be based on the assessment of debt servicing ability rather than solely dependent on collateral or other credit enhancements.

For regulatory capital adequacy and management, the Group has established policies in managing and recognizing credit risk mitigation, one of which is the taking of collateral and other credit enhancements. The principal types of collateral taken by the Group are also those of the recognized credit risk mitigation as prescribed in the Banking (Capital) Rules.

For regulatory capital calculation, the Group adheres to the criteria as stipulated in the Banking (Capital) Rules when assessing the eligibility of the credit risk mitigation.

Recognized collateral include both financial and physical collateral. Financial collateral include cash deposit, shares and debt securities and mutual fund, whilst physical collateral include commercial real estate and residential real estate. The exposure amount after mitigation is determined by applying the standard supervisory haircut stipulated in the Banking (Capital) Rules as an adjustment discount to the current collateral value.

Recognized guarantor is any sovereign entities, public sector entities, banks and regulated securities firms with a lower risk weight than the borrower.

On-balance sheet and off-balance sheet recognized netting is not adopted by the Group.

(Expressed in thousands of Hong Kong Dollars)

CR3: Overview of recognized credit risk mitigation

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

		(a)	(b1)	(b)	(d)	(f)
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	304,801,927	85,796,860	6,264,502	79,532,358	-
2	Debt securities	115,803,472	1,465,799	-	1,465,799	-
3	**Total**	**420,605,399**	**87,262,659**	**6,264,502**	**80,998,157**	**-**
4	Of which defaulted	17,829	52,482	52,482	-	-

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

The Group uses the following external credit assessment institutions (“ECAIs”) to calculate its capital adequacy requirements under the Standardised (Credit Risk) Approach prescribed in the Banking (Capital) Rules:

- Moody’s Investors Service
- Standard & Poor’s Ratings Services

Where exposures have been rated by the above-mentioned ECAIs, they are categorised under the following classes of exposures:

- Sovereign exposures
- Public sector entity exposures
- Bank exposures
- Securities firm exposures and
- Corporate exposures.

The process used to map ECAIs issue specific ratings in the Group’s banking book is consistent with those prescribed in the Banking (Capital) Rules.

(Expressed in thousands of Hong Kong Dollars)

CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach

The following table illustrates the effect of any recognized CRM (including recognized collateral under both comprehensive and simple approaches) on the calculation of credit risk capital requirements under STC approach as at 31 December 2017:

		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		**Exposures post-CCF and post-CRM**		**RWA and RWA density**	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	32,607,531	-	32,798,205	-	1,405,179	4%
2	PSE exposures	-	-	180,064	205	36,054	20%
2a	Of which: domestic PSEs	-	-	180,064	205	36,054	20%
2b	Of which: foreign PSEs	-	-	-	-	-	0%
3	Multilateral development bank exposures	-	-	-	-	-	0%
4	Bank exposures	154,103,023	90,974	223,924,547	111,166	90,052,010	40%
5	Securities firm exposures	734,510	-	1,031,598	-	515,799	50%
6	Corporate exposures	269,564,221	33,758,306	193,997,234	13,575,382	189,876,224	91%
7	CIS exposures	-	-	-	-	-	0%
8	Cash items	263,098	-	263,098	-	-	0%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	0%
10	Regulatory retail exposures	19,920,352	50,753,447	19,657,668	17,525	14,756,396	75%
11	Residential mortgage loans	19,984,317	5,800	19,908,943	2,900	8,344,583	42%
12	Other exposures which are not past due exposures	17,206,661	672,535	16,410,334	783	16,411,117	100%
13	Past due exposures	123,787	-	123,787	-	159,440	129%
14	Significant exposures to commercial entities	-	-	-	-	-	0%
15	**Total**	**514,507,500**	**85,281,062**	**508,295,478**	**13,707,961**	**321,556,802**	**62%**

(Expressed in thousands of Hong Kong Dollars)

CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

The following table presents a breakdown of credit risk exposures under STC approach by asset classes and by risk weights as at 31 December 2017:

		(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	25,772,308	-	7,025,897	-	-	-	-	-	-	-	32,798,205
2	PSE exposures	-	-	180,269	-	-	-	-	-	-	-	180,269
2a	Of which: domestic PSEs	-	-	180,269	-	-	-	-	-	-	-	180,269
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	79,407,665	-	141,180,815	-	3,181,561	265,672	-	-	224,035,713
5	Securities firm exposures	-	-	-	-	1,031,598	-	-	-	-	-	1,031,598
6	Corporate exposures	-	-	-	-	36,803,398	-	169,358,604	1,410,614	-	-	207,572,616
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	263,098	-	-	-	-	-	-	-	-	-	263,098
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	-	-	-	-	-	19,675,193	-	-	-	-	19,675,193
11	Residential mortgage loans	-	-	-	17,686,736	-	283,529	1,941,578	-	-	-	19,911,843
12	Other exposures which are not past due exposures	-	-	-	-	-	-	16,411,117	-	-	-	16,411,117
13	Past due exposures	-	-	-	-	-	-	52,482	71,305	-	-	123,787
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**26,035,406**	**-**	**86,613,831**	**17,686,736**	**179,015,811**	**19,958,722**	**190,945,342**	**1,747,591**	**-**	**-**	**522,003,439**

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

Counterparty Credit Risk Management

The Group has adopted the Current Exposure Method for regulatory capital calculation of its counterparty credit risk ("CCR") arising from securities financing transactions and derivative contracts booked in the banking book and trading book.

