Goldman Sachs Asia Bank Limited, a restricted licence bank

Directors' Report and Financial Statements

For the year ended 31 December 2018

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Directors' Report and Financial Statements
For the year ended 31 December 2018

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Goldman Sachs Asia Bank Limited, a restricted licence bank

Directors' Report

The directors submit their report together with the audited financial statements of Goldman Sachs Asia Bank Limited (the "Company"), a restricted licence bank, for the year ended 31 December 2018.

Principal activity

The Company is a restricted licence bank under the Banking Ordinance in Hong Kong. It is also a registered institution under the Hong Kong Securities and Futures Ordinance.

The Company has been established to provide the clients of The Goldman Sachs Group, Inc. and / or its consolidated subsidiaries (together, the "Firm") in the Asia excluding Japan region with the opportunity to transact business with a bank counterparty located in Asia.

The Company's principal activities are to engage in deposit-taking and over-the-counter derivatives. These activities are conducted in cooperation with the affiliated companies within the Firm, which give rise to service fee income and expense.

Results and appropriations

The results of the Company for the year ended 31 December 2018 are set out in the statement of comprehensive income on page 6.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2018.

Share capital

Details of the Company's share capital are set out in Note 15 to the financial statements.

Directors

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

Chairman and non-executive director:
Mr. Tim Freshwater

Executive director:
Ms. Denise Wyllie

Non-executive director:
Mr. James Houghton

Independent non-executive directors:
Ms. Syaru Shirley Lin
Mr. Patrick Paul

There being no provision in the Company's Articles of Association for retirement by rotation, all current directors continue in office.

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

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

Directors' interests in equity and debt securities of the Company or any specified undertaking of the Company

Directors of the Company, except for the independent non-executive directors, have acquired interests in the shares of the Company's ultimate parent company, The Goldman Sachs Group, Inc., through equity-based compensation arrangements. Pursuant to awards made under these employee incentive plans, all of the directors of the Company during the year, except for the independent non-executive directors, received common shares in the Company's ultimate parent company.

Except for the above, at no time during the year was the Company, its affiliated companies, its parent companies or its ultimate parent company a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Management contracts

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

Permitted indemnity provisions

The Articles of Association of the Company provide that the Company may indemnify any director of the Company against any liability incurred by the director in relation to the Company in defending any proceedings, whether civil or criminal, in which judgment is given in the director's favor or in which the director is acquitted or in connection with any application under certain provisions of the Hong Kong Companies Ordinance in which relief is granted to the director by the court.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the coming Annual General Meeting of the Company.

On behalf of the Board

T Freshwater

Director / Tim Freshwater

4 April 2019

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBER OF GOLDMAN SACHS ASIA BANK LIMITED, A RESTRICTED LICENCE BANK
(INRORPORATED IN HONG KONG WITH LIMITED LIABILITY)

Opinion

What we have audited

The financial statements of Goldman Sachs Asia Bank Limited (the "Company"), a restricted licence bank set out on pages 6 to 41, which comprise:

- the balance sheet as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the directors' report and unaudited disclosure statement, but does not include the Company's financial statements and our auditor's report thereon.

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBER OF GOLDMAN SACHS ASIA BANK LIMITED, A RESTRICTED LICENCE BANK
(INRORPORATED IN HONG KONG WITH LIMITED LIABILITY) (CONTINUED)

Other Information (Continued)

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

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

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

Responsibilities of Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBER OF GOLDMAN SACHS ASIA BANK LIMITED, A RESTRICTED LICENCE BANK
(INRORPORATED IN HONG KONG WITH LIMITED LIABILITY)
(CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 4 April 2019

Goldman Sachs Asia Bank Limited, a restricted licence bank

Statement of Comprehensive Income
For the year ended 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Interest income	4	1,761	589
Interest expense	4	(155)	(121)
Net interest income		1,606	468
Other income	5	6,842	16,310
Total revenue		8,448	16,778
Operating expenses	6	(7,051)	(16,402)
Profit before income tax		1,397	376
Income tax expense	8	(202)	(48)
Profit and total comprehensive income for the year		1,195	328

The accompanying notes are an integral part of these financial statements.

Goldman Sachs Asia Bank Limited, a restricted licence bank

Balance Sheet
As at 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Assets			
Current assets			
Cash and cash equivalents	9	112,722	112,218
Financial instruments at fair value	10	23	1,020
Trade and other receivables	11	17,559	18,573
Current income tax receivables		340	-
		130,644	131,811
Non-current assets			
Deferred income tax assets	12	820	783
Total assets		131,464	132,594
Liabilities			
Current liabilities			
Deposit from an affiliated customer	16(b)	1,000	1,000
Short-term loans payable	16(c)	2,000	2,000
Financial instruments at fair value	10	25	1,027
Trade and other payables	14	10,181	11,411
Current income tax liabilities		-	366
		13,206	15,804
Non-current liabilities			
Trade and other payables	14	3,500	3,227
Total liabilities		16,706	19,031
Equity			
Share capital	15	114,010	114,010
Retained profit / (Accumulated loss)		748	(447)
Total equity		114,758	113,563
Total equity and liabilities		131,464	132,594

The financial statements on pages 6 to 41 were approved by the Board of Directors on 4 April 2019 and were signed on its behalf.

Director / Denise Wyllie

Director / Tim Freshwater

The accompanying notes are an integral part of these financial statements.

Goldman Sachs Asia Bank Limited, a restricted licence bank

Statement of Changes in Equity
For the year ended 31 December 2018

	Share capital US$ ’000	Retained profit / (Accumulated loss) US$ ’000	Total US$ ’000
2018			
At the beginning of the year	114,010	(447)	113,563
Total comprehensive income for the year	-	1,195	1,195
At the end of the year	114,010	748	114,758
2017			
At the beginning of the year	114,010	(775)	113,235
Total comprehensive income for the year	-	328	328
At the end of the year	114,010	(447)	113,563

The accompanying notes are an integral part of these financial statements.

Goldman Sachs Asia Bank Limited, a restricted licence bank

Statement of Cash Flows
For the year ended 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Operating activities			
Cash used in operations	17	(22)	(1,402)
Interest received from operating activities		1,629	547
Interest paid on operating activities		(158)	(98)
Profit tax paid		(945)	(441)
Net cash inflow / (outflow) from operating activities		504	(1,394)
Investing activities			
Decrease in short-term deposits		-	14,545
Net cash inflow from investing activities		-	14,545
Financing activities			
Decrease in long-term loans		-	(2,000)
Net cash outflow from financing activities		-	(2,000)
Increase in cash and cash equivalents		504	11,151
Cash and cash equivalents, at the beginning of the year		112,218	101,067
Cash and cash equivalents, at the end of the year	9	112,722	112,218

The accompanying notes are an integral part of these financial statements.

1 General information

Goldman Sachs Asia Bank Limited (the "Company"), a restricted licence bank, is a limited liability company incorporated in Hong Kong on 12 December 2012. The address of its registered office is 68th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

The Company is wholly owned by Goldman Sachs Holdings (Hong Kong) Limited. The ultimate parent company is The Goldman Sachs Group, Inc. ("Group Inc."), which is incorporated in the State of Delaware, U.S.A. and listed on the New York Stock Exchange.

The Company is a restricted licence bank under the Banking Ordinance in Hong Kong. It is also a registered institution under the Hong Kong Securities and Futures Ordinance.

The Company has been established to provide the clients of Group Inc. and / or its consolidated subsidiaries (collectively, the "Firm") in the Asia excluding Japan region with the opportunity to transact business with a bank counterparty located in Asia.

The Company's principal activities are to engage in deposit-taking and over-the-counter ("OTC") derivatives. These activities are conducted in cooperation with the affiliated companies within the Firm, which give rise to service fee income and expense.

All references to 2018 and 2017 refer to the years ended, or the dates, as the context requires, 31 December 2018 and 31 December 2017, respectively.

2 Summary of principal accounting policies

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

2.1 Basis of preparation

The financial statements are prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance (Cap.622). They have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets or liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

2 Summary of principal accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Company

The following standards have been adopted by the Company for the first time for the accounting year beginning on 1 January 2018:

(i) HKFRS 9 "Financial instruments"

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial instruments. The Company has adopted HKFRS 9 from 1 January 2018, with the practical expedients permitted under the standard. Comparative figures are not restated and continue to be accounted for in accordance with the Company's previous accounting policies.

The consequential amendments to HKFRS 7 "Financial Instruments: Disclosures" have only been applied in the current year.

The adoption of HKFRS 9 has resulted in changes in the Company's accounting policies for recognition, classification and measurement of financial assets and liabilities, which are set out in Note 2.7 to the financial statements.

The Company performed a detailed analysis of its business models for managing financial assets and, where required, subsequent analysis of cash flow characteristics on individual financial assets.

The measurement category and the carrying amount of financial assets in accordance with HKFRS 9 and HKAS 39 "Financial Instruments: Recognition and Measurement" on 1 January 2018, are compared as follows:

	HKFRS 9 measurement category		
	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost
HKAS 39 measurement category	US$'000	US$'000	US$'000
Loans and receivables			
Cash and cash equivalents	-	-	112,218
Trade and other receivables	-	-	18,573
Held for trading			
Financial instruments at fair value	1,020	-	-
	1,020	-	130,791

There are no changes in the carrying amounts arising from changes in measurement attributes on transition to HKFRS 9.

2 Summary of principal accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(a) New and amended standards adopted by the Company (continued)

(i) HKFRS 9 "Financial instruments" (continued)

There are no changes to the classification and measurement of financial liabilities, other than to changes in fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in the instrument's credit risk and the Company does not have any such liabilities.

Based on the assessments undertaken to date, the adoption of HKFRS 9 does not have an impact on the Company's impairment provision.

(ii) HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs and new disclosures.

There are no changes to the presentation of revenue nor any cumulative effect of this adoption to be recognised in retained profit as of 1 January 2018.

Other standards, amendments and interpretations which are effective for the accounting period beginning on 1 January 2018 have had no significant financial impact on these financial statements.

(b) New standards and interpretations not early adopted

There are no other HKFRS that are not yet effective that would be expected to have a material impact on the Company.

2.2 Currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in US dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Transactions in currencies other than US dollars are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than US dollars, are recognised in the statement of comprehensive income.

2 Summary of principal accounting policies (continued)

2.3 Revenue recognition

Interest income is recognised on a time apportioned basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Service fee income from affiliated companies is credited to income on an accrual basis in the period in which the related services are provided by the Company.

2.4 Taxation

Taxation for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is then recognised in other comprehensive income or directly in equity.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred income tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.5 Employee benefits

(a) Compensation

The Company recognises a liability and an expense for bonuses payable to employees as part of their compensation. A provision is also made for the estimated liability for annual leave earned by employees but untaken at the balance sheet date.

2 Summary of principal accounting policies (continued)

2.5 Employee benefits (continued)

(b) Employee incentive plans

Group Inc. issues awards in the form of restricted stock units ("RSUs") and stock options to the Company's employees for services rendered to the Company. The cost of employee services received in exchange for an equity-based award is measured based on the fair value of the equity instruments at the grant date. Non-market based vesting conditions are not taken into account in measuring the fair value of awards, but are reflected by adjusting over time the number of equity awards that are expected to vest. Equity-based awards that do not contain vesting conditions are expensed immediately, while awards that require future service are amortised over the relevant service period. The costs of equity-based awards are calculated with reference to the quoted market price of Group Inc.'s common stock, and are recorded as employee compensation in the Company's statement of comprehensive income.

Group Inc. settles equity awards by the delivery of its ordinary shares to the Company's employees. The Company has entered into a chargeback agreement under which it is committed to pay to Group Inc. the market value of those shares at the time of delivery. Further details of the equity-based award plans are set out in Note 13.

(c) Pension obligations

The Company offers a mandatory provident fund scheme and defined contribution pension plans to employees. Under the pension plans, the Company pays contributions to public or privately administered funds and will have no further payment obligations once the contributions have been paid. The Company's contributions are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

2.6 Cash and cash equivalents

Cash and cash equivalents include deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.7 Financial instruments

(a) Classification and recognition (for the year ended 31 December 2017)

Financial assets and liabilities at fair value through profit or loss are financial assets or liabilities held for trading, those designated at fair value through profit or loss at inception, and derivative financial instruments. Financial assets and liabilities are classified as held for trading if acquired principally for the purpose of selling in the short term, and are classified as current assets or liabilities if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

2 Summary of principal accounting policies (continued)

2.7 Financial instruments (continued)

(a) Classification and recognition (for the year ended 31 December 2017) (continued)

Purchases and sales of financial instruments are recognised on trade date – the date on which the Company commits to purchase or sell the instrument. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

(b) Recognition and derecognition (for the year ended 31 December 2018)

Non-derivative financial instruments owned and financial instruments sold, but not yet purchased (i.e., cash instruments) or sold in regular way transactions are recognised and derecognised using trade date accounting.

Other financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or if the Company transfers the financial asset and either a) substantially all the risk and rewards of ownership, or b) neither transfers nor retains substantially all the risk and rewards of ownership and the Company does not retain control of that financial asset. Financial liabilities are derecognised only when they are extinguished (i.e., when the obligation specified in the contract is discharged or cancelled or expires).

(c) Classification and measurement – Financial assets (for the year ended 31 December 2018)

The Company has applied HKFRS 9 from 1 January 2018 and classifies its financial assets into the below categories based on the Company's business model for managing the asset and, where required, subsequent analysis of cash flow characteristics on individual financial assets.

The business model reflects how the Company manages particular groups of assets in order to generate future cash flows. Where the business model is to hold the assets to collect contractual cash flows, the Company subsequently assesses whether the financial assets cash flows represent solely payments of principal and interest. The Company considers whether the cash flows represent basic lending arrangements. Where contractual terms introduce exposure to risk or volatility inconsistent with a basic lending arrangement, the financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivative features are considered in their entirety in the above described assessment.

2 Summary of principal accounting policies (continued)

2.7 Financial instruments (continued)

(c) Classification and measurement – Financial assets (for the year ended 31 December 2018) (continued)

(i) Financial assets classified at amortised cost

Financial assets that are held for the collection of contractual cash flows and have cash flows that represent solely payments of principal and interest, and that are not designated at fair value, are measured at amortised cost. Such financial assets are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method.

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

(ii) Financial assets classified at fair value through profit or loss

Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. Such financial assets are measured in the balance sheet at fair value and subsequent gains or losses are recognised in the statement of comprehensive income.

(d) Classification and measurement – Financial liabilities (for the year ended 31 December 2018)

(i) Financial liabilities classified at amortised cost

Financial liabilities measured at amortised cost are initially recognised at fair value plus transactions costs and subsequently measured at amortised cost using the effective interest method.

