大新銀行
DAH SING BANK

Dah Sing Bank, Limited

Regulatory Disclosure Statement

For the year ended 31 December 2017
(Unaudited)

These disclosures are prepared under
the Banking (Disclosure) Rules

Dah Sing Bank, Limited
Regulatory Disclosure Statement for the year ended 31 December 2017

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A. Purpose and Basis of Consolidation

The information contained in this Regulatory Disclosure Statement (the "Statement") is for Dah Sing Bank, Limited (the "Bank") and its subsidiaries (together the "Group") to comply with the Banking (Disclosure) Rules (Cap. 155M) and does not constitute statutory financial statements.

These banking disclosures are governed by the Bank's disclosure policy, which has been approved by the Board. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the Statement is not required to be subject to external audit, it has been reviewed and verified within the Bank in accordance with the Group's governance processes over financial reporting and policies on disclosures.

Except where indicated otherwise, the financial information contained in this Statement has been prepared on the basis of regulatory scope of consolidation specified by the Hong Kong Monetary Authority ("HKMA") to the Bank. The subsidiaries of the Bank which are excluded from the regulatory scope of consolidation are set out in paragraph 1.2 of Section B below.

B. Composition of capital

The tables below summarise the ratios and the composition of regulatory capital of the Bank. All the information presented below is unaudited.

The Bank complied with all of the externally imposed capital requirements set by the HKMA.

1.1 Capital adequacy ratio

		As at 31 December 2017 HK$'000
Common Equity Tier 1 capital	[A]	**18,900,250**
Tier 1 capital	[B]	**19,798,837**
Total capital	[C]	**26,354,366**
Total Risk Weighted Amounts	[D]	**141,099,262**
Capital adequacy ratio		
- Common Equity Tier 1	[A]/ [D]	**13.4%**
- Tier 1	[B]/ [D]	**14.0%**
- Total	[C]/ [D]	**18.7%**

The capital adequacy ratio as at 31 December 2017 represents the consolidated ratio of the Bank computed on Basel III basis in accordance with the Banking (Capital) Rules (the "Rules") and the transitional arrangement set out therein.

In the calculation of the consolidated capital adequacy ratios, the Bank and those subsidiaries consolidated in the calculation as set out in Note 1.2 below have adopted the standardised (credit risk) approach for the calculation of the risk-weighted amount for credit risk. The Bank and its subsidiaries have adopted the basic indicator approach for the calculation of the risk-weighted amount for operational risk, and the standardised (market risk) approach for the calculation of the risk-weighted amount for market risk.

Only the Bank is subject to the minimum capital adequacy requirement under the Hong Kong Banking Ordinance. Banco Comercial de Macau, S.A. ("BCM") is subject to Macau banking regulations and Dah Sing Bank (China) Limited ("DSB China") is subject to China banking regulations.

B. Composition of capital (Continued)

1.2 Subsidiaries included under the regulatory scope of consolidation

The following is a full list of the Bank's subsidiaries and the total amount of assets and equity of each of these subsidiaries as at 31 December 2017.

For financial reporting purposes, all the subsidiaries have been consolidated in the financial disclosure statement. The subsidiaries which are excluded from the regulatory scope of consolidation are specified with explanatory notes provided below.

HK$'000			As at 31 December 2017	
Name of subsidiary	Principal activity	Note	Total assets	Total equity
Included in the regulatory scope of consolidation				
Banco Comercial de Macau, S.A.	Banking		21,094,574	2,933,366
Dah Sing Bank (China) Limited	Banking		11,328,720	1,293,625
Dah Sing Properties Limited	Investment holding		-	(14,834)
DSB BCM (1) Limited	Investment holding		-	-
DSB BCM (2) Limited	Investment holding		-	-
OK Finance Limited	Money lending		591,295	78,606
Pacific Finance (Hong Kong) Limited	Inactive		463,392	462,877
Vanishing Border Investment Services Limited	Property investment		-	(1,259)
Dah Sing Insurance Brokers Limited	Insurance broking		10,861	7,577
Dah Sing Nominees Limited	Nominee services		100	100
Talent Union Holding Limited	Property investment		55,081	37,209
Excluded from the regulatory scope of consolidation				
Dah Sing Computer Systems Limited	Inactive	(b)	-	-
Dah Sing Securities Limited	Securities dealing	(a)	274,183	164,401
DSLI (1) Limited	Inactive	(b)	-	-
Shinning Bloom Investments Limited	Inactive	(b)	-	-
Wise Measure Limited	Property investment	(b)	-	-
CWL Prosper Limited	Property investment	(b)	-	(93)
Reliable Associates Limited	Property investment	(b)	-	-

Note:

(a) Subsidiaries within the category of "financial sector entities" as defined by the Rules.