The Group has in place a set of policies and a comprehensive framework to effectively manage such counterparty credit risk.

Under this management framework, the Group establishes credit limit through formal credit approval procedures to control the pre-settlement and settlement credit risk arising from derivative transactions. In this connection, distinct credit limits for counterparty credit exposure for individual counterparties and each group of related counterparties are determined based on the credit standing of the counterparties, collateral value, contract nature, actual needs, etc.

From a risk management perspective, the Group monitors the risk exposure due to fluctuations in the market by using the current exposure and the potential exposure value of the transactions.

All credit facilities granted to a counterparty, including general credit facilities as well as pre-settlement limit for derivative and FX products will be subject to review on an annual basis, in order to assess the latest information together with credit standing of the counterparties, and decide whether any adjustment of the credit package is required.

Transactions with associated specific wrong-way risks are discouraged, e.g. granting a credit line to a counterparty against the pledge of the counterparty's own shares (e.g. for conducting OTC derivative transactions) creates specific wrong-way risk to the Bank, as the risk of "secured" portion of the exposure is positively correlated with the probability of default of the counterparty. Exception should be justified and approved by Deputy Head of Credit Division or above.

Credit ratings downgrade

A credit rating downgrade clause in International Swaps and Derivatives Association ("ISDA") Master Agreement or a credit rating downgrade threshold clause in a Credit Support Annexes ("CSA") is designed to trigger an action if the credit rating of the affected party falls below a specified level. These actions may include the requirement to pay or increase collateral, the termination of transactions by the non-affected party or the assignment of transactions by the affected party.

If the Bank is given a credit rating downgrade, the impact on collateral posted is minimal as currently there are no such clauses in the collateral agreements entered by the Bank.

(Expressed in thousands of Hong Kong Dollars)

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

The following table presents a comprehensive breakdown of counterparty default risk exposures (other than those to CCPs), RWAs, and, where applicable, main parameters under the approaches used to calculate default risk exposures in respect of derivative contracts and SFTs 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
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-
1a	CEM	7,010,980	5,888,489		N/A	10,020,991	3,970,775
2	IMM(CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	**Total**						**3,970,775**

CCR2: CVA capital charge

The following table presents information on portfolios subject to the CVA capital charge and the CVA calculations based on standardized CVA method and advanced CVA method as at 31 December 2017:

		(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	10,020,991	1,473,813
4	**Total**	**10,020,991**	**1,473,813**

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

The following table presents a breakdown of default risk exposures as at 31 December 2017, other than those to CCPs, in respect of derivative contracts and SFTs that are subject to the STC approach, by asset classes and risk-weights, irrespective of the approach used to determine the amount of default risk exposures:

		(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
	Risk Weight / Exposure class	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	-	-	3,684,757	-	6,172,218	-	27,757	-	-	-	9,884,732
5	Securities firm exposures	-	-	-	-	32,602	-	-	-	-	-	32,602
6	Corporate exposures	-	-	-	-	-	-	56,705	-	-	-	56,705
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	46,952	-	-	-	46,952
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	**Total**	**-**	**-**	**3,684,757**	**-**	**6,204,820**	**-**	**131,414**	**-**	**-**	**-**	**10,020,991**

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

The following table presents a breakdown of all types of collateral posted or recognized collateral received to support or reduce the exposures to counterparty default risk exposures as at 31 December 2017 in respect of derivative contracts or SFTs entered into, including contracts or transactions cleared through a CCP:

	(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	-	1,894,265	67,921	69,001	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**-**	**1,894,265**	**67,921**	**69,001**	**-**	**-**

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MRA: Qualitative disclosures related to market risk

Please refer to note 8 Financial Risk Management of the consolidated financial statements of China Construction Bank (Asia) Corporation Limited for details.

MR1: Market risk under STM approach

The table below provides the components of the market risk capital requirements calculated using the STM approach as at 31 December 2017:

		(a)
		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	4,391,350
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	22,232,425
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	**Total**	**26,623,775**

Glossary

Abbreviations	Descriptions
AMA	Advanced measurement approach
ASA	Alternative standardized approach
BIA	Basic indicator approach
BSC	Basic approach
CCF	Credit conversion factor
CCP	Central counterparty
CCR	Counterparty credit risk
CEM	Current exposure method
CIS	Collective investment scheme
CRM	Credit risk mitigation
CVA	Credit valuation adjustment
EAD	Exposure at default
EPE	Expected positive exposure
FBA	Fall-back approach
IMM	Internal models approach
IMM (CCR)	Internal models (counterparty credit risk) approach
IRB	Internal ratings-based approach
IRB (S)	Internal ratings-based (securitization) approach
LTA	Look through approach
MBA	Mandate-based approach
PFE	Potential future exposure
PSE	Public sector entity
RC	Replacement cost
RW	Risk-weight
RWA	Risk-weighted asset/risk-weighted amount
S	Securitization
SA-CCR	Standardized approach for counterparty credit risk
SFT	Securities financing transaction
STC	Standardized (credit risk) approach
STC (S)	Standardized (securitization) approach
STM	Standardized (market risk) approach
STO	Standardized (operational risk) approach
VaR	Value at risk