(ii) Financial liabilities classified as held for trading

Financial liabilities classified as held for trading are initially recognised at fair value with transaction costs expensed in profit or loss. Such financial instruments are carried in the balance sheet at fair value and all subsequent gains or losses are recognised in the statement of comprehensive income.

2 Summary of principal accounting policies (continued)

2.7 Financial instruments (continued)

(e) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Gains and losses arising from changes in fair value are recognised in the statement of comprehensive income.

The Company's derivative instruments consist of over-the-counter derivatives.

OTC derivatives are valued using market transactions and other market evidence, including market-based inputs to models, calibration to market-clearing transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g. indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Where models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, model selection does not involve significant management judgement because outputs of models can be calibrated to market clearing levels.

Certain OTC derivatives are valued using models which utilise inputs that can be observed in the market, as well as unobservable inputs. Unobservable inputs typically include certain correlations as well as credit spreads, equity volatilities, commodity prices and commodity volatilities that are long-dated or derived from trading activity in inactive or less liquid markets. Subsequent to the initial valuation of such derivatives, the Company updates the observable inputs to reflect observable market changes. Unobservable inputs are changed when corroborated by evidence such as similar market transactions, third-party pricing services and / or broker or dealer quotations or other empirical market data. In circumstances where the Company cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

2 Summary of principal accounting policies (continued)

2.7 Financial instruments (continued)

(f) Offsetting financial assets and liabilities

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

2.8 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

For the year ended 31 December 2017

An allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the allowance is recognised in the statement of comprehensive income.

2.9 Loans payable

Loans payable are recognised initially at fair value, net of transaction costs incurred. Loans payable are subsequently stated at amortised cost. Any difference between the proceeds net of transaction costs and the redemption value is taken to the statement of comprehensive income over the period of the borrowings using the effective interest method.

Loans payable which are due to be settled within twelve months of the balance sheet date or where the Company does not have unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date are included in current liabilities even though the original term was for a period longer than twelve months. Other loans payable due to be settled more than twelve months after the balance sheet date or where the Company has unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date are included in non-current liabilities.

2.10 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2 Summary of principal accounting policies (continued)

2.11 Comparatives

Where necessary, comparative figures have been reclassified to conform with the current year's presentation.

3 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Company and are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

3.1 Income taxes

Judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

3.2 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, OTC derivatives) is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the balance sheet date.

3.3 Allowance for impairment

The allowance for impairment is determined by an expected credit loss ("ECL") model developed to meet the impairment requirements of HKFRS 9. The measurement of expected credit losses for financial assets classified at amortised cost requires the use of a complex model and significant assumptions about future economic conditions and credit behaviour. Significant judgements are also required in applying the accounting requirements for measuring expected credit losses including determining criteria for significant increases in credit risk and establishing the number and weighting of forward looking scenarios. Further information about the judgements and estimates made by the Company is set out in Note 18.2.

4 Interest income and interest expense

	2018 US$ '000	2017 US$ '000
Interest income from:		
- authorized institutions	1,608	507
- affiliated companies (Note 16(a))	153	82
	1,761	589

4 Interest income and interest expense (continued)

	2018 US$ '000	2017 US$ '000
Interest expense to:		
- an affiliated customer (Note 16(b))	21	10
- ultimate parent company (Note 16(c))	38	33
- affiliated companies (Note 16(c))	55	41
- others	41	37
	155	121

5 Other income

	2018 US$ '000	2017 US$ '000
Service fee income (Note 16(d))	6,850	16,300
Net currency translation (losses) / gains	(8)	10
	6,842	16,310

6 Operating expenses

Operating expenses include:

	2018 US$ '000	2017 US$ '000
Employee compensation and benefits (Note 16(f))	2,056	4,496
Service fee expense (Note 16(e))	4,284	10,315
Directors' emoluments (Note 7)	399	412
Auditor's remuneration	82	88

7 Directors' emoluments

The emoluments of the Directors of the Company disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation are set out below:

	2018 US$ '000	2017 US$ '000
Aggregate emoluments		
- in respect of their services as directors of the Company	200	200
- in respect of their other services in connection with the management of the affairs of the Company	199	212
	399	412

8 Income tax expense

Hong Kong profits tax has been provided at the rates of 8.25% for the first HKD 2 million and 16.5% thereafter (2017: 16.5%) of the estimated assessable profits arising in Hong Kong during the year.

The amount of tax charged to the statement of comprehensive income represents:

	2018 US$ '000	2017 US$ '000
Current income tax	246	611
Deferred income tax (Note 12)	(38)	(551)
Adjustment of current tax for prior periods	(6)	(12)
	202	48

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the Hong Kong taxation rate due to the following:

	2018 US$ '000	2017 US$ '000
Profit before income tax	1,397	376
Tax calculated at Hong Kong tax rate	210	62
Overprovision in prior periods	(6)	(12)
Currency translation gain	(2)	(2)
Income tax expense	202	48

9 Cash and cash equivalents

	2018 US$ '000	2017 US$ '000
Cash at banks	47,222	61,218
Bank deposits		
- with an affiliated bank (Note 16(g))	7,000	7,000
- with authorized institutions	58,500	44,000
	112,722	112,218

10 Financial instruments at fair value

The Company engages in OTC derivatives market making and holds positions accordingly.

The following table sets out the Company's financial instruments owned and financial instruments sold, but not yet purchased, measured at fair value through profit and loss.

On-balance sheet derivative financial instruments classified as held for trading:

	2018		2017	
	Assets US$ '000	Liabilities US$ '000	Assets US$ '000	Liabilities US$ '000
Forward settlement contracts with an affiliated company (Note 16(h))	3	5	3	10
Option contracts with an affiliated company (Note 16(h))	-	20	114	903
Option contracts with others	20	-	903	114
	23	25	1,020	1,027

11 Trade and other receivables

	2018 US$ '000	2017 US$ '000
Amounts due from ultimate parent company (Note 16(i))	51	-
Amounts due from affiliated companies (Note 16(i))	17,261	17,174
Trade receivables	-	1,319
Other receivables	163	80
Prepayments	84	-
	17,559	18,573

12 Deferred income tax assets

The movement of the deferred income tax assets account is as follows:

	2018 US$ '000	2017 US$ '000
At the beginning of the year	783	235
Deferred taxation credited to statement of comprehensive income (Note 8)	38	551
Currency translation	(1)	(3)
At the end of the year	820	783
Deferred tax to be settled after more than 12 months	582	532

Deferred income tax asset is recognised for employee incentive plans, to the extent that the realisation of the related tax benefit through future taxable profit is probable.

13 Employee incentive plans

The Company's ultimate parent company sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (2018) ("2018 SIP"), which provides for grants of restricted stock units ("RSUs"), restricted stock, dividend equivalent rights, incentive stock options, nonqualified stock options, stock appreciation rights, and other share-based awards, each of which may be subject to performance conditions. On 2 May 2018, shareholders of the Company's ultimate parent company approved the 2018 SIP. The 2018 SIP replaced The Goldman Sachs Amended and Restated Stock Incentive Plan (2015) ("2015 SIP") previously in effect, and applies to awards granted on or after the date of approval. The 2015 SIP had previously replaced The Goldman Sachs Amended and Restated Stock Incentive Plan (2013).

13.1 Restricted stock units

The ultimate parent company grants RSUs (including RSUs subject to performance conditions) to employees of the Company, which are generally valued based on the closing price of the underlying shares on the date of grant after taking into account a liquidity discount for any applicable post-vesting and delivery transfer restrictions. RSUs generally vest and underlying shares of common stock are delivered (net of required withholding tax) as outlined in the applicable award agreements. Award agreements generally provide that vesting is accelerated in certain circumstances, such as on retirement, death, disability and conflicted employment. Delivery of the underlying shares of common stock, which generally occurs over a three-year period, is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements. The cost of these RSUs is allocated to the Company by the ultimate parent company.

The activity related to these RSUs was:

	Restricted stock units outstanding			
	2018		2017	
	No future service required	Future service required	No future service required	Future service required
Outstanding at the beginning of the year	9,301	4,700	1,704	5,305
Granted	7,944	3,070	3,102	6,396
Forfeited	-	(89)	-	-
Delivered	(5,970)	-	(1,704)	-
Transferred in	-	172	-	186
Transferred out	-	(367)	-	(988)
Vested	4,434	(4,434)	6,199	(6,199)
Outstanding at the end of the year	15,709	3,052	9,301	4,700

The weighted average grant-date fair value of RSUs granted during 2018 was US$218.77. The fair value of the RSUs granted during 2018 includes a liquidity discount of 12.83% to reflect post-vesting and delivery transfer restrictions, generally of up to 4 years.

The aggregate fair value of awards vested during 2018 was US$2,440,729 (2017: US$1,983,266).

14 Trade and other payables

	2018 US$ '000	2017 US$ '000
Current liabilities		
Amounts due to ultimate parent company (Note 16(j))	1,404	1,924
Amounts due to affiliated companies (Note 16(j))	189	1,446
Accruals and other liabilities	8,588	8,041
	10,181	11,411
Non-current liabilities		
Amounts due to ultimate parent company (Note 16(j))	1,437	1,490
Accruals and other liabilities	2,063	1,737
	3,500	3,227

15 Share capital

	2018 US$ '000	2017 US$ '000
Issued and fully paid:		
114,010,000 ordinary shares	114,010	114,010

16 Related party transactions

Details of the related party transactions are disclosed as follows:

(a) Interest income from affiliated companies was earned, at prevailing market rates, primarily from cash deposits placed with an affiliated bank and cash collateral placed with affiliated companies.

(b) The deposit from an affiliated customer is a time deposit, which is unsecured and interest-bearing at prevailing market rates.

(c) The Company has unsecured term loans payable to the ultimate parent company and an affiliated company, which bear interest at prevailing market rates. Interest expenses were mainly incurred from term loans payable to and cash collateral received from affiliated companies.

(d) Service fee income from an affiliated company represents charging of expenses, some of which with mark up, incurred by the Company for engaging in OTC derivative activities in cooperation with the affiliated companies.

(e) Service fee expense represents the allocation of costs from an affiliated company in relation to the support services provided to the Company.

(f) Employee compensation and benefits are presented net of recharges to and from affiliated companies for secondment arrangements between the Company and the affiliated companies.

16 Related party transactions (continued)

(g) The Company deposits excess cash with an affiliated bank under normal commercial terms.

(h) Derivative assets and liabilities with affiliated companies arise from transactions that the Company entered into with affiliated companies in the normal course of business.

(i) Amounts due from affiliated companies primarily comprise service charges receivable and cash collateral receivable. Amounts due from the ultimate parent company represent other receivables.

(j) Amounts due to the ultimate parent company primarily comprise chargeback of equity-based awards payable. Amounts due to affiliated companies include cash collateral payable.

(k) Key management compensation includes salaries, bonuses and other emoluments (including benefits-in-kind) computed based on the cost incurred by the Company, together with the value of any awards of shares in the ultimate holding company delivered during the year. The Company regards its key management to be those persons who are responsible for oversight of the Company's strategy or activities and / or those of the Company's material business lines.

Key management compensation	2018 US$ '000	2017 US$ '000
Salaries and bonuses	448	537
Employee incentive plans	104	220
Others (non-cash benefits)	-	1

17 Notes to the statement of cash flows

17.1 Reconciliation of profit before income tax to cash used in operations

	2018 US$ '000	2017 US$ '000
Profit before income tax	1,397	376
Adjustments for:		
Interest income	(1,761)	(589)
Interest expense	155	121
Operating loss before changes in working capital	(209)	(92)
Changes in operating assets and liabilities:		
Financial instruments at fair value, net	(5)	5
Trade and other receivables	1,146	(12,161)
Short-term loans payable	-	2,000
Trade and other payables	(955)	8,846
Currency translation	1	-
Cash used in operations	(22)	(1,402)

18 Financial risk management

Normal trading activities expose the Company to market, credit, liquidity and operational risk. These risks, described below, are managed in accordance with established risk management policies and procedures.

The Firm monitors market, credit, liquidity and operational risk on a consistent basis firmwide. Consequently, the Company, as part of the global group, adheres to global risk management policies and procedures.

The Company seeks to monitor and control its risk exposure through a risk and control framework encompassing a variety of separate, but complementary, financial, credit, operational, compliance, legal reporting systems and internal controls, management review processes and other mechanisms. In addition, a number of global, regional and entity committees are responsible for monitoring risk exposures and for general oversight of the Company's risk management process ("Risk Committees"). These committees meet regularly and consist of senior members of both the revenue-producing units and departments that are independent of the revenue-producing units. In addition to these committees, functions that are independent of the revenue-producing units, such as Compliance, Finance, Risk, Legal, Internal Audit and Operations, perform risk management functions, which include monitoring, analysing and evaluating risk.

18.1 Market risk

(a) Overview

Market risk is the risk of loss in the value of the Company's financial instruments due to changes in market conditions. The Company employs a variety of risk measures, each described in the respective sections below, to monitor market risk. Categories of market risk include the following:

- interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates and credit spreads; and
- currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates.

Market Risk Management, which is independent of the revenue-producing units and reports to the Chief Risk Officer of the Firm, has primary responsibility for assessing, monitoring and managing market risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the global businesses.

18 Financial risk management (continued)

18.1 Market risk (continued)

(a) Overview (continued)

Managers in revenue-producing units and Market Risk Management discuss market information, positions and estimated risk and loss scenarios on an ongoing basis. Managers in revenue-producing units are accountable for managing risk within prescribed limits.

The Firm manages market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. This process includes:

- accurate and timely exposure information incorporating multiple risk metrics;
- a dynamic limit setting framework; and
- constant communication amongst revenue-producing units, risk managers and senior management.

Market Risk Management produces risk measures and monitors them against established market risk limits. These measures reflect an extensive range of scenarios and the results are aggregated at the product, business and entity levels.

A variety of risk measures are used to estimate the size of potential losses for both moderate and more extreme market moves over both short-term and long-term time horizons. Primary risk measures are stress tests. The risk reports detail key risks, drivers and changes for each business, and are distributed daily to senior management of both the revenue-producing units and independent control and support functions.

The Company's framework for managing company level market risk is consistent with, and is part of, the Firm's framework, and results are analysed by business and in aggregate, at both the Firm and Company level.

(b) Currency risk

The Company's main currency exposure is to Hong Kong dollar, which is managed by hedging with an affiliated company.

(c) Interest rate risk

The Company is exposed to cash flow interest rate risk primarily on its deposits and cash placements. Based on the values of these balances at 31 December 2018, a 50 basis point change in market interest rates would result in a US$515,000 (2017: US$526,000) change in annual net interest income.