In calculating the consolidated capital adequacy ratio as at 31 December 2017 under the Basel III basis, the portion of the aggregate significant investments in Common Equity Tier 1 capital instrument issued by financial sector entities not subject to regulatory consolidation and exceeded the 10% concessionary threshold was deducted from capital base. The amount within the 10% concessionary threshold was risk-weighted.

(b) Subsidiaries engaged in property investment or are inactive.

In calculating the consolidated capital adequacy ratio as at 31 December 2017 under the Basel III basis, the Bank risk-weighted the cost of investments in these subsidiaries and did not deduct the investment costs from its capital base on the basis that the total cost of investment does not exceed 15% of the Bank's capital base as at the immediately preceding calendar quarter-end date.

B. Composition of capital (Continued)

1.3 Components of regulatory capital elements

The capital base used in the calculation of the above consolidated capital adequacy ratios and reported to the HKMA is analysed below. The capital base as at 31 December 2017 is calculated on Basel III basis in accordance with the Rules and transitional arrangement set out therein.

1.3.1 Position as at 31 December 2017 under Basel III basis with transitional arrangement

HK$'000

Transition Disclosures Template			Amounts subject to pre-Basel III treatment*	Cross-referenced to expanded Consolidated Statement of Financial Position in Note 1.3.2
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying Common Equity Tier 1 capital instruments plus any related share premium	6,200,000		g
2	Retained earnings	14,528,145		h
3	Disclosed reserves	1,356,511		i
4	*Directly issued capital subject to phase out from Common Equity Tier 1 capital (only applicable to non-joint stock companies)*	Not applicable		
	Public sector capital injections grandfathered until 1 January 2018	Not applicable		
5	Minority interests arising from Common Equity Tier 1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Common Equity Tier 1 capital of the consolidation group)	-		
6	**Common Equity Tier 1 capital before regulatory deductions**	**22,084,656**		
	Common Equity Tier 1 capital: regulatory deductions			
7	Valuation adjustments	-		
8	Goodwill (net of associated deferred tax liability)	811,690		b
9	Other intangible assets (net of associated deferred tax liability)	58,252	-	c
10	Deferred tax assets net of deferred tax liabilities	83,458		e(i)-e(ii)
11	Cash flow hedge reserve	-		
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	-	
13	Gain-on-sale 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 Common Equity Tier 1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	-	
17	Reciprocal cross-holdings in Common Equity Tier 1 capital instruments	-	-	

B. Composition of capital (Continued)

1.3 Components of regulatory capital elements (Continued)

1.3.1 Position as at 31 December 2017 under Basel III basis with transitional arrangement (Continued)

Transition Disclosures Template			Amounts subject to pre-Basel III treatment*	Cross-referenced to expanded Consolidated Statement of Financial Position in Note 1.3.2
18	Insignificant capital investments in Common Equity Tier 1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
19	Significant capital investments in Common Equity Tier 1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable		
22	Amount exceeding the 15% threshold	Not applicable		
23	of which: significant investments in the common stock of financial sector entities	Not applicable		
24	of which: mortgage servicing rights	Not applicable		
25	of which: deferred tax assets arising from temporary differences	Not applicable		
26	National specific regulatory adjustments applied to Common Equity Tier 1 capital	2,231,006		
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	802,139		d(i)+d(ii)
26b	Regulatory reserve for general banking risks	1,427,215		j
26c	Debit valuation adjustments in respect of derivative contracts	1,652		-l
27	Regulatory deductions applied to Common Equity Tier 1 capital due to insufficient Additional Tier 1 capital and Tier 2 capital to cover deductions	-		
28	**Total regulatory deductions to Common Equity Tier 1 capital**	**3,184,406**		
29	**Common Equity Tier 1 capital**	**18,900,250**		
	Additional Tier 1 capital: instruments			
30	Qualifying Additional Tier 1 capital instruments plus any related share premium	898,587		
31	of which: classified as equity under applicable accounting standards	898,587		m
32	of which: classified as liabilities under applicable accounting standards	-		
33	Capital instruments subject to phase out arrangements from Additional Tier 1 capital	-		
34	Additional Tier 1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Additional Tier 1 capital of the consolidation group)	-		
35	of which: Additional Tier 1 capital instruments issued by subsidiaries subject to phase out arrangements	-		