(d) Limits

Risk limits are used at various levels (including entity, business and product) to govern risk appetite by controlling the size of its exposures to market risk. Limits are set based on a range of stress tests relevant to the Firm's exposures. Limits are reviewed frequently and amended on a permanent or temporary basis to reflect changing market conditions, business conditions or tolerance for risk.

The Risk Committees set market risk limits for the Firm at an overall, business and product level, consistent with the Firm's risk appetite.

18 Financial risk management (continued)

18.1 Market risk (continued)

(d) Limits (continued)

The purpose of the firmwide limits is to assist senior management in controlling the overall risk profile. Sub-limits are set below the approved level of risk limits. Sub-limits set the desired maximum amount of exposure that may be managed by any particular business on a day-to-day basis without additional levels of senior management approval, effectively leaving day-to-day decisions to individual desk managers and traders. Accordingly, sub-limits are a management tool designed to ensure appropriate escalation rather than to establish maximum risk tolerance. Sub-limits also distribute risk among various businesses in a manner that is consistent with their level of activity and client demand, taking into account the relative performance of each area.

Market risk limits are monitored daily by Market Risk Management, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded.

When a risk limit has been exceeded (e.g., due to positional changes or changes in market conditions, such as increased volatilities or changes in correlations), it is escalated to senior managers in Market Risk Management and the appropriate Risk Committees. Such instances are remediated by an inventory reduction and/or a temporary or permanent increase to the risk limit.

The stress testing models are regularly reviewed by Market Risk Management and enhanced in order to incorporate changes in the composition of positions included in market risk measures, as well as variations in market conditions. Prior to implementing significant changes to the assumptions and / or models, an independent model risk management group of the Firm (“Model Risk Management”) performs model validations. Significant changes to the stress testing models are reviewed with the Chief Risk Officer and Chief Financial Officer of the Firm, and approved by the Firmwide Risk Committee.

(e) Stress tests

Stress tests are performed on a regular basis as part of the Company’s routine risk management processes and to meet the local regulatory requirements. The Company also conducts tailored stress tests on an ad hoc basis in response to market developments, where necessary. Stress tests are conducted jointly with the Company’s risk and finance functions.

18.2 Credit risk

(a) Overview

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g. an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments the Company hold. The Company’s exposure to credit risk comes mostly from client transactions in OTC derivatives. Credit risk also comes from cash placed with banks, and receivables from customers and counterparties.

Credit Risk Management, which is independent of the revenue-producing units and reports to the Firm’s Chief Risk Officer, has primary responsibility for assessing, monitoring and managing credit risk.

18 Financial risk management (continued)

18.2 Credit risk (continued)

(a) Overview (continued)

The Company's framework for managing company level credit risk is consistent with, and is part of the Firm's framework.

(b) Credit risk management process

Effective management of credit risk requires accurate and timely information, a high level of communication and knowledge of customers, countries, industries and products. The process for managing credit risk includes:

- Collecting complete, accurate and timely information;
- Approving transactions and setting and communicating credit exposure limits;
- Monitoring compliance with established credit exposure limits and reporting our exposures;
- Assessing the likelihood that a counterparty will default on its payment obligations;
- Measuring current and potential credit exposure and losses resulting from counterparty default;
- Using credit risk mitigants, including collateral and hedging; and
- Proactive communication between our revenue-producing units and our independent risk oversight and control functions.

As part of the risk assessment process, Credit Risk Management performs credit reviews, which include initial and ongoing analyses of the Company's counterparties. For substantially all credit exposures, the core of the process is an annual counterparty credit review. A credit review is an independent analysis of the capacity and willingness of a counterparty to meet its financial obligations, resulting in an internal credit rating. The determination of internal credit ratings also incorporates assumptions with respect to the nature of and outlook for the counterparty's industry, and the economic environment. Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

The Firm's risk assessment process may also include, where applicable, reviewing certain key metrics, such as delinquency status, collateral values, Fair Isaac Corporation credit scores and other risk factors.

The Firm's global credit risk management systems capture credit exposure to individual counterparties and on an aggregate basis to counterparties and their subsidiaries (economic groups). These systems also provide management with comprehensive information on aggregate credit risk by product, internal credit rating, industry, country and region.

(c) Credit risk measures and limits

Credit risk is measured based on the potential loss in an event of non-payment by a counterparty using current and potential exposure. For derivatives transactions, current exposure represents the amount presently owed after taking into account applicable netting and collateral arrangements while potential exposure represents the Company's estimate of the future exposure that could arise over the life of a transaction based on market movements within a specified confidence level. Potential exposure also takes into account netting and collateral arrangements.

18 Financial risk management (continued)

18.2 Credit risk (continued)

(c) Credit risk measures and limits (continued)

For Group Inc., the Risk Committee of the Board and the Risk Governance Committee approve credit risk limits at the Group Inc., business and product level, consistent with the risk appetite statement. The Board-Level Risk Committee of the Company approves the risk appetite of the Company and credit risk limits at the company level. Credit Risk Management (through delegated authority from the Risk Committee of the Company) sets credit concentration limits at the company level for counterparty groups, industries and countries. Policies authorized by the Group Inc.'s Enterprise Risk Committee and the Risk Governance Committee prescribe the level of formal approval required for us to assume credit exposure to a counterparty across all product areas, taking into account any applicable netting provisions, collateral or other credit risk mitigants.

Credit limits are used at various levels (e.g. counterparty, economic group, industry and country) to control the size and nature of credit exposures. Limits for counterparties and economic groups are reviewed regularly and revised to reflect changing risk appetites for a given counterparty or group of counterparties. Limits for industries and countries are based on the Firm's risk appetite and are designed to allow for regular monitoring, review, escalation and management of credit risk concentrations.

Credit risk limits are monitored by Credit Risk Management, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded. When a risk limit has been exceeded, it is escalated to senior management and/or the appropriate risk committee.

(d) Stress tests

Regular stress tests are used to calculate the credit exposures, including potential concentrations that would result from applying shocks to counterparty credit ratings or credit risk factors (e.g., currency rates, interest rates, equity prices). These shocks include a wide range of moderate and more extreme market movements. Some of the stress tests include shocks to multiple risk factors, consistent with the occurrence of a severe market or economic event. Unlike potential exposure, which is calculated within a specified confidence level, with a stress test there is generally no assumed probability of these events occurring.

Stress tests are performed on a regular basis as part of the Company's routine risk management processes and to meet the local regulatory requirements. The Company also conducts tailored stress tests on an ad hoc basis in response to market developments, where necessary. Stress tests are conducted jointly with the Company's risk and finance functions.

The Firm's and the Company's potential credit exposure and stress testing models, and any changes to such models or assumptions, are reviewed by Model Risk Management.

18 Financial risk management (continued)

18.2 Credit risk (continued)

(e) Credit risk mitigation

To reduce credit exposures on derivatives, the Company may enter into master netting agreements or similar arrangements (collectively, netting agreements) with counterparties that permit it to offset receivables and payables with such counterparties. A netting agreement is a contract with a counterparty that permits net settlement of multiple transactions with that counterparty, including upon the exercise of termination rights by a non-defaulting party. Upon exercise of such termination rights, all transactions governed by the netting agreement are terminated and a net settlement amount is calculated.

The Company may also reduce credit risk with counterparties by entering into agreements that enables it to receive and post cash and securities collateral with respect to its derivatives, subject to the terms of the related credit support agreements or similar arrangements (collectively, credit support agreements). An enforceable credit support agreement grants the non-defaulting party exercising termination provisions the right to liquidate collateral and apply the proceeds to any amounts owed. In order to assess enforceability of our right to setoff under netting and credit support agreements, the Company evaluates various factors, including applicable bankruptcy laws, local statutes and regulatory provisions in the jurisdiction of the parties to the agreement. The collateral it holds consists primarily of cash.

The Company's collateral is managed by a function within the Operations Division which reviews exposure calculations, makes margin calls with relevant counterparties, and ensures subsequent settlement of collateral movements. The Company monitors the fair value of the collateral on a daily basis to ensure that our credit exposures are appropriately collateralised.

When the Company does not have sufficient visibility into a counterparty's financial strength or when it believes a counterparty requires support from its parent, the Company may obtain third-party guarantees of the counterparty's obligations.

(f) Expected credit loss measurement

HKFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition of financial assets. The key elements of this approach are outlined below:

Stage 1 Classification for financial instruments that are not credit-impaired on initial recognition and remain not credit-impaired as a result of on-going credit risk monitoring. ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

Stage 2 Classification for financial instruments where there has been a significant increase in credit risk since initiation, however not yet deemed to be credit-impaired. ECL measured based on expected credit losses on a lifetime basis.

Stage 3 Classification for financial instruments that are in default, or are defined as credit-impaired. ECL measured based on expected credit losses on a lifetime basis.

ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

18 Financial risk management (continued)

18.2 Credit risk (continued)

(f) Expected credit loss measurement (continued)

Determination of the relevant staging for each financial instrument is dependent on the definition of 'significant increase in credit risk' (stage 1 to stage 2) and the definition of 'credit-impaired' (stage 2 to stage 3).

The ECL is determined by projecting the probability of default, loss given default and exposure at default for each individual exposure. To calculate ECL, these three components are multiplied together and discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate.

The assessment of staging and the calculation of ECL both incorporate forward-looking information. Credit Risk Management have identified key economic variables impacting credit risk and expected credit losses to incorporate into the forward-looking information used.

(g) Credit exposure

Cash and cash equivalents. Cash and cash equivalents include both interest-bearing and non-interest-bearing deposits. To mitigate the risk of credit loss, the Company places substantially all of its deposits with highly-rated banks.

OTC derivatives. Derivative instruments are reported at fair value on a gross-by-counterparty basis in the Company's financial statements, unless the Company has a current legal right of set-off and also intends to settle on a net basis. OTC derivatives are risk managed using the risk processes, measures and limits described above.

Other credit exposures. The Company is exposed to credit risk from its receivables from customers and counterparties. These primarily comprise receivables from related parties and receivables related to cash collateral paid to counterparties in respect of derivative financial instrument liabilities.

(h) Exposure to credit risk by class

(i) Financial instruments subject to impairment

The following table discloses the carrying values of financial instruments subject to impairment recorded in the financial statements:

Financial assets	2018 US$ '000	2017 US$ '000
Cash and cash equivalents	112,722	112,218
Trade and other receivables	17,475	18,573
	130,197	130,791

18 Financial risk management (continued)

18.2 Credit risk (continued)

(h) Exposure to credit risk by class (continued)

(i) Financial instruments subject to impairment (continued)

The following table contains an analysis of the credit risk exposure of financial instruments subject to impairment and is grouped by credit rating equivalent (internally determined public rating agency equivalents). The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these assets.

	2018 Stage 1 US$'000	2017 Total US$'000
Credit rating equivalent		
AA	40,352	41,754
A	58,130	72,632
BBB	31,491	15,029
B	-	1,319
Unrated	224	57
Gross carrying amount	130,197	130,791
Loss allowance	-	-
Carrying amount	130,197	130,791

(ii) Financial instruments not subject to impairment

The following table discloses the carrying values of financial assets recorded in the financial statements and represents the Company's maximum exposure to credit risk without taking into account any other credit enhancements:

	2018 US$ '000	2017 US$ '000
Financial instruments at fair value	23	1,020
	23	1,020

18 Financial risk management (continued)

18.2 Credit risk (continued)

(h) Exposure to credit risk by class (continued)

(ii) Financial instruments not subject to impairment (continued)

The following table shows the carrying values of financial assets grouped by credit rating equivalent (internally determined public rating agency equivalents).

Credit rating equivalent	2018 US$ '000	2017 US$ '000
A	4	117
B	19	903
	23	1,020

The Company had no financial assets that were either past due or impaired as at 31 December 2018 (2017: Nil).

18.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to fund itself or meet its liquidity needs in the event of a Company-specific, broader industry, or market liquidity stress events. Liquidity is of critical importance to the Company, as most failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, the Company follows the Firm's comprehensive and conservative set of liquidity and funding policies to address the firm-specific, broader industry, or market liquidity stress event. The Firm's principal objective is to be able to fund its core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

Treasury has the primary responsibility for developing, managing and executing liquidity and funding strategy. Treasury is independent of the revenue-producing units and reports to the Chief Financial Officer of the Firm.

Liquidity Risk Management has primary responsibility for assessing, monitoring and managing the liquidity risk through firmwide oversight and the establishment of stress testing and limits frameworks. Liquidity Risk Management, which is independent of the revenue-producing units and Treasury, reports to the Chief Risk Officer of the Firm.

The Company manages liquidity risk according to three principles: (i) hold sufficient excess liquidity to cover outflows during a stressed period, (ii) maintain appropriate asset-liability management and (iii) maintain a viable contingency funding plan.

- **Excess liquidity.** The Company maintains excess liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment. The Company uses liquidity thresholds, limits, and alerts across relevant liquidity risk types to monitor and manage the size of its liquidity exposure. The Company also monitors cash-flow projections to anticipate cash flows arising from assets, liabilities, off-balance sheet exposures, to the extent applicable, over short and long-term time horizons.

18 Financial risk management (continued)

18.3 Liquidity risk (continued)

- **Asset-liability management.** The Company's liquidity risk management policies are designed to ensure it has a sufficient amount of financing, even when funding markets experience persistent stress. The Company manages maturities and diversity of funding across markets, products and counterparties, and seeks to maintain a diversified funding profile, taking into consideration the characteristics and liquidity profile of its assets. The Company's primary sources of funding include equity capital, deposits and unsecured borrowings. The Company monitors relevant funding thresholds, to the extent applicable.

- **Contingency funding plan.** The Company maintains a contingency funding plan to provide a framework for analysing and responding to a liquidity crisis situation or periods of market stress. The contingency funding plan outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of, and managing through, a liquidity crisis and / or market dislocation. The contingency funding plan also describes the Company's potential responses if assessments indicate that the Company has entered a liquidity crisis, which includes pre-funding for what the Company estimates will be its potential cash and collateral needs as well as utilising secondary sources of liquidity. Mitigants and action items to address specific risks which may arise are also described and assigned to individuals responsible for execution.

Liquidity risk policies are communicated to relevant committees, departments and parties engaged in assessing, monitoring and managing liquidity risk through oversight and the establishment of stress-testing and limits frameworks. The Company regularly performs liquidity stress tests to analyse the potential impact of stress on its cash flows, liquidity position, profitability and solvency.