B. Composition of capital (Continued)

1.3 Components of regulatory capital elements (Continued)

1.3.1 Position as at 31 December 2017 under Basel III basis with transitional arrangement (Continued)

Transition Disclosures Template			Amounts subject to pre-Basel III treatment*	Cross-referenced to expanded Consolidated Statement of Financial Position in Note 1.3.2
36	**Additional Tier 1 capital before regulatory deductions**	**898,587**		
	Additional Tier 1 capital: regulatory deductions			
37	Investments in own Additional Tier 1 capital instruments	-	-	
38	Reciprocal cross-holdings in Additional Tier 1 capital instruments	-	-	
39	Insignificant capital investments in Additional Tier 1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
40	Significant capital investments in Additional Tier 1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	-	
41	National specific regulatory adjustments applied to Additional Tier 1 capital	-		
42	Regulatory deductions applied to Additional Tier 1 capital due to insufficient Tier 2 capital to cover deductions	-		
43	**Total regulatory deductions to Additional Tier 1 capital**	-		
44	**Additional Tier 1 capital**	**898,587**		
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	**19,798,837**		
	Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	3,690,983		}
47	Capital instruments subject to phase out arrangements from Tier 2 capital	879,053		} f
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 impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,624,530		-a+k
51	**Tier 2 capital before regulatory deductions**	**6,194,566**		

B. Composition of capital (Continued)

1.3 Components of regulatory capital elements (Continued)

1.3.1 Position as at 31 December 2017 under Basel III basis with transitional arrangement (Continued)

Transition Disclosures Template			Amounts subject to pre-Basel III treatment*	Cross-referenced to expanded Consolidated Statement of Financial Position in Note 1.3.2
	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	-	-	
56	National specific regulatory adjustments applied to Tier 2 capital	(360,963)		
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	(360,963)		[d(i)+d(ii)] x45%
57	**Total regulatory deductions to Tier 2 capital**	**(360,963)**		
58	**Tier 2 capital**	**6,555,529**		
59	**Total capital (Total capital = Tier 1 + Tier 2)**	**26,354,366**		
59a	Deduction items under Basel III which during transitional period remain subject to risk-weighting, based on pre-Basel III treatment			
i	of which: Mortgage servicing rights	-		
ii	of which: Defined benefit pension fund net assets	-		
iii	of which: Investments in own Common Equity Tier 1 capital instruments, Additional Tier 1 capital instruments and Tier 2 capital instruments	-		
iv	of which: Capital investment in a connected company which is a commercial entity	-		
v	of which: Insignificant capital investments in Common Equity Tier 1 capital instruments, Additional Tier 1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
vi	of which: Significant capital investments in Common Equity Tier 1 capital instruments, Additional Tier 1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		