The Company's liquidity risk tolerance is set by the Board and is defined in the Company's Risk Appetite Statement ("RAS"). The Company's RAS describes the levels and types of risk the Company is willing to accept or to avoid, in order to achieve its strategic business objectives, while remaining in compliance with regulatory requirements. Measuring, monitoring and controlling liquidity risk is an essential part of liquidity risk management. The Company computes and reviews metrics related to a range of liquidity risk areas which are distributed to various stakeholders, including relevant committees on a regular basis.

The following table details the undiscounted cash flows of the Company's financial liabilities by remaining contractual maturity, including interest that will accrue, except for derivatives or where the Company is entitled to repay the liability before its maturity. Financial instruments are presented at their fair value.

18 Financial risk management (continued)

18.3 Liquidity risk (continued)

2018	Less than three months US$ '000	More than three months but less than one year US$ '000	More than one year but less than five years US$ '000	More than five years US$ '000	Undated US$ '000	Total US$ '000
Current liabilities						
Deposit from an affiliated customer	1,000	-	-	-	-	1,000
Short-term loans payable	2,000	-	-	-	-	2,000
Financial instruments at fair value	25	-	-	-	-	25
Trade and other payables	9,360	193	-	-	616	10,169
Non-current liabilities						
Trade and other payables	-	-	3,500	-	-	3,500
	12,385	193	3,500	-	616	16,694
2017						
Current liabilities						
Deposit from an affiliated customer	1,000	-	-	-	-	1,000
Short-term loans payable	2,000	-	-	-	-	2,000
Financial instruments at fair value	245	782	-	-	-	1,027
Trade and other payables	10,780	182	-	-	449	11,411
Non-current liabilities						
Trade and other payables	-	-	3,227	-	-	3,227
	14,025	964	3,227	-	449	18,665

18 Financial risk management (continued)

18.4 Offsetting financial assets and financial liabilities

(a) Financial assets

The following table shows the Company's financial assets that are subject to offsetting, enforceable master netting arrangements and similar agreements:

				Amounts not offset in the balance sheet		
	Gross credit exposure US$ '000	Netting arrangements US$ '000	Net amount presented in balance sheet US$ '000	Financial instruments US$ '000	Cash collateral US$ '000	Net amount US$ '000
2018						
Cash and cash equivalents	112,722	-	112,722	-	-	112,722
Financial instruments at fair value	23	-	23	(4)	-	19
Trade and other receivables	23,099	(5,624)	17,475	-	-	17,475
	135,844	(5,624)	130,220	(4)	-	130,216
2017						
Cash and cash equivalents	112,218	-	112,218	-	-	112,218
Financial instruments at fair value	1,020	-	1,020	(230)	-	790
Trade and other receivables	27,638	(9,065)	18,573	-	(797)	17,776
	140,876	(9,065)	131,811	(230)	(797)	130,784

18 Financial risk management (continued)

18.4 Offsetting financial assets and financial liabilities (continued)

(b) Financial liabilities

The following table shows the Company's financial liabilities that are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross credit exposure US$ '000	Netting arrangements US$ '000	Net amount presented in balance sheet US$ '000	Amounts not offset in the balance sheet: Financial instruments US$ '000	Amounts not offset in the balance sheet: Cash collateral US$ '000	Net amount US$ '000
2018						
Deposit from an affiliated customer	1,000	-	1,000	-	-	1,000
Short-term loans payable	2,000	-	2,000	-	-	2,000
Financial instruments at fair value	25	-	25	(4)	-	21
Trade and other payables	19,293	(5,624)	13,669	-	-	13,669
	22,318	(5,624)	16,694	(4)	-	16,690
2017						
Deposit from an affiliated customer	1,000	-	1,000	-	-	1,000
Short-term loans payable	2,000	-	2,000	-	-	2,000
Financial instruments at fair value	1,027	-	1,027	(230)	(797)	-
Trade and other payables	23,703	(9,065)	14,638	-	-	14,638
	27,730	(9,065)	18,665	(230)	(797)	17,638

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Company and the counterparty allows for net settlement of the relevant financial assets and liabilities when both intend to settle on a net basis.

18 Financial risk management (continued)

18.5 Fair value estimation

The tables below show financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 Inputs are unadjusted quoted prices in active markets to which the Company had access at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Inputs to valuation techniques are observable either directly or indirectly;

Level 3 One or more inputs are significant and unobservable.

The Company's assets and liabilities that are measured at fair value are:

2018

	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
Financial assets at fair value				
Derivative instruments	-	23	-	23
Financial liabilities at fair value				
Derivative instruments	-	25	-	25

2017

	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
Financial assets at fair value				
Derivative instruments	-	1,020	-	1,020
Financial liabilities at fair value				
Derivative instruments	-	1,027	-	1,027

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial instruments is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, OTC derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

18 Financial risk management (continued)

18.5 Fair value estimation (continued)

There were no significant transfers of financial assets and liabilities between level 1 and level 2 fair value hierarchy classifications.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. There were no level 3 financial instruments held as at 31 December 2018 and 31 December 2017.

The Company's level 2 financial instruments are valued using various derivative pricing models such as incorporating option pricing methodologies, Monte Carlo simulations and discounted cash flows. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility and correlations of such inputs. Inputs to the valuations of level 2 financial instruments can be verified to market transactions, broker or dealer quotations or other alternative pricing source with reasonable levels of price transparency. Consideration is given to the nature of the quotations and the relationship of recent market activity to the prices provided from alternative pricing sources.

The carrying value of other financial assets and liabilities are a reasonable approximation of their fair values.

18.6 Operational risk management

Operational risk is the risk of an adverse outcome resulting from inadequate or failed internal processes, people, systems or from external events.

The Company's exposure to operational risk arises from routine processing errors as well as extraordinary incidents, such as major systems failures. Potential types of loss events related to internal and external operational risk include: clients, products and business practices, execution, delivery and process management, business disruption and system failures, employment practices and workplace safety, damage to physical assets, internal fraud, and external fraud.

Operational Risk Management is a risk management function independent of the revenue producing units and is responsible for developing and implementing policies, methodologies and a formalised framework for operational risk management.

The Company's risk management framework comprises the following practices:

- risk identification and assessment;
- risk measurement; and
- risk monitoring and reporting.

18.7 Capital management

The Company's capital is considered to comprise total equity on the balance sheet. The primary objectives in managing capital are to safeguard the ability of the Company to continue as a going concern and to meet the capital requirements of the Company's regulators in Hong Kong.

18 Financial risk management (continued)

18.7 Capital management (continued)

The Company is regulated by the Hong Kong Monetary Authority ("HKMA") and as such is subject to minimum capital requirements. The Company's capital is monitored on an ongoing basis in accordance with the Company's Capital Management Policy to ensure compliance with these requirements. The Company must ensure the capital is sufficient to meet the minimum capital adequacy ratio as required by the HKMA.

The Company met HKMA's capital adequacy ratio requirements during the years ended 31 December 2018 and 31 December 2017.

The Company did not pay a dividend or return capital to its shareholders for the years ended 31 December 2018 and 31 December 2017.

19 Approval of financial statements

The financial statements were approved by the board of directors on 4 April 2019.

Goldman Sachs Asia Bank Limited, a restricted licence bank

Unaudited Disclosure Statement

For the year ended 31 December 2018

Goldman Sachs Asia Bank Limited, a restricted licence bank

Unaudited Disclosure Statement
For the year ended 31 December 2018

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The following information is disclosed as part of the accompanying information to the financial statements to comply with the Banking (Disclosure) Rules and does not form part of the audited financial statements. To comply with the Banking (Disclosure) Rules, the Company's Unaudited Disclosure Statement is published on its parent company's website as the Company does not maintain a website of its own:
https://www.goldmansachs.com/disclosures/gsab-disclosures/financial-disclosures.html.

All references to 2018 and 2017 refer to the years ended, or the dates, as the context requires, 31 December 2018 and 31 December 2017, respectively.

1 Corporate governance

The Board of Directors (the "Board") and the management of Goldman Sachs Asia Bank Limited (the "Company"), a restricted licence bank, recognise the importance of robust corporate governance to ensure an environment of effective oversight and strong accountability.

To the extent applicable, the Company has complied with the requirements set out in the guideline CG-1 "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority (the "HKMA").

The Company's ultimate parent company is The Goldman Sachs Group, Inc. ("Group Inc."). The term the "Firm" refers to Group Inc. and its consolidated subsidiaries collectively.

The information in this Note 1 represents the corporate governance structure of the Company as of 4 April 2019.

1.1 Board of Directors

The Board is responsible for overseeing the establishment of corporate governance policies and procedures in order to protect the interests of the Company's stakeholders and to ensure the safety and soundness of the Company's operations and its compliance with applicable laws and regulations. Directors exercise their independent judgment when managing the Company's business. The Board oversees the implementation of controls and risk management processes and take the steps it reasonably believes are necessary to ensure that a strong and cooperative relationship with regulators exist.

Currently, the Board comprises five members: one executive director, two non-executive directors and two independent non-executive directors.

The directors of the Board collectively possess a broad range of skills, expertise, industry and other knowledge, and business and other experience useful to the effective oversight of the Company's business.

The Board meets at least once in each quarter. The Board met five times during the year ended 31 December 2018.

1.2 Board-level committees

The Board has established a number of board-level committees, the roles, functions and composition of which are set out below. The Board-Level Risk Committee, the Remuneration Committee, the Nomination Committee and the Culture Committee were established in February 2018.

1 Corporate governance (continued)

1.2 Board-level committees (continued)

(a) Audit Committee

The Audit Committee is a board-level committee currently comprises of three non-executive directors, of whom the chairperson and one member are independent.

The purposes of the Audit Committee are to:

(i) assist the Board in its oversight of the Company's internal control systems including:
- the integrity of the Company's financial statements;
- the Company's compliance with the applicable legal and regulatory requirements;
- the Company's external independent auditors' qualifications, independence, objectivity and performance;
- the performance of the Company's Internal Audit function;
- the scope and frequency of audit reviews; and
- the Company's internal controls over financial reporting and related infrastructure controls in light of the Bank's business plan and growth expectations.

(ii) reinforce the work of internal and external auditors, with the responsibilities as set out in the HKMA Supervisory Policy Manual module headed "IC-2 Internal Audit Function".

(iii) where not otherwise done on a global basis, recommend for approval to the Board or shareholders (as applicable) the appointment, retention/re-appointment, compensation and termination of appointment of the Company's external auditors, and to pre-approve all audit, audit-related, tax and other services, if any, to be provided by the external auditors.

The Audit Committee shall hold regular meetings from time to time as required. The Audit Committee met four times during the year ended 31 December 2018.

(b) Board-Level Risk Committee

The Board-Level Risk Committee is a board-level committee currently comprises of three non-executive directors, of whom the chairperson and one member are independent.

The Board-Level Risk Committee is responsible, directly or through its subcommittees, for the on-going monitoring and management of the Company's (i) market risk, credit risk, operational risk, liquidity risk, interest rate risk, reputational risk, legal risk and strategic risk; and (ii) compliance with the minimum regulatory capital ratios required under the HKMA requirements.

The Board-Level Risk Committee shall meet on a quarterly basis, although meetings may occur more or less frequently. The Board-Level Risk Committee met five times during the year ended 31 December 2018.

(c) Remuneration Committee

The Remuneration Committee is a board-level committee currently comprises of three non-executive directors, of whom two members are independent.

The disclosures about the composition and mandate of the Remuneration Committee are set forth in Note 23.1(b) of the unaudited disclosure statement "Design and implementation of remuneration system – Remuneration Governance".

1 Corporate governance (continued)

1.2 Board-level committees (continued)

(c) Remuneration Committee (continued)

The Remuneration Committee shall hold regular meetings from time to time as required. The Remuneration Committee met three times during the year ended 31 December 2018.

(d) Nomination Committee

The Nomination Committee is a board-level committee currently comprises of three non-executive directors, of whom two members are independent.

The Nomination Committee is responsible for (i) reviewing candidates for the role of the Chief Executive, Alternate Chief Executive and/or directors of the Company proposed by the Company's management and making recommendations to the Board on the appointment and/or re-appointment of the nominated individuals for such positions; and (ii) succession planning for directors, in particular the chair and the Chief Executive.

The Nomination Committee shall meet on an annual basis, although meetings may occur more frequently as needed. The Nomination Committee met once during the year ended 31 December 2018.

(e) Culture Committee

The Culture Committee is a board-level committee currently comprises of three non-executive directors, of whom two members are independent.

The Culture Committee is responsible for advising and assisting the Board in discharging its responsibilities for the Company's culture-related matters.

The Culture Committee shall meet on an annual basis, although meetings may occur more frequently as needed. The Culture Committee met once during the year ended 31 December 2018.

1.3 Management-level committees

In addition to the Board and the board-level committees set out above, the Company has established management-level committees including the Management Committee, Risk Committee, Credit Sub-committee and Asset and Liability Sub-committee as part of its corporate governance framework. These committees meet regularly and serve as an important means to facilitate and foster ongoing discussions to identify, manage and mitigate risks.

The main duties and responsibilities of the management-level committees are described below. In addition to their duties and responsibilities, all committees are also accountable for business standards and practices, reputational risk management and, where applicable, client service, within the scope of their mission.

(a) Management Committee

The Management Committee oversees all activities of the Company. The Committee provides this oversight directly and through authority delegated to the committees it has established, if any, and coordinating with other committees and sub-committees of the Company.

1 Corporate governance (continued)

1.3 Management-level committees (continued)

(a) Management Committee (continued)

The Management Committee is co-chaired by the Chief Executive and an Alternate Chief Executive and its membership includes senior managers from the revenue-producing divisions and independent control and support functions. The Management Committee reports to the Board.

(b) Risk Committee

The Risk Committee is responsible, directly or through its sub-committees, for supporting the Chief Risk Officer, the Board-Level Risk Committee, and the Board in overseeing the on-going monitoring and management of the Company's (i) market risk, credit risk, operational risk, liquidity risk, interest rate risk, reputational risk, legal risk and strategic risk; and (ii) compliance with the minimum regulatory capital ratios required under the HKMA requirements.

The Risk Committee is co-chaired by an Alternate Chief Executive and the Chief Risk Officer and its membership includes senior managers from the revenue-producing divisions and independent control and support functions.

The Risk Committee reports to the Board and the Board-Level Risk Committee.

(c) Credit Sub-committee

The Credit Sub-committee is responsible for (i) ensuring the Company has an appropriate and effective credit risk management process, and (ii) ongoing monitoring and review of the Company's counterparty credit risk exposure.

The Credit Sub-committee is chaired by a senior member from Credit Risk and its membership includes senior managers from independent control and support functions.

The Credit Sub-committee reports to the Risk Committee.