B. Composition of capital (Continued)

1.3 Components of regulatory capital elements (Continued)

1.3.1 Position as at 31 December 2017 under Basel III basis with transitional arrangement (Continued)

Transition Disclosures Template			Amounts subject to pre-Basel III treatment*	Cross-referenced to expanded Consolidated Statement of Financial Position in Note 1.3.2
60	Total risk weighted assets	141,099,262		
	Capital ratios (as a percentage of risk weighted assets)			
61	Common Equity Tier 1 capital ratio	13.4%		
62	Tier 1 capital ratio	14.0%		
63	Total capital ratio	18.7%		
64	Institution specific buffer requirement (minimum Common Equity Tier 1 capital requirement as specified in s.3A, or s. 3B, as the case requires, of the Banking (Capital) Rules plus capital conservation buffer plus countercyclical buffer requirements plus Global Systematically Important Banks ("G-SIB") or Domestic Systematically Important Banks ("D-SIB") requirements)	6.7%		
65	*of which: capital conservation buffer requirement*	1.3%		
66	*of which: bank specific countercyclical buffer requirement*	0.9%		
67	*of which: G-SIB or D-SIB buffer requirement*	-		
68	*Common Equity Tier 1 capital surplus over the minimum Common Equity Tier 1 requirement and any Common Equity Tier 1 capital used to meet the Tier 1 and Total capital requirement under s.3A, or s. 3B, as the case requires, of the Banking (Capital) Rules*	8.0%		
	National minima (if different from Basel III minimum)			
69	National Common Equity Tier 1 minimum ratio	Not applicable		
70	National Tier 1 minimum ratio	Not applicable		
71	National Total capital minimum ratio	Not applicable		
	Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant capital investments in Common Equity Tier 1 capital instruments, Additional Tier 1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	76,909		
73	Significant capital investments in Common Equity Tier 1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	1,234,230		
74	Mortgage servicing rights (net of related tax liability)	Not applicable		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	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 basic approach and the standardized (credit risk) approach (prior to application of cap)	1,821,187		

B. Composition of capital (Continued)

1.3 Components of regulatory capital elements (Continued)

1.3.1 Position as at 31 December 2017 under Basel III basis with transitional arrangement (Continued)

Transition Disclosures Template			Amounts subject to pre-Basel III treatment*	Cross-referenced to expanded Consolidated Statement of Financial Position in Note 1.3.2
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	1,624,530		
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	Not applicable		
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	Not applicable		
Capital instruments subject to phase-out arrangements				
80	Current cap on Common Equity Tier 1 capital instruments subject to phase out arrangements	Not applicable		
81	Amount excluded from Common Equity Tier 1 due to cap (excess over cap after redemptions and maturities)	Not applicable		
82	Current cap on Additional Tier 1 capital instruments subject to phase out arrangements	-		
83	Amount excluded from Additional Tier 1 capital due to cap (excess over cap after redemptions and maturities)	-		
84	Current cap on Tier 2 capital instruments subject to phase out arrangements	879,053		
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	879,053		

Footnotes:
* This refers to the position under the Banking (Capital) Rules in force up to 31 December 2012.

B. Composition of capital (Continued)

1.3 Components of regulatory capital elements (Continued)

1.3.1 Position as at 31 December 2017 under Basel III basis with transitional arrangement (Continued)

Notes to the template

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

HK$'000

<table>
<tr><th>Row No.</th><th>Description</th><th>Hong Kong basis</th><th>Basel III basis</th></tr>
<tr><td rowspan="2">9</td><td>Other intangible assets (net of associated deferred tax liability)</td><td>58,252</td><td>58,252</td></tr>
<tr><td colspan="3"><u>Explanation</u>

As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights (MSRs) 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 follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 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 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs 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.</td></tr>
<tr><td rowspan="2">10</td><td>Deferred tax assets net of deferred tax liabilities</td><td>83,458</td><td>-</td></tr>
<tr><td colspan="3"><u>Explanation</u>

As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be 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 and other credit exposures to connected companies) under Basel III.</td></tr>
</table>

B. Composition of capital (Continued)

1.3 Components of regulatory capital elements (Continued)

1.3.1 Position as at 31 December 2017 under Basel III basis with transitional arrangement (Continued)

Notes to the template (Continued)

<table>
<tr><th>Row No.</th><th>Description</th><th>Hong Kong basis</th><th>Basel III basis</th></tr>
<tr><td></td><td>Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</td><td>-</td><td>-</td></tr>
<tr><td>18</td><td colspan="3"><u>Explanation</u>

For the purpose of determining the total amount of insignificant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business.

Therefore, the amount to be deducted as reported in row 18 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 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</td></tr>
<tr><td></td><td>Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</td><td>-</td><td>-</td></tr>
<tr><td>19</td><td colspan="3"><u>Explanation</u>

For the purpose of determining the total amount of significant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business.