(d) Asset and Liability Sub-committee

The Asset and Liability Sub-committee considers and addresses matters related to the Company's liquidity, funding and asset liability management. The committee reviews and makes recommendations to the Risk Committee and Corporate Treasury with respect to the Company's liquidity position and funding activities, including related models, frameworks and limits. The committee may also recommend to the Risk Committee business unit-specific asset-liability management frameworks. In addition, the committee discusses entity and industry-wide initiatives related to liquidity and funding.

The Asset and Liability Sub-committee is co-chaired by the Chief Risk Officer and Treasurer and its membership includes senior managers from the revenue-producing divisions and independent control and support functions.

The Asset and Liability Sub-committee reports to the Risk Committee, and may report to the Firm's Asia Pacific Asset Liability Committee, if needed.

2 Key prudential ratios

The Company is regulated by the Hong Kong Monetary Authority (the "HKMA") and as such is subject to minimum capital and liquidity requirements. The Company computes capital ratios in accordance with the Banking (Capital) Rules (the "BCR") of the Banking Ordinance. In addition, liquidity ratios are computed in accordance with the Banking (Liquidity) Rules (the "BLR") of the Banking Ordinance.

The capital adequacy ratios are measures of regulatory capital to risk-weighted amounts ("RWAs"). Risk-weighted amounts represent the sum of the Company's exposure to credit risk, market risk and operational risk calculated in accordance with the relevant provisions of the BCR.

The Common Equity Tier 1 ("CET1") ratio is defined as CET1 divided by RWAs. The Tier 1 capital ratio is defined as Tier 1 capital divided by RWAs. The total capital ratio is defined as total capital divided by RWAs.

The leverage ratio ("LR") is defined as Tier 1 capital to a measure of total exposures, defined as the sum of on-balance sheet exposures (after certain Tier 1 capital deductions), certain derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.

The liquidity maintenance ratio ("LMR") is calculated as the arithmetic mean of the average LMRs of the three calendar months within the quarter. The average LMR of each calendar month is the figure reported in MA(BS)1E Return of Liquidity Position submitted to the HKMA.

The Company is a category 2 institution (not designated as a category 2A institution) under the Banking (Liquidity) Rules. Hence, the liquidity coverage ratio, net stable funding ratio and core funding ratio are not applicable.

2 Key prudential ratios (continued)

Using the standard template as specified by the HKMA, the details of the Company's key prudential ratios and an explanation of material changes in the ratios during the quarterly reporting periods are set out below.

Template KM1: Key prudential ratios

		31 December 2018	30 September 2018	30 June 2018	31 March 2018	31 December 2017
	Regulatory capital (US$ '000)					
1	Common Equity Tier 1 (CET1)	113,938	113,753	113,572	112,985	112,780
2	Tier 1	113,938	113,753	113,572	112,985	112,780
3	Total capital	113,938	113,753	113,572	112,985	112,780
	RWA (US$ '000)					
4	Total RWA	70,854	71,664	70,795	54,772	56,269
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	160.80%	158.73%	160.42%	206.28%	200.43%
6	Tier 1 ratio (%)	160.80%	158.73%	160.42%	206.28%	200.43%
7	Total capital ratio (%)	160.80%	158.73%	160.42%	206.28%	200.43%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	1.875%	1.875%	1.875%	1.875%	1.250%
9	Countercyclical capital buffer requirement (%)	1.844%	1.856%	1.729%	1.662%	1.018%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	0%	0%	0%	0%	0%
11	Total AI-specific CET1 buffer requirements (%)	3.719%	3.731%	3.604%	3.537%	2.268%
12	CET1 available after meeting the AI's minimum capital requirements (%)	152.80%	150.73%	152.42%	198.28%	192.43%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure (US$ '000)	131,757	130,303	137,679	126,512	132,433
14	LR (%)	86.48%	87.30%	82.49%	89.31%	85.16%
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	-	-	-	-	-
16	Total net cash outflows	-	-	-	-	-
17	LCR (%)	-	-	-	-	-
	Applicable to category 2 institution only:					
17a	LMR (%)	160.00%	160.00%	160.00%	160.00%	160.00%
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	-	-	-	-	-
19	Total required stable funding	-	-	-	-	-
20	NSFR (%)	-	-	-	-	-
	Applicable to category 2A institution only:					
20a	CFR (%)	-	-	-	-	-

There were no material changes in the key prudential ratios from the previous reporting period.

3 Overview of risk management

The Firm believes that effective risk management is critical to the overall success of the Firm and the Company. Accordingly, the Firm has established an Enterprise Risk Management ("ERM") framework that employs a comprehensive, integrated approach to risk management, and is designed to enable comprehensive risk management processes through which the Firm identifies, assesses, monitors and manages the risks associated with its business activities. These risks include liquidity, market, credit, operational, model, legal, compliance, conduct, regulatory and reputational risks. The following section covers the risk management framework which is built around three core components: governance, processes and people.

3.1 Governance

Risk management governance starts with the Board of Group Inc. (the "Group Board"), which both directly and through its committees, including its Risk Committee, oversees the risk management policies and practices implemented through the ERM framework. The Group Board is also responsible for the annual review and approval of the Firm's risk appetite statement. The risk appetite statement describes the levels and types of risk the Firm is willing to accept or to avoid, in order to achieve strategic business objectives, while remaining in compliance with regulatory requirements.

The ERM department, which reports to the Firm's Chief Risk Officer, oversees the implementation of the Firm's risk governance structure and core risk management processes and is responsible for ensuring that the ERM framework provides the Group Board, its risk committees and senior management with a consistent and integrated approach to managing the various risks in a manner consistent with the Firm's risk appetite.

The Firm's revenue-producing units, as well as Treasury, Operations and Technology, are the first line of defense and are accountable for the outcomes of the risk-generating activities, as well as for assessing and managing those risks within the Firm's risk appetite.

The independent risk oversight and control functions are considered the second line of defense and provide independent assessment, oversight and challenge of the risks taken by the first line of defense, as well as lead and participate in risk-oriented committees. Independent risk oversight and control functions include Compliance, Conflicts Resolution, Controllers, Credit Risk Management, Enterprise Risk Management, Human Capital Management, Legal, Liquidity Risk Management, Market Risk Management, Model Risk Management, Operational Risk Management and Tax.

Internal Audit is considered the third line of defense and reports to the Firm's Chief Executive Officer and the Audit Committee of the Group Board. Internal Audit includes professionals with a broad range of audit and industry experience, including risk management expertise. Internal Audit is responsible for independently assessing and validating the effectiveness of key controls, including those within the risk management framework, and providing timely reporting to the Audit Committee of the Group Board, its senior management and regulators.

The three lines of defense structure promotes the accountability of first line risk takers, provides a framework for effective challenge by the second line and empowers independent review from the third line.

The Firm maintains strong communication about risk and it has a culture of collaboration in decision-making among the first and second lines of defense, committees and senior management. While the first line of defense is responsible for management of their risk, the Firm dedicates extensive resources to the second line of defense in order to ensure a strong oversight structure and an appropriate segregation of duties. The Firm regularly reinforces its strong culture of escalation and accountability across all divisions and functions.

3 Overview of risk management (continued)

3.2 Processes

The Firm maintains various processes and procedures that are critical components of its risk management framework, including identifying assessing, monitoring and limiting its risks.

To effectively assess and monitor risks, the Firm maintains a daily discipline of marking substantially all of its inventory to current market levels. The Firm does so because of its belief that this discipline is one of the most effective tools for assessing and managing risk and that it provides transparent and realistic insight into our inventory exposures. The Firm also applies a rigorous framework of limits and thresholds to control and monitor risk across transactions, products, businesses and markets.

3.3 People

Even the best technology serves only as a tool for helping to make informed decisions in real time about the risks the Firm is taking. Ultimately, effective risk management requires people to interpret risk data on an ongoing and timely basis and adjust risk positions accordingly. The experience of the Firm's professionals, and their understanding of the nuances and limitations of each risk measure, guides the Firm in assessing exposures and maintaining them within prudent levels.

The Firm reinforces a culture of effective risk management, consistent with its risk appetite, in its training and development programmes, as well as in the way it evaluates performance, and recognise and reward our people. The Firm's training and development programmes, including certain sessions led by our most senior leaders, are focused on the importance of risk management, client relationships and reputational excellence. As part of the Firm's annual performance review process, the Firm assesses reputational excellence, including how an employee exercises good risk management and reputational judgement, and adheres to the Firm's code of conduct and compliance policies. The Firm's review and reward processes are designed to communicate and reinforce to its professionals the link between behaviour and how people are recognised, the need to focus on our clients and our reputation, and the need to always act in accordance with the highest standards of the Firm.

3.4 Structure

Oversight of risk in the Company is ultimately the responsibility of the Board, who oversees risk both directly and through delegation to various committees. The Company's committees with specific risk management mandates covering important aspects of the Company's businesses also have oversight or decision-making responsibilities. The key committees with oversight of the Company's activities are described in Note 1 "Corporate governance".

3.5 Risk profile and strategy

In the normal course of activities in serving clients, we commit capital, engage in derivative transactions, and otherwise incur risk as an inherent part of our business. However, we endeavour not to undertake risk in form or amount that could potentially and materially impair our capital and liquidity position or the ability to generate revenue, even in a stressed environment. Where possible, we employ mitigants and hedges, such as collateral, netting derivatives and other controls, in order to manage such risks within our risk appetite levels.

The Company has its own Board and its own Board-Level Risk Committee, with the responsibility of assisting the Board in overseeing the implementation of the Company's risk appetite and strategy.

3 Overview of risk management (continued)

3.5 Risk profile and strategy (continued)

The Company's overall risk appetite is established through an assessment of opportunities relative to potential loss, and is calibrated to the Company's respective capital, liquidity and earnings capability. The primary means of evaluating loss-taking capacity is through the Internal Capital Adequacy Assessment Process ("ICAAP"). The key aspects of risk management documented through the ICAAP process also form part of the Company's day-to-day decision making culture.

The Risk Appetite Statement ("RAS") of the Company complements the Firm's RAS, and articulates the risk philosophy, the identification of risks generated by its business activities, as well as the tolerance and limits set in order to manage effectively those risks. Consistent with this objective, we pay particular attention to evaluating risks that are concentrated, correlated, illiquid, or have other adverse characteristics. The intention is to mitigate or eliminate these risks, limiting them to such an extent that they could not, individually or collectively, materially and adversely affect the Company. The Company regularly reviews risk exposure and risk appetite, and takes into consideration the key external constituencies, in particular their clients and regulators. The long-term success of our business model is directly linked to the preservation of strong relationships with each of these key constituents.

The Board and the Board-Level Risk Committee are actively engaged in reviewing and approving our overall risk appetite, as well as in reviewing the risk profile. The Company's RAS is reviewed in the first instance by the Board-Level Risk Committee and finally, is endorsed by the Board annually. The Board-Level Risk Committee also approves any amendment to the Company's RAS outside of the annual approval process. The Board receives quarterly updates on risk as well as ad-hoc updates, as appropriate.

The consideration of risk appetite and the underlying risk management framework ensures that the Company's businesses are congruent with our strategy under both normal and stressed environments. We believe that the risk management framework, and the associated risk policies, procedures and systems in place are comprehensive and effective with regard to our profile and strategy. The framework is evaluated on an ongoing basis and subject to independent internal audit assessments to ensure our risk management arrangements remain effective.

3.6 Risk measurement

On a day-to-day basis risk measurement plays an important role in articulating the risk appetite of the Firm and the Company and in managing the risk profile as expressed in risk appetite statements. Risk may be monitored against firmwide, product, divisional or business level thresholds or against a combination of such attributes. The Firm measures risk using a suite of metrics, as relevant to each type of risk, including stress metrics to calculate the potential loss from a wide range of scenarios and sensitivity analysis. These risks are tracked systematically, and they are monitored and reported to the relevant senior management, the committees and the Board on a regular basis.

At firmwide level, a number of specialist committees and governance bodies sit within the broader risk management framework with responsibilities for the monitoring of specific risks against limits or tolerances and the escalation of any breaches. Specific governance bodies are in place for the management of credit, market, liquidity, model and operational risk.

The Firm's risk management framework, which relies on oversight from the Group Board, operates independently of revenue producing divisions and other non-revenue producing units such as compliance, finance, legal, internal audit and operations.

3 Overview of risk management (continued)

3.6 Risk measurement (continued)

For more information about the Company’s areas of risk, see Note 18 to the financial statements “Financial risk management”.

4 Overview of RWA

The Company uses the Standardized (Credit Risk) Approach (“STC”), the Standardized (Market Risk) Approach (“STM”) and the Basic Indicator Approach (“BIA”), as set out in the BCR, to calculate its credit risk, market risk and operational risk respectively.

Using the standard template as specified by the HKMA, the detailed breakdown of the Company’s RWAs and an explanation of material changes in the RWAs during the quarterly reporting periods are set out below.

4 Overview of RWA (continued)

Template OV1: Overview of RWA

		RWA		Minimum capital requirements (Note (i))	
		31 December 2018	30 September 2018	31 December 2018	
		US$ '000	US$ '000	US$ '000	Note
1	Credit risk for non-securitization exposures	47,956	47,157	3,836	(ii)
2	Of which STC approach	47,956	47,157	3,836	
2a	Of which BSC approach	-	-	-	
3	Of which foundation IRB approach	-	-	-	
4	Of which supervisory slotting criteria approach	-	-	-	
5	Of which advanced IRB approach	-	-	-	
6	Counterparty default risk and default fund contributions	987	751	79	
7	Of which SA-CCR	Not applicable	Not applicable	Not applicable	(iii)
7a	Of which CEM	987	751	79	
8	Of which IMM(CCR) approach	-	-	-	
9	Of which others	-	-	-	
10	CVA risk	272	203	22	
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-	
12	Collective investment scheme ("CIS") exposures – LTA	Not applicable	Not applicable	Not applicable	(iii)
13	CIS exposures – MBA	Not applicable	Not applicable	Not applicable	(iii)
14	CIS exposures – FBA	Not applicable	Not applicable	Not applicable	(iii)
14a	CIS exposures – combination of approaches	Not applicable	Not applicable	Not applicable	(iii)
15	Settlement risk	-	-	-	
16	Securitization exposures in banking book	-	-	-	
17	Of which SEC-IRBA	-	-	-	
18	Of which SEC-ERBA	-	-	-	
19	Of which SEC-SA	-	-	-	
19a	Of which SEC-FBA	-	-	-	
20	Market risk	37	36	3	
21	Of which STM approach	37	36	3	
22	Of which IMM approach	-	-	-	
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	Not applicable	Not applicable	Not applicable	(iii)
24	Operational risk	21,602	23,517	1,728	(iv)
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-	
26	Capital floor adjustment	-	-	-	
26a	Deduction to RWA	-	-	-	
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-	
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-	
27	Total	70,854	71,664	5,668	

(i) The minimum capital requirements are determined by multiplying the Company's RWAs derived from the relevant calculation approach by 8%, not the Company's actual regulatory capital.

(ii) The increase in RWAs for credit risk for non-securitization exposures from the previous reporting period is mainly due to increase in receivable from an affiliated company.

4 Overview of RWA (continued)

Template OV1: Overview of RWA (continued)

(iii) These items will be applicable only after their respective policy frameworks take effect. Until then, "Not applicable" should be reported in the rows.

(iv) The decrease in RWAs for operational risk from the previous reporting period is due to a decrease in the arithmetic mean of the aggregate capital charge for the last 3 years, mainly driven by service fee income.

5 Composition of regulatory capital

5.1 Template CC1: Composition of regulatory capital

The following table sets out the detailed composition of the Company's regulatory capital as at 31 December 2018 using the standard template as specified by the HKMA.

31 December 2018

		Amount (US$ '000)	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	114,010	(a)
2	Retained earnings	748	(b)
3	Disclosed reserves	-	
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	**CET1 capital before regulatory adjustments**	114,758	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	820	(c)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	

5 Composition of regulatory capital (continued)

5.1 Template CC1: Composition of regulatory capital (continued)

		Amount (US$ '000)	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	-	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	
26b	Regulatory reserve for general banking risks	-	
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	**Total regulatory deductions to CET1 capital**	820	
29	**CET1 capital**	113,938	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Capital instruments subject to phase-out arrangements from AT1 capital*	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
36	**AT1 capital before regulatory deductions**	-	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	**Total regulatory deductions to AT1 capital**	-	
44	**AT1 capital**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	113,938	

5 Composition of regulatory capital (continued)

5.1 Template CC1: Composition of regulatory capital (continued)

		Amount (US$ '000)	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	*Capital instruments subject to phase-out arrangements from Tier 2 capital*	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	*of which: capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	-	
51	**Tier 2 capital before regulatory deductions**	**-**	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	-	
59	**Total regulatory capital (TC = T1 + T2)**	113,938	
60	**Total RWA**	70,854	
	Capital ratios (as a percentage of RWA)		
61	**CET1 capital ratio**	160.80%	
62	**Tier 1 capital ratio**	160.80%	
63	**Total capital ratio**	160.80%	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	3.719%	
65	of which: capital conservation buffer requirement	1.875%	
66	of which: bank specific countercyclical capital buffer requirement	1.844%	
67	of which: higher loss absorbency requirement	-	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	152.80%	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
	Amounts below the thresholds for deduction (before risk weighting)		

5 Composition of regulatory capital (continued)

5.1 Template CC1: Composition of regulatory capital (continued)

		Amount (US$ '000)	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
72	Insignificant capital investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)		
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	-	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	Not applicable
82	*Current cap on AT1 capital instruments subject to phase-out arrangements*	-	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on Tier 2 capital instruments subject to phase-out arrangements*	-	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	-	

Notes to the Template:

	Description	**Hong Kong basis (US$ '000)**	**Basel III basis (US$ '000)**
10	**Deferred tax assets (net of associated deferred tax liabilities)**	820	738
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		

5 Composition of regulatory capital (continued)

5.2 Template CC2: Reconciliation of regulatory capital to balance sheet

The following table shows a reconciliation of amounts in the balance sheet of the Company to the capital components of regulatory capital.

31 December 2018

	Balance Sheet as in Published Financial Statements	Under regulatory scope of consolidation	Cross reference to composition of regulatory capital
	US$ ’000	**US$ ’000**	
Assets			
Cash and cash equivalents	112,722	112,722	
Financial instruments at fair value	23	23	
Trade and other receivables	17,559	17,559	
Current income tax receivables	340	340	
Deferred income tax assets	820	820	(c)
Total assets	**131,464**	**131,464**	
Liabilities			
Deposit from an affiliated customer	1,000	1,000	
Short-term loans payable	2,000	2,000	
Financial instruments at fair value	25	25	
Trade and other payables	13,681	13,681	
Total liabilities	**16,706**	**16,706**	
Equity			
Share capital	114,010	114,010	(a)
Retained profit	748	748	(b)
Total equity	**114,758**	**114,758**	
Total equity and liabilities	**131,464**	**131,464**	

5 Composition of regulatory capital (continued)

5.3 Table CCA: Main features of regulatory capital instruments

The following table shows the main features of regulatory capital instruments.

31 December 2018

1	Issuer	Goldman Sachs Asia Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable
3	Governing law(s) of the instrument	Hong Kong Law
	Regulatory treatment	
	Transitional Basel III rules[1]	Not applicable
5	Post-transitional Basel III rules[2]	Common Equity Tier 1
6	Eligible at solo / group / solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares (with voting rights)
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	US$ 114.01 million
9	Par value of instrument	Not applicable
10	Accounting classification	Shareholders' equity
11	Original date of issuance	10,000 shares issued on 12 December 2012 1,000,000 shares issued on 14 January 2015 13,000,000 shares issued on 26 June 2015 100,000,000 shares issued on 12 July 2016
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

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

5 Composition of regulatory capital (continued)

5.3 Table CCA: Main features of regulatory capital instruments (continued)

Information relating to the disclosure of the full terms and conditions of the Company's capital instruments can be viewed on its parent company's website as the Company does not maintain a website of its own: http://www.goldmansachs.com/disclosures/gsab-disclosures/terms-and-conditions.html

6 Macroprudential supervisory measures

6.1 Template CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer ("CCyB")

The geographical allocation of private sector credit exposures to the various jurisdictions is based on "ultimate risk basis". "Ultimate risk basis" means the allocation of exposures to the jurisdictions where the risk ultimately lies, as defined as the location where the "ultimate obligor" resides.

The geographical distribution of private sector credit exposures that are relevant in the calculation of CCyB ratio is set out below.

31 December 2018

	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect (%)	RWA used in computation of CCyB ratio (US$ '000)	AI-specific CCyB ratio (%)	CCyB amount (US$ '000)	Note
1	Hong Kong SAR	1.875%	9,658			(i)
2	United Kingdom	1.000%	60			
3	Sum		9,718			
4	Total		9,859	1.844%	182	

(i) The increase in RWA used in the computation of CCyB ratio from the previous semi-annual reporting period is mainly due to the increase in derivative transaction volumes.

7 Leverage ratio

7.1 Template LR1: Summary comparison of accounting assets against leverage ratio ("LR") exposure measure

The leverage ratio is calculated in accordance with the relevant provisions of the BCR.

31 December 2018

	Item	Value under the LR framework (US$ '000 equivalent)
1	Total consolidated assets as per published financial statements	131,464
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4	Adjustments for derivative contracts	1,113
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	-

7 Leverage ratio (continued)

7.1 Template LR1: Summary comparison of accounting assets against leverage ratio ("LR") exposure measure (continued)

	Item	Value under the LR framework (US$ '000 equivalent)
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	-
7	Other adjustments	(820)
8	**Leverage ratio exposure measure**	131,757

There were no material changes in leverage ratio exposure measure from the previous semi-annual reporting period.

7.2 Template LR2: Leverage ratio

31 December 2018

		US$ '000 equivalent	
		31 December 2018	30 September 2018
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	131,441	129,935
2	Less: Asset amounts deducted in determining Tier 1 capital	(820)	(862)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	130,621	129,073
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	19	471
5	Add-on amounts for PFE associated with all derivative contracts	1,117	759
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	**Total exposures arising from derivative contracts**	1,136	1,230
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	-	-

7 Leverage ratio (continued)

7.2 Template LR2: Leverage ratio (continued)

31 December 2018

		US$ '000 equivalent	
		31 December 2018	30 September 2018
18	Less: Adjustments for conversion to credit equivalent amounts	-	-
19	**Off-balance sheet items**	-	-
Capital and total exposures			
20	**Tier 1 capital**	113,938	113,753
20a	**Total exposures before adjustments for specific and collective provisions**	131,757	130,303
20b	**Adjustments for specific and collective provisions**	-	-
21	**Total exposures after adjustments for specific and collective provisions**	131,757	130,303
Leverage ratio			
22	**Leverage ratio**	86.48%	87.30%

There were no material changes in leverage ratio from the previous reporting period.

8 Linkages between financial statements and regulatory exposures

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

31 December 2018

	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
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Assets							
Cash and cash equivalents	112,722	112,722	112,722	-	-	-	-
Financial instruments at fair value	23	23	-	23	-	23	-
Trade and other receivables	17,559	17,559	17,559	-	-	-	-
Current income tax receivables	340	340	340	-	-	-	-
Deferred income tax assets	820	820	-	-	-	-	820
Total assets	131,464	131,464	130,621	23	-	23	820
Liabilities							
Deposit from an affiliated customer	1,000	1,000	-	-	-	-	1,000
Short-term loans payables	2,000	2,000	-	-	-	-	2,000
Financial instruments at fair value	25	25	-	25	-	23	-
Trade and other payables	13,681	13,681	-	-	-	-	13,681
Current income tax liabilities	-	-	-	-	-	-	-
Total liabilities	16,706	16,706	-	25	-	23	16,681

8 Linkages between financial statements and regulatory exposures (continued)

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

Financial instruments at fair value held in the trading book are exposed to counterparty default risk before the final settlement of the contract as well as the risk of loss arising from fluctuations in the value of positions held. As a result, they are subject to both the counterparty credit risk and market risk framework.

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

31 December 2018

		Total	Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
		US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	130,644	130,621	-	23	23
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	25	-	-	25	23
3	Total net amount under regulatory scope of consolidation	130,619	130,621	-	(2)	-
4	Off-balance sheet amounts	-	-	-	-	-
5	Potential future exposures	1,117	-	-	1,117	-
6	**Exposure amounts considered for regulatory purposes**	131,736	130,621	-	1,115	-

The key difference between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation are potential future exposures for derivatives, offset by netting where an enforceable master netting agreement is in place.

There were no valuation adjustments for all assets measures at fair value, including non-derivative and derivative instruments as at 31 December 2018.

9 Liquidity risk management

The following table shows the Company's on-balance sheet items by remaining maturity and the resultant liquidity gaps as at 31 December 2018 based on the reported numbers under MA(BS)23 Return of Liquidity Monitoring Tools.

There were no off-balance sheet items as at 31 December 2018.

The qualitative disclosures related to liquidity risk management are set forth in Note 18.3 to the financial statements "Financial risk management – Liquidity risk."

9 Liquidity risk management (continued)

	On demand Total	Within one month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	Over five years	Undated	Total
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Amount receivable arising from derivative contracts	3	20	-	-	-	-	-	23
Due from banks	47,222	43,655	22,019	-	-	-	-	112,896
Other assets	-	22,334	-	424	582	-	1	23,341
Total on-balance sheet assets	47,225	66,009	22,019	424	582	-	1	136,260
Deposits from non-bank customers	-	-	1,002	-	-	-	-	1,002
Amount payable arising from derivative contracts	3	22	-	-	-	-	-	25
Other liabilities	-	16,026	132	201	3,500	-	616	20,475
Total on-balance sheet liabilities	3	16,048	1,134	201	3,500	-	616	21,502
Contractual Maturity Mismatch	47,222	49,961	20,885	223	(2,918)	-		
Cumulative Contractual Maturity Mismatch	47,222	97,183	118,068	118,291	115,373	115,373		

10 Credit risk for non-securitization exposures

Using the standard templates as specified by the HKMA, the following sub-sections and templates provide detailed information relating to credit risk for non-securitization exposures under the STC approach.

There were no loans or debt securities or related off-balance sheet exposures as at 31 December 2018.

10.1 General information about credit risk

The general information about credit risk is set forth in Note 18.2 to the financial statements "Financial risk management – Credit risk."

10.2 Qualitative disclosures related to credit risk mitigation

The qualitative disclosures related to credit risk mitigation are set forth in Note 18.2 to the financial statements "Financial risk management – Credit risk."

10.3 Qualitative disclosures on use of ECAI ratings under STC approach

As at 31 December 2018 and 31 December 2017, the Company has nominated Standard & Poor's Rating Services, Moody's Investors Service and Fitch Ratings as the external credit assessment institutions ("ECAIs") used to determine the risk-weights of exposures subject to the STC approach. The exposure classes for which the ECAIs are used include sovereign, public sector entity, bank, securities firm, corporate and collective investment scheme exposures. For risk-weighting purpose, the Company will use certain credit ratings among the three ECAIs which will result in the highest risk-weights according to the requirements of the BCR.

10 Credit risk for non-securitization exposures (continued)

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

31 December 2018

		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	Note
		US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	%	
1	Sovereign exposures	340		340		340	100	
2	PSE exposures	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	
4	Bank exposures	112,896	-	112,896	-	38,744	34	(i)
5	Securities firm exposures	17,025	-	17,025	-	8,512	50	
6	Corporate exposures	359	-	359	-	359	100	
7	CIS exposures	-	-	-	-	-	-	
8	Cash items	-	-	-	-	-	-	
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	-	-	-	-	-	-	
11	Residential mortgage loans	-	-	-	-	-	-	
12	Other exposures which are not past due exposures	1	-	1	-	1	100	
13	Past due exposures	-	-	-	-	-	-	
14	Significant exposures to commercial entities	-	-	-	-	-	-	
15	**Total**	130,621	-	130,621	-	47,956	37	

(i) The decrease in bank exposures from the previous semi-annual reporting period is mainly due to the decrease in bank deposits.

10 Credit risk for non-securitization exposures (continued)

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

<u>31 December 2018</u>

	Exposure class \ Risk weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)	Note
		US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	
1	Sovereign exposures	-	-	-	-	-	-	340	-	-	-	340	
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-	
4	Bank exposures	-	-	83,312	-	15,006	-	14,578	-	-	-	112,896	(i)
5	Securities firm exposures	-	-	-	-	17,025	-	-	-	-	-	17,025	
6	Corporate exposures	-	-	-	-	-	-	359	-	-	-	359	
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-	
8	Cash items	-	-	-	-	-	-	-	-	-	-	-	
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	-	-	-	-	-	-	-	-	-	-	-	
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-	
12	Other exposures which are not past due exposures	-	-	-	-	-	-	1	-	-	-	1	
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-	
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-	
15	Total	-	-	83,312	-	32,031	-	15,278	-	-	-	130,621	

(i) The decrease in bank exposures from the previous semi-annual reporting period is mainly due to the decrease in bank deposits.