Therefore, the amount to be deducted as reported in row 19 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 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</td></tr>
</table>

B. Composition of capital (Continued)

1.3 Components of regulatory capital elements (Continued)

1.3.1 Position as at 31 December 2017 under Basel III basis with transitional arrangement (Continued)

Notes to the template (Continued)

<table>
<tr><th>Row No.</th><th>Description</th><th>Hong Kong basis</th><th>Basel III basis</th></tr>
<tr><td rowspan="2">39</td><td>Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</td><td>-</td><td>-</td></tr>
<tr><td colspan="3"><u>Explanation</u>

The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in AT1 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 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 39 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</td></tr>
<tr><td rowspan="2">54</td><td>Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation</td><td>-</td><td>-</td></tr>
<tr><td colspan="3"><u>Explanation</u>

The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in Tier 2 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 54 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 54 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</td></tr>
</table>

Remarks:

The amount of the 10% / 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the Banking (Capital) Rules.

B. Composition of capital (Continued)

1.3 Components of regulatory capital elements (Continued)

1.3.2 Reconciliation of regulatory capital elements as at 31 December 2017 back to the Bank's financial statements

As at 31 December 2017

HK$'000

	Statement of Consolidated Financial Position as in published financial statements	**Under regulatory scope of consolidation**	Cross reference to Definition of Capital Components in Note 1.3.1
Assets			
Cash and balances with banks and other financial institutions	17,343,673	17,343,673	
Placements with banks and other financial institutions maturing between one and twelve months	11,856,241	11,856,241	
Trading securities	8,837,554	8,837,554	
Derivative financial instruments	897,967	897,967	
Financial assets at fair value through profit or loss	353,347	353,347	
Advances and other accounts	126,737,107	126,618,840	
of which: collective impairment provisions		*(393,972)*	a
Available-for-sale securities	38,223,189	38,222,774	
Held-to-maturity securities	6,233,704	6,233,704	
Investments in subsidiaries	-	2,068	
Investments in associated companies	4,134,651	1,213,057	
Investments in jointly controlled entities	81,157	20,000	
Goodwill	811,690	811,690	b
Intangible assets	58,252	58,252	c
Furniture and equipment	424,373	424,042	
Investment properties	1,179,442	1,179,442	
of which: cumulative fair value gains arising from the revaluation of land and buildings		*569,039*	d(i)
Bank premises	2,523,879	2,523,879	
of which: cumulative fair value gains arising from the revaluation of land and buildings		*233,100*	d(ii)
Deferred income tax assets	81,492	81,492	
of which: attributable to entities with net deferred income tax assets		*81,492*	e(i)
Total assets	**219,777,718**	**216,678,022**	

B. Composition of capital (Continued)

1.3 Components of regulatory capital elements (Continued)

1.3.2 Reconciliation of regulatory capital elements as at 31 December 2017 back to the Bank's financial statements (Continued)

As at 31 December 2017 (Continued)

	Statement of Consolidated Financial Position as in published financial statements	**Under regulatory scope of consolidation**	Cross reference to Definition of Capital Components in Note 1.3.1
Liabilities			
Deposits from banks and other financial institutions	2,277,391	2,277,391	
Derivative financial instruments	682,784	682,784	
of which: debit valuation adjustments		*(1,652)*	l
Trading Liabilities	8,668,508	8,668,508	
Deposits from customers	162,726,496	162,882,473	
Certificates of deposit issued	7,183,706	7,183,706	
Subordinated notes	5,487,366	5,487,366	
of which: subordinated debt eligible for inclusion in regulatory capital		*4,570,036*	f
Other accounts and accruals	6,096,111	5,989,463	
Current income tax liabilities	451,650	436,621	
Deferred income tax liabilities	86,578	86,467	
of which: attributable to entities with net deferred income tax assets		*(1,966)*	e(ii)
Total liabilities	**193,660,590**	**193,694,779**	
Shareholders' Equity			
Share capital	6,200,000	6,200,000	g
Retained earnings	17,649,790	14,528,145	h
Additional equity instruments	898,587	898,587	m
Other reserves	1,368,751	1,356,511	i
of which: regulatory reserve for general banking risks		*1,427,215*	j
of which: regulatory reserve eligible for inclusion in Tier 2 capital		*1,230,558*	k
Total shareholders' equity	**26,117,128**	**22,983,243**	

B. Composition of capital (Continued)

1.4 Terms and conditions of the instruments included in the capital base

1.4.1 Terms and conditions of the instruments included in the capital base as at 31 December 2017

The major terms and conditions of the instruments included in the Bank's consolidated capital base as at 31 December 2017 are as follows:

	Component of capital included	Common Equity Tier 1 Capital	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital	Additional Tier 1 Capital
1	Issuer	Dah Sing Bank, Limited				
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable	XS0483583737	XS1021008328	XS1515027412	Not applicable
3	Governing law(s) of the instrument	Hong Kong law	English law, except that the provisions of the above notes relating to subordination shall be governed by the laws of Hong Kong.			Hong Kong law
	Regulatory treatment					
4	Transitional Basel III rules#	Common Equity Tier1 Capital	Tier 2 Capital	Not applicable	Not applicable	Not applicable
5	Post-transitional Basel III rules+	Common Equity Tier1 Capital	Ineligible	Tier 2 Capital	Tier 2 Capital	Additional Tier 1 Capital
6	Eligible at solo*/ group/ solo and group	Solo and Group				
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated debt instrument	Subordinated debt instrument	Subordinated debt instrument	Additional Tier 1 capital instruments
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$6,200 million	HK$879 million	HK$1,758 million	HK$1,953 million	HK$899 million
9	Par value of instrument	HK$6,200 million	US$225,000,000	US$225,000,000	US$250,000,000	US$115,000,000
10	Accounting classification	Shareholders' equity	Liability at fair value hedge (for hedging interest rate risk)			Equity
11	Original date of issuance	Note (1)	11 Feb 2010	29 Jan 2014	30 Nov 2016	8 Dec 2017
12	Perpetual or dated	Perpetual	Dated	Dated	Dated	Perpetual
13	Original maturity date	No maturity	11 Feb 2020	29 Jan 2024	30 Nov 2026	No maturity
14	Issuer call subject to prior supervisory approval	Not applicable	No	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	No	Optional call date: Nil The Bank may, subject to receiving the prior approval of the HKMA, redeem the Notes in whole but not in part, at par for taxation reasons on interest payment date.	First optional call date: 29 Jan 2019 The Bank may, subject to receiving the prior approval of the HKMA, redeem the Notes in whole but not in part, at par either on the optional redemption date or for taxation reasons on interest payment date.	First optional call date: 30 Nov 2021 The Bank may, subject to receiving the prior approval of the HKMA, redeem the Notes in whole but not in part, at par either on the optional redemption date or for taxation reasons on interest payment date.	First optional call date: 8 Dec 2022 The Bank may, subject to receiving the prior approval of the HKMA, redeem the ATI Capital Securities in whole but not in part, at par either on the optional redemption date or for taxation reasons on interest payment date.

B. Composition of capital (Continued)

1.4 Terms and conditions of the instruments included in the capital base (Continued)

1.4.1 Terms and conditions of the instruments included in the capital base as at 31 December 2017 (Continued)

	Component of capital included	Common Equity Tier 1 Capital	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital	Additional Tier 1 Capital
16	Subsequent call dates, if applicable	Not applicable	Not applicable	Any interest payment dates after the first call date	Any interest payment dates after the first call date	Not applicable
	Coupons/ dividends					
17	Fixed or floating dividend/ coupon	Not applicable	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	Not applicable	6.625% p.a.	5.25% p.a.-Fixed rate for the period from 29 Jan 2014 to 28 Jan 2019. From 29 Jan 2019 to 28 Jan 2024, fixed interest rate will be reset based on prevailing 5-year U.S. Treasury Rate on the calculation business day preceding 29 Jan 2019 plus 375 basis points.	4.25% p.a.-Fixed rate for the period from 30 Nov 2016 to 29 Nov 2021. From 30 Nov 2021 to 29 Nov 2026, fixed interest rate will be reset based on prevailing 5-year U.S. Treasury Rate on the calculation business day preceding 30 Nov 2021 plus 255 basis points.	4.625% p.a.-Fixed rate for the period from 8 Dec 2017 to 7 Dec 2022. From 8 Dec 2022 onwards, fixed distribution rate will be reset based on prevailing 5-year U.S. Treasury Rate on the calculation business day preceding the reset date on every 5 years plus 248.5 basis points.
19	Existence of a dividend stopper	Not applicable	No	No	No	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Mandatory	Mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
25	If convertible, fully or partially	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
26	If convertible, conversion rate	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
30	Write-down feature	No	No	Yes	Yes	Yes