11 Counterparty credit risk

There were no credit-related derivative contracts or exposures to central counterparties as at 31 December 2018.

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

The risk management objectives and policies, and method for setting operating limits related to counterparty credit risk are set forth in Note 18.2 to the financial statements "Financial risk management – Credit risk."

(a) Credit risk mitigation and assessments concerning counterparty credit risk

To reduce our credit exposures on derivatives, the Company may enter into netting agreements with counterparties that permit it to offset receivables and payables with such counterparties. The Company may also reduce credit risk with counterparties by entering into agreements that enable it to obtain collateral from them on an upfront or contingent basis and/or to terminate transactions if the counterparty's credit rating falls below a specified level. The Company monitors the fair value of the collateral on a daily basis to ensure that its credit exposures are appropriately collateralised. The Company seeks to minimise exposures where there is a significant positive correlation between the creditworthiness of our counterparties and the market value of collateral received.

When the Company does not have sufficient visibility into a counterparty's financial strength or when it believes a counterparty requires support from its parent, the Company may obtain third-party guarantees of the counterparty's obligations. The Company may also mitigate its credit risk using credit derivatives or participation agreements.

As part of the risk assessment process, Credit Risk Management performs credit reviews, which include initial and ongoing analyses of our counterparties. A credit review is an independent analysis of the capacity and willingness of a counterparty to meet its financial obligations, resulting in an internal credit rating. The determination of internal credit ratings also incorporates assumptions with respect to the nature of and outlook for the counterparty's industry, and the economic environment. Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

The Company's risk assessment process may also include, where applicable, reviewing certain key metrics, such as delinquency status, collateral values, credit scores and other risk factors.

(b) Wrong-way risk

The Company seeks to minimise exposures where there is an adverse correlation between credit quality of our counterparty and exposure to the same counterparty, which is known as "wrong-way risk". Wrong-way risk is commonly categorised into two types: specific wrong-way risk and general wrong-way risk. The Company categorises exposure as specific wrong-way risk when the counterparty and the issuer of the reference asset of the transaction are the same entity or are affiliates, or if the collateral supporting a transaction is issued by the counterparty or its affiliates.

11 Counterparty credit risk (continued)

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

(b) Wrong-way risk (continued)

General wrong-way risk arises when there is a significant positive correlation between the probability of default of a counterparty and general market risk factors affecting the exposure to that counterparty. The Company has procedures in place to actively monitor and control specific and general wrong-way risk, beginning at the inception of a transaction and continuing through its life, including assessing the level of risk through stress tests. The Company ensures that material wrong-way risk is mitigated using collateral agreements or increases to initial margin, where appropriate.

(c) Credit rating downgrade

Certain of the Company's derivatives have been transacted under bilateral agreements with counterparties who may require the Company to post collateral or terminate the transactions based on changes in the Firm's credit ratings. The Company assesses the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies. A downgrade by any one rating agency, depending on the agency's relative ratings of the Firm at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies.

Using the standard templates as specified by the HKMA, the following tables provide detailed information relating to counterparty credit risk and credit valuation adjustment ("CVA") arising from derivative contracts.

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

31 December 2018

		Replace-ment cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA	Note
		US$ '000	US$ '000	US$ '000		US$ '000	US$ '000	
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-	
1a	CEM	19	1,117		-	1,036	987	(i)
2	IMM (CCR) approach			-	-	-	-	
3	Simple Approach (for SFTs)					-	-	
4	Comprehensive Approach (for SFTs)					-	-	
5	VaR (for SFTs)					-	-	
6	**Total**						987	

(i) There was no material change in RWA from the previous semi-annual reporting period.

11 Counterparty credit risk (continued)

11.3 Template CCR2: CVA capital charge

31 December 2018

		EAD post CRM	RWA	Note
		US$ '000	US$ '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	1,036	273	(i)
4	Total	1,036	273	

(i) CVA capital charged increased from the previous semi-annual reporting period due to an increase in derivative trade size.

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

31 December 2018

	Risk weight / Exposure class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)	Note
		US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-	
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-	
4	Bank exposures	-	-	-	-	-	-	-	-	-	-	-	
5	Securities firm exposures	-	-	-	-	98	-	-	-	-	-	98	
6	Corporate exposures	-	-	-	-	-	-	938	-	-	-	938	(i)
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-	
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-	

11 Counterparty credit risk (continued)

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

	Risk weight / Exposure class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)	Note
		US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-	
10	Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-	
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-	
12	Total	-	-	-	-	98	-	938	-	-	-	1,036	

(i) The increase in corporate counterparty default risk exposures from the previous semi-annual reporting period is mainly due to an increase in derivative trade size.

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

<u>31 December 2018</u>

	Derivative contracts				SFTs		Note
	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			
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	
Cash - domestic currency	-	101	-	-	-	-	(i)
Cash - other currencies	-	-	-	-	-	-	
Domestic sovereign debt	-	-	-	-	-	-	
Other sovereign debt	-	-	-	-	-	-	
Government agency debt	-	-	-	-	-	-	
Corporate bonds	-	-	-	-	-	-	
Equity securities	-	-	-	-	-	-	
Other collateral	-	-	-	-	-	-	
Total	-	101	-	-	-	-	

(i) The decrease in cash collateral from previous semi-annual reporting period is mainly due to lower fair value of OTC derivatives.

12 Securitization exposures

There were no securitization exposures as at 31 December 2018.

13 Market risk

13.1 Qualitative disclosures related to market risk

The framework for market risk management of the Firm and the Company is set forth in Note 18.1 of the financial statements "Financial risk management – Market risk".

The below describes the risk management, process and governance structure specific to the Company.

(a) Risk management

Trading book positions are subject to market risk capital requirements which are designed to cover the risk of loss in value of these positions due to changes in market conditions. The Company's trading book contains OTC derivatives. The Company primarily manages market risk by establishing economic hedges in relation to derivatives with affiliated companies. Market risk exposures on OTC derivatives are monitored by the Company's risk and finance functions.

The Company's foreign currency exposures primarily arise from non-trading positions and are subject to market risk capital requirement under the STM approach.

(b) Risk reporting, measurement and monitoring

The Company has procedures in place to actively identify, monitor and control market risks arising from OTC derivatives and foreign exchange exposures. These exposures are monitored by the Company's risk and finance functions against limits on a regular basis.

Using the standard template as specified by the HKMA, the following table provides detailed information relating to market risk under STM approach.

13.2 Template MR1: Market risk under STM approach

31 December 2018

		RWA	Note
		US$ '000	
	Outright product exposures		
1	Interest rate exposures (general and specific risk)	-	
2	Equity exposures (general and specific risk)	-	
3	Foreign exchange (including gold) exposures	37	(i)
4	Commodity exposures	-	
	Option exposures		
5	Simplified approach	-	
6	Delta-plus approach	-	
7	Other approach	-	
8	Securitization exposures	-	
9	**Total**	37	

(i) There were no material movements in the RWA for market risk from the previous semi-annual reporting period.

14 Interest rate exposures in banking book

The Company is exposed to interest rate risk arising from its banking book activities. The Company's banking book is comprised of assets and liabilities that are intended to be held to maturity, including deposits and cash placements. Changes in market interest rates on banking book assets and liabilities can have an adverse effect on the Company's earnings and economic value.

The Company measures and monitors banking book interest rate exposures by measuring changes in the banking book's earnings with movements in interest rates. The Company uses an instantaneous parallel (upward and downward) interest rate shock across multiple scenarios to evaluate the potential impact of interest rate risk on its economic value on a daily basis.

As at 31 December 2018, the Company's variation in earnings based on an upward interest rate shock of 200 basis points, in accordance with the method used in HKMA Return of Interest Rate Risk Exposures, are as follows:

	2018	
	HKD currency US$ '000	USD currency US$ '000
Increase in earnings over the next 12 months if interest rates rise by 200 basis points	171	1,780

15 International claims

International claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account any risk transfer. The risk transfers have been made if the claims are guaranteed by a party in a geographical area which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical area.

International claims by major countries or geographical segments are disclosed as follows.

31 December 2018

	Banks US$ '000	Official sector US$ '000	Non-bank financial institutions US$ '000	Non-financial private sector US$ '000	Total US$ '000
Major countries:					
United States	17,474	-	50	-	17,524
Australia	14,995	-	-	-	14,995
Canada	25,552	-	-	-	25,552
India	14,578	-	-	-	14,578
Total	72,599	-	50	-	72,649
Major offshore centres:					
Hong Kong	30,756	-	21,785	125	52,666

16 Loans and advances – sector information

There were no loans and advances to customers as at 31 December 2018.

17 Overdue and rescheduled assets

There were no impaired, rescheduled or overdue assets as at 31 December 2018.

18 Mainland activities

The breakdown of the Company's Mainland exposures to material non-bank counterparties into the specified categories is as follows:

31 December 2018

Type of counterparties	On-balance sheet exposures US$ '000	Off-balance sheet exposures US$ '000	Total US$ '000	Specific provisions US$ '000
Other entities of central government not reported in item 1 in Table III Part 3 of MA(BS)20	-	20	20	-
Total	-	20	20	-

19 Currency risk

The currency risk arising from the Company's operations for those individual currencies which each constitute more than 10% of the total net positions in all foreign currencies are as follows:

USD currency	31 December 2018 US$ '000
Spot assets	133,725
Spot liabilities	(126,951)
Forward purchases	9,636
Forward sales	(17,228)
Net short position	(818)

As at 31 December 2018, the Company had no net currency position calculated on the basis of the delta-weighted position of its options contracts.

As at 31 December 2018, the Company had no foreign currency exposure arising from structural positions.

20 Off-balance sheet exposures (other than derivative transactions)

There are no off-balance sheet exposures (other than derivative transactions) as at 31 December 2018.

21 Segmental information

The profit and loss and operating assets of the Company are mainly contributed by Institutional Client Services. Institutional Client Services serves our clients who come to the Firm to buy and sell financial products, raise funding and manage risk. All of the profit and loss, assets and liabilities are managed and booked in Hong Kong for the year ended 31 December 2018.

	2018 Institutional Client Services US$ '000
Service fee income	6,850
Total operating income	8,448
Profit before income tax	1,397
Total operating assets	130,644
Total assets	131,464
Total liabilities	16,706

There were no impairment losses, specific provision and collective provision for impaired assets for the year ended 31 December 2018.

There were no contingent liabilities and commitments as at 31 December 2018.

22 Assets used as security

There were no assets used as security as at 31 December 2018.

23 Remuneration

The Company has complied with Part 3 (Disclosure on remuneration) of CG-5 "Guideline on a Sound Remuneration System" issued by the HKMA. Below are the applicable disclosures made pursuant to the requirements.

23.1 Design and implementation of remuneration system

(a) Remuneration Programme Philosophy

Retention of talented employees is critical to executing the Firm's business strategy successfully. Remuneration is, therefore, a key component of the costs the Firm incurs to generate revenues, similar to cost of goods sold or manufacturing costs in other industries.

The remuneration philosophy and the objectives of the remuneration programme for the Firm are reflected in the Compensation Principles for Group Inc., as posted on the Goldman Sachs public website:

http://www.goldmansachs.com/investor-relations/corporate-governance/corporate-governance-documents/compensation-principles.pdf

The Firm's Compensation Principles were approved by shareholders at the 2010 annual shareholders' meeting. In particular, effective remuneration practices should:

(i) Encourage a real sense of teamwork and communication, binding individual short-term interests to the institution's long-term interests;

(ii) Evaluate performance on a multi-year basis;

(iii) Discourage excessive or concentrated risk-taking;

23 Remuneration (continued)

23.1 Design and implementation of remuneration system (continued)

(a) Remuneration Programme Philosophy (continued)

(iv) Allow an institution to attract and retain proven talent; and

(v) Align aggregate remuneration for the Firm with performance over the cycle.

(b) Remuneration Governance

The Compensation Committee of the Board of Directors of Group Inc. ("the Compensation Committee") oversees the remuneration policies and practices of the Firm generally. The Remuneration Committee of Goldman Sachs Asia Bank Limited (the "Remuneration Committee") supplements the Compensation Committee's responsibilities by overseeing the development and implementation of those remuneration policies and practices of the Company (the "GSAB Remuneration Policies"). The responsibilities of the committees are summarised below.

The Compensation Committee

The Board of Directors of Group Inc. (the "Group Board") oversees the development, implementation and effectiveness of the Firm's global remuneration practices, which it generally exercises directly or through delegation to the Compensation Committee of the Group Board (the "Compensation Committee"). The responsibilities of the Compensation Committee include:

- Review and approval of (or recommendation to the Group Board to approve) the Firm's variable remuneration structure, including the portion to be paid as equity-based awards, all year-end equity-based grants for eligible employees (including those employed by the Company), and the terms and conditions of such awards.

- Assisting the Group Board in its oversight of the development, implementation and effectiveness of policies and strategies relating to the Human Capital Management ("HCM") function, including recruiting, retention, career development and progression, management succession (other than that within the purview of the Corporate Governance and Nominating Committee) and diversity.

The Compensation Committee held seven meetings in 2018 to discuss and make determinations regarding remuneration.

None of the members of the Compensation Committee was an employee of the Firm. All members of the Compensation Committee were "independent" within the meaning of the New York Stock Exchange Rules and the Firm's Director Independence Policy.

The Remuneration Committee

The responsibilities of the Board-Level Remuneration Committee of Goldman Sachs Asia Bank Limited (the "Remuneration Committee") include:

- Assisting the Board in discharging its responsibility in relation to the Company's remuneration systems

- Making recommendations in respect of remuneration policy and practices to the Board to ensure that the Board's judgment and decisions relating to remuneration arrangements are taken independently of management and in the best interests of the Company

23 Remuneration (continued)

23.1 Design and implementation of remuneration system (continued)

(b) Remuneration Governance (continued)

The Remuneration Committee held three meetings in 2018 to discuss and make determinations regarding the remuneration policies of the Company.

The Remuneration Committee reviewed the Goldman Sachs Asia Bank Compensation Policy on 7 January 2019. No changes were made to the Compensation Policy for 2018.

Other Stakeholders

In carrying out the responsibilities of the Compensation Committee, the Chair of the Compensation Committee met multiple times with senior management during the year, including the Firm's Chief Operating Officer ("COO"), Chief Financial Officer ("CFO") and other members of senior management.

The Firm's Chief Risk Officer ("CRO") presented an annual compensation-related risk assessment to the Compensation Committee, meeting jointly with the Risk Committee of the Group Board, to assist the Compensation Committee in its assessment of the effectiveness of the Firm's remuneration programme in addressing risk, and particularly, whether the programme is consistent with regulatory guidance that financial services Firms ensure variable remuneration does not encourage employees to expose the Firm to imprudent risk.

External Consultants

The Compensation Committee has for several years recognised the importance of using an independent remuneration consultant that is appropriately qualified and that provides services solely to the Compensation Committee and not to the Firm. The Compensation Committee continued to retain Semler Brossy Consulting Group LLC (Semler Brossy) as its independent remuneration consultant in 2018. Consistent with past practice, the Compensation Committee asked Semler Brossy to assess the remuneration programme for Participating Managing Directors ("PMDs"), the Firm's approximately 430 most senior employees as at 31 December 2018.

In its assessment of the 2018 remuneration programme for PMDs, Semler Brossy confirmed that, consistent with prior years, the programme has been aligned with, and is sensitive to, Firm performance, contains features that reinforce significant alignment with shareholders and a long-term focus, and utilises policies and procedures, including subjective determinations that facilitate the Firm's approach to risk-taking and risk management by supporting the mitigation of known and perceived risks.

Semler Brossy also reviewed and participated in the CRO's annual compensation-related risk assessment that was presented to the Compensation Committee, meeting jointly with the Risk Committee of the Group Board, in December 2018.

Global Remuneration Determination Process

The Firm's global process for setting variable remuneration (including the requirement to consider risk and compliance issues) applies to employees of the Company in the same way as to employees in other regions and is subject to oversight by the senior management of the Firm in the region. The Firm uses a highly disciplined and robust process for setting variable remuneration across all divisions and regions, which occurs prior to the Compensation Committee's review and approval.

23 Remuneration (continued)

23.1 Design and implementation of remuneration system (continued)

(b) Remuneration Governance (continued)

Global Remuneration Determination Process **(continued)**

The process involves divisional compensation managers, divisional compensation committees, division heads, HCM and the Firmwide Management Committee (the Firm's most senior executives), as appropriate.

In addition, as part of the remuneration determination process, members of the Firm's Compliance, Risk, Employment Law Group and Employee Relations functions make arrangements for divisional management to take into consideration any compliance, risk or control matters when determining remuneration of individuals. Before any individual remuneration decisions are finalised, Employee Relations and the Employment Law Group assess the recommended remuneration for relevant individuals in the context of overall performance and other factors, and recommendations are reviewed with respect to comparators.

(c) Link Between Pay and Performance

In 2018, annual remuneration for employees generally comprised fixed remuneration (including base salary) and variable remuneration. The Firm's remuneration practices provide for variable remuneration determinations to be made on a discretionary basis. Variable remuneration is based on multiple factors and is not set as a fixed percentage of revenue or by reference to any other formula. Firmwide performance is a key factor in determining variable remuneration.

The Firm is committed to aligning variable remuneration with performance. In order to do so, the performance of the Firm, division and individual over the past year, as well as over prior years, are taken into account.

The Firm believes that multi-year guarantees should be avoided entirely to avoid misaligning remuneration and performance, and guaranteed remuneration in employment contracts should be used only in exceptional circumstances (for example, for certain new hires).

<u>Performance Measurement</u>

In connection with making remuneration decisions for 2018, the Compensation Committee reviewed with the CFO certain firmwide financial metrics and year-on-year changes in those metrics, including the following:

- Return on average common shareholders' equity;
- Diluted earnings per common share;
- Book value per share;
- Net earnings;
- Net revenues;

No specific goals for these metrics were used, nor were any specific weights ascribed to them, in making remuneration determinations.

Additionally, each revenue-producing division identified the quantitative and/or qualitative metrics (none of which are given specific weight in determining remuneration) specific to the division, its business units and, where applicable, desks to be used to evaluate the performance of the division and its employees. Metrics included, but were not limited to:

23 Remuneration (continued)

23.1 Design and implementation of remuneration system (continued)

(c) Link Between Pay and Performance (continued)

- Pre-tax income, return on attributed equity, lost business, revenue and backlog, client team and activity, relationship lending history, principalling, key transactions, as well as franchise accretion.

Employees are evaluated annually as part of the performance review feedback process. This process reflects input from a number of employees, including supervisors, peers and those who are junior to the employee, regarding an array of performance measures. The performance evaluations for 2018 included assessments of risk management and Firm reputation, culture and conduct, and compliance with Firm policies, sensitivity to risk and control (revenue-producing employees), and control side empowerment (control functions).

Risk Adjustment

Prudent risk management is a hallmark of the Firm's culture and sensitivity to risk and risk management are key elements in assessing employee performance, including as part of the performance review feedback process noted above.

The Firm takes risk into account both on an ex-ante and ex-post basis when setting the amount and form of variable remuneration for employees. Different lines of business have different risk profiles and these are taken into account when determining remuneration. These include credit, market, liquidity, operational, reputational, legal, compliance and conduct risks.[1]

Guidelines are provided to assist compensation managers when applying discretion during the remuneration process to promote consistent consideration of the different risks presented by the Firm's businesses. Further, to ensure the independence of control function employees, remuneration for those employees is not determined by individuals in revenue-producing positions but rather by the management of the relevant control function.

Consistent with prior years, for 2018 certain employees receive a portion of their variable remuneration as an equity-based award that is subject to a number of terms and conditions that could result in forfeiture or recapture. For further details, see "Structure of Remuneration" below.

In the 2018 annual compensation-related risk assessment presented to the Compensation Committee, meeting jointly with the Risk Committee of the Group Board, the CRO confirmed that the various components of the Firm's remuneration programmes and policies (for example, process, structure and governance) worked together to balance risk and incentives in a manner that does not encourage imprudent risk-taking. In addition, the CRO stated that the Firm has a risk management process that, among other things, is consistent with the safety and soundness of the Firm and focuses on our:

i. *Risk management culture*: the Firm's culture emphasises continuous and prudent risk management

[1] The firm's compensation policy was updated during 2017 to specifically provide that non-financial risks, including conduct, compliance, reputational, legal and operational risk, are taken into account when determining aggregate variable compensation.

23 Remuneration (continued)

23.1 Design and implementation of remuneration system (continued)

(c) Link Between Pay and Performance (continued)

ii. *Risk-taking authority*: there is a formal process for identifying employees who, individually or as part of a group, have the ability to expose the firm to material amounts of risk

iii. *Upfront risk management:* the Firm has tight controls on the allocation, utilisation and overall management of risk-taking, as well as comprehensive profit and loss and other management information which provide ongoing performance feedback. In addition, in determining variable remuneration, the firm reviews performance metrics that incorporate ex-ante risk adjustments; and

iv. *Governance:* the oversight of the Group Board, management structure and the associated processes all contribute to a strong control environment and control functions have input into remuneration structure and design

While the firm reviews its processes every year, material changes were not made in 2018.

<u>Structure of Remuneration</u>

Fixed Remuneration

The Firm has a global salary approach to ensure consistency in salary levels and to achieve an appropriate balance between fixed and variable remuneration.

Variable Remuneration

For employees with total remuneration and variable remuneration above specific thresholds, variable remuneration is generally paid in a combination of cash and equity-based remuneration. In general, the portion paid in the form of an equity-based award increases as variable remuneration increases.

The variable remuneration programme is flexible to allow the Firm to respond to changes in market conditions and to maintain its pay-for-performance approach. Variable remuneration is discretionary (even if paid consistently over a period of years).

Equity-Based Remuneration

The Firm believes that remuneration should encourage a long-term, firmwide approach to performance and discourage imprudent risk-taking. Paying a significant portion of variable remuneration in the form of equity-based remuneration that delivers over time, changes in value according to the price of shares of common stock (shares) of Group Inc., and is subject to forfeiture or recapture encourages a long-term, firmwide focus because its value is realised through long-term responsible behavior and the financial performance of the Firm.

The Firm imposes transfer restrictions, retention requirements and anti-hedging policies to further align the interests of the Firm's employees with those of the Firm's shareholders. The Firm's retention policies, coupled with the practice of paying senior employees a significant portion of variable remuneration in the form of equity-based awards, leads to a considerable investment in shares of Group Inc. over time.

23 Remuneration (continued)

23.1 Design and implementation of remuneration system (continued)

(c) Link Between Pay and Performance (continued)

In addition, from time to time, the firm may make awards consisting of unfunded, unsecured promises to deliver other instruments on terms and conditions that are substantially similar to those applicable to Restricted Stock Units ("RSUs") described below.

Deferral Policy: The deferred portion of fiscal year 2018 annual variable remuneration was generally awarded in the form of RSUs. An RSU is an unfunded, unsecured promise to deliver a share on a predetermined date. RSUs awarded in respect of fiscal year 2018 generally deliver in three equal instalments on or about each of the first, second and third anniversaries of the grant date, assuming the employee has satisfied the terms and conditions of the award at each such date.

Transfer Restrictions: The Firm generally requires all individuals to hold, until the expiration of a period of up to five years from grant, a material portion of the shares they receive in respect of RSUs granted as part of their year-end remuneration according to the Firm's global deferral table. These transfer restrictions apply to the lower of 50% of the shares delivered before reduction for tax withholding, or the number of shares received after reduction for tax withholding.

An employee generally cannot sell, exchange, transfer, assign, pledge, hedge or otherwise dispose of any RSUs or shares that are subject to transfer restrictions.

Forfeiture and Recapture Provisions*:* The RSUs and shares delivered thereunder in relation to variable remuneration are subject to forfeiture or recapture if the Compensation Committee determines that during 2018 the employee participated (which could include, depending on the circumstances, participation in a supervisory role) in the structuring or marketing of any product or service, or participated on behalf of the Firm or any of its clients in the purchase or sale of any security or other property, in any case without appropriate consideration of the risk to the Firm or the broader financial system as a whole (for example, if the employee were to improperly analyse risk or fail sufficiently to raise concerns about such risk) and, as a result of such action or omission, the Compensation Committee determines there has been, or reasonably could be expected to be, a material adverse impact on the Firm, the employee's business unit or the broader financial system.

This provision is not limited to financial risks and is designed to encourage the consideration of the full range of risks associated with the activities (for example, legal, compliance or reputational). The provision also does not require that a material adverse impact actually occur, but rather may be triggered if the Firm determines that there is a reasonable expectation of such an impact.

The Compensation Committee previously adopted guidelines that set forth a formal process regarding determinations to forfeit or recapture awards for improper risk analysis upon the occurrence of certain pre-determined events (for example, in the event of annual firmwide, divisional, business unit or individual losses). The review of whether forfeiture or recapture is appropriate includes input from the CRO, as well as representatives from Finance, Legal and Compliance. Determinations are made by the Compensation Committee or its delegates, with any determinations made by delegates reported to the Compensation Committee.

23 Remuneration (continued)

23.1 Design and implementation of remuneration system (continued)

(c) Link Between Pay and Performance (continued)

An employee’s RSUs may be forfeited, and shares delivered thereunder recaptured if the employee engages in conduct constituting “cause” at any time before the RSUs are delivered and any applicable transfer restrictions lapse. Cause includes, among other things, any material violation of any Firm policy, any act or statement that negatively reflects on the Firm’s name, reputation or business interests and any conduct detrimental to the Firm.

With respect to all of the forfeiture conditions, if the Firm determines after delivery or release of transfer restrictions that an RSU or share delivered thereunder should have been forfeited or recaptured, the Firm can require return of any shares delivered or repayment to the Firm of the fair market value of the shares when delivered (including those withheld to pay taxes) or any other amounts paid or delivered in respect thereof.

The clawback provisions of the Sarbanes-Oxley Act 2002 (“SOX”) apply to all variable compensation (whether cash- or equity-based) paid to any senior executives (Vice Chairman and above). The SOX provisions provide the following: If Group Inc. is required to prepare an accounting restatement due to material noncompliance, as a result of misconduct, with any financial reporting requirement under the securities laws described in Section 304 of SOX, the grantee will be required to forfeit or repay awards received during the 12-months after the initial incorrect filing. The Firm adopted a clawback policy that formalised and expanded our longstanding clawback practices in a comprehensive, standalone policy.

Hedging: The Firm’s anti-hedging policy ensures employees maintain the intended exposure to the Firm’s stock performance. In particular, all employees are prohibited from hedging RSUs and shares that are subject to transfer restrictions and, in the case of PMDs, retention shares. In addition, executive officers of Group Inc. (as defined under the Securities Exchange Act of 1934) are prohibited from hedging any shares that they can freely sell. Employees, other than executive officers, may hedge only shares that they can otherwise sell. However, no employee may enter into uncovered hedging transactions or sell short any shares. Employees may only enter into transactions or otherwise make investment decisions with respect to shares during applicable “window periods.”

23.2 Aggregate quantitative information on remuneration for senior management and key personnel

Senior management are persons responsible for oversight of the Company’s strategy or activities and / or those of the Company’s material business lines. Key personnel are individual employees whose duties or activities in the course of their employment involve the assumption of material risk or taking on of material exposures on behalf of the Company.

Aggregate quantitative information on remuneration for the year ended 31 December 2018 represents the remuneration of 8 individuals (2017: 6) who are considered as senior management and 2 individuals (2017: 2) who are considered as key personnel during the year. Where the individuals have performed services to the Company as well as other affiliated companies during the relevant period, all quantitative information disclosed below has been apportioned to reflect the individuals’ service to the Company.

Remuneration paid or awarded for the financial year ended 31 December 2018 comprised fixed remuneration (salaries) and variable remuneration.

23 Remuneration (continued)

23.2 Aggregate quantitative information on remuneration for senior management and key personnel (continued)

(a) Remuneration awarded during financial year

Remuneration amount and quantitative information (US$ '000)			Senior management	Key personnel
1	Fixed remuneration	Number of employees	8	2
2		Total fixed remuneration	232	33
3		Of which: cash-based	232	33
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable remuneration	Number of employees	8	2
10		Total variable remuneration	320	67
11		Of which: cash-based	216	46
12		Of which: deferred	-	-
13		Of which: shares or other share-linked instruments	104	21
14		Of which: deferred	104	21
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	**Total remuneration**		**552**	**100**

(b) Deferred remuneration

Deferred and retained remuneration		Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Senior management					
2	Cash	-	-	-	-	-
3	Shares (number of RSUs)	508	508	-	508	93
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel					
7	Cash	-	-	-	-	-
8	Shares (number of RSUs)	92	92	-	92	17
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	**Total**	**600**	**600**	**-**	**600**	**110**

23 Remuneration (continued)

23.2 Aggregate quantitative information on remuneration for senior management and key personnel (continued)

(b) Deferred remuneration (continued)

The closing stock price of Group Inc. stock as at 31 December 2018 was US$167.05.

(c) Special payments

No guaranteed bonuses, sign-on awards or severance payments were made to senior management and key personnel during the financial year.