B. Composition of capital (Continued)

1.4 Terms and conditions of the instruments included in the capital base (Continued)

1.4.1 Terms and conditions of the instruments included in the capital base as at 31 December 2017 (Continued)

	Component of capital included	Common Equity Tier 1 Capital	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital	Additional Tier 1 Capital
31	If write-down, write-down trigger(s)	Not applicable		If a Non-Viability Event occurs and is continuing, the Bank shall, upon the provision of a Non-Viability Event notice, irrevocably (without the need for the consent of the holders of the Dated Subordinated Notes) reduce the then prevailing principal amount and cancel any accrued but unpaid interest of each Dated Subordinated Note (in each case in whole or in part) by an amount equal to the Non-Viability Event write-off amount per Dated Subordinated Note. "Non-Viability Event" means the earlier of: (a) the HKMA notifying the Bank in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and (b) the HKMA notifying the Bank in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.	If a Non-Viability Event occurs and is continuing, the Bank shall, upon the provision of a Non-Viability Event notice, irrevocably (without the need for the consent of the holders of the Dated Subordinated Notes) reduce the then prevailing principal amount and cancel any accrued but unpaid interest of each Dated Subordinated Note (in each case in whole or in part) by an amount equal to the Non-Viability Event write-off amount per Dated Subordinated Note. "Non-Viability Event" means the earlier of: (a) the HKMA notifying the Bank in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and (b) the HKMA notifying the Bank in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.	If a Non-Viability Event occurs and is continuing, the Bank shall, upon the provision of a Non-Viability Event notice, irrevocably (without the need for the consent of the holders of the AT1 Capital Securities) reduce the then principal amount of, and cancel any accrued but unpaid distribution of each AT1 Capital Security (in each case in whole or in part) by an amount equal to the Non-Viability Event write-off amount per AT1 Capital Security. "Non-Viability Event" means the earlier of: (a) the HKMA notifying the Bank in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and (b) the HKMA notifying the Bank in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.

B. Composition of capital (Continued)

1.4 Terms and conditions of the instruments included in the capital base (Continued)

1.4.1 Terms and conditions of the instruments included in the capital base as at 31 December 2017 (Continued)

	Component of capital included	Common Equity Tier 1 Capital	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital	Additional Tier 1 Capital
32	If write-down, full or partial	Not applicable		Full or partial	Full or partial	Full or partial
33	If write-down, permanent or temporary	Not applicable		Permanent	Permanent	Permanent
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)	The rights of holders will, in the event of the winding up of the Bank, be subordinated in right of payment to the claims of preference shareholders.	The rights of the holders will, in the event of the winding up of the Bank, be subordinated in right of payment to the claims of depositors and all other creditors of the Bank (other than claimants in respect of the Bank subordinated indebtedness) and, for the avoidance of doubt, will rank senior to all claims under the Undated Subordinated Notes and the Undated Subordinated Guarantee.	The rights of the holders will, in the event of the winding up of the Bank, be subordinated in right of payment to the claims of depositors and all other creditors of the Bank (other than claimants in respect of the Bank subordinated indebtedness) and, for the avoidance of doubt, will rank senior to all claims under the Undated Subordinated Notes and the Undated Subordinated Guarantee.	The rights of the holders will, in the event of the winding up of the Bank, rank (a) subordinate and junior in right of payment to, and to all claims of: (A) all unsubordinated creditors of the Bank (including its depositors); and (B) all other Subordinated Creditors of the Bank whose claims are stated to rank senior to the Dated Subordinated Notes or rank senior to the Dated Subordinated Notes by operation of law or contract; (b) *pari passu* in right of payment to and of all claims of Parity Obligations; and (c) senior in right of payment to and of: (A) all claims of Junior Obligations; and (B) creditors in respect of Tier 1 capital instruments of the Bank.	The rights of holders will, in the event of the winding up of the Bank, be subordinated in right of payment to the claims of Tier 2 Capital.

B. Composition of capital (Continued)

1.4 Terms and conditions of the instruments included in the capital base (Continued)

1.4.1 Terms and conditions of the instruments included in the capital base as at 31 December 2017 (Continued)

	Component of capital included	Common Equity Tier 1 Capital	Tier 2 Capital	Tier 2 Capital	Tier 2 Capital	Additional Tier 1 Capital
35					"Parity Obligation" means any instrument or other obligation issued, entered into, or guaranteed by the Bank that constitutes or qualifies as a Tier 2 capital instrument under applicable capital regulations or that ranks or is expressed to rank *pari passu* with the Dated Subordinated Notes by operation of law or contract. "Junior Obligation" means the Shares, and any other class of the Bank's share capital and any instrument or other obligation issued or guaranteed by the Bank that ranks or is expressed to rank junior to the Dated Subordinated Notes by operation of law or contract.	
36	Non-compliant transitioned features	No	Yes	No		
37	If yes, specify the non-compliant features	Not applicable	Without write-down/ convertible features	Not applicable		

Remarks:
Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules
\+ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules
* Include solo-consolidated

B. Composition of capital (Continued)

1.4 Terms and conditions of the instruments included in the capital base (Continued)

1.4.1 Terms and conditions of the instruments included in the capital base as at 31 December 2017 (Continued)

Note:
(1) The original dates of issuance of the Bank's Common Equity Tier 1 capital are as follows:

Date of issue	Ordinary shares issued HK$'000
Before year 2010	3,600,000
31 May 2011	1,000,000
18 December 2012	400,000
30 May 2014	1,200,000
	6,200,000

(2) Under the Financial Institutions (Resolution) Ordinance (the "Ordinance"), each holder and the agents of the Dated Subordinated Notes and the AT1 Capital Securities shall be subject, and shall be deemed to agree and acknowledge that they are each subject to the exercise of any Hong Kong Bail-in Power by the relevant Hong Kong resolution authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:

- the reduction or cancellation of all or a part of the principal amount of, or interest on, the Dated Subordinated Notes and the AT1 Capital Securities;

- the conversion of all or a part of the principal amount of, or interest on, the Dated Subordinated Notes and the AT1 Capital Securities into shares or other securities or other obligations of the issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Dated Subordinated Notes and the AT1 Capital Securities; and

- the amendment or alteration of the maturity of the Dated Subordinated Notes or amendment or alteration of the amount of interest payable on the Dated Subordinated Notes and dividend payable on the AT1 Capital Securities, or the date on which interest and dividend become payable, including by suspending payment for a temporary period, or any other amendment or alteration of these conditions.

"Hong Kong Bail-in Power" means any power which may exist from time to time under the Ordinance, or any other laws, regulations, rules or requirements relating to the resolution of financial institutions incorporated in or authorised, designated, recognised or licensed to conduct regulated financial activities in Hong Kong in effect and applicable in Hong Kong to the issuer or other members of the Group.

C. Leverage Ratio

The following tables set out the composition of the consolidated leverage ratio of the Bank and provide reconciliation between the leverage exposure measure and the consolidated assets of the published financial statements of the Bank.

1.1 Detailed composition of the Bank's consolidated leverage ratio as at 31 December 2017

The detailed composition of the Bank's consolidated leverage ratio as at 31 December 2017 is set out below:

HK$'000

	Item	Leverage ratio framework	
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	214,854,467	
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(3,182,754)	
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	211,671,713	
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	584,867	
5	Add-on amounts for PFE associated with all derivatives transactions	950,277	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	(154,323)	
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	-	
9	Adjusted effective notional amount of written credit derivatives	-	
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	-	
11	Total derivative exposures (sum of line 4 to 10)	1,380,821	
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	872,591	
13	Less: netted amount of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	-	
14	CCR exposure for SFT assets	8,663	
15	Agent transaction exposures	-	
16	Total securities financing transaction exposures (sum of lines 12 to 15)	881,254	
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	76,672,730	
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	(67,811,202)	
19	Off-balance sheet items (sum of lines 17 and 18)	8,861,528	
	Capital and total exposures		
20	Tier 1 capital	19,798,837	[A]
21	Total exposures (sum of lines 3, 11, 16, and 19)	222,795,316	[B]
	Leverage ratio		
22	**Basel III leverage ratio**	**8.9%**	[A]/ [B]

C. Leverage Ratio (Continued)

1.2 Reconciliation between the leverage exposure measure and the consolidated assets per the published financial statements of the Bank as at 31 December 2017

The reconciliation between the leverage exposure measure and the consolidated assets per the published financial statements of the Bank as at 31 December 2017 is set out below.

HK$'000

	Item	**Leverage ratio framework**
1	Total consolidated assets as per published financial statements	219,777,718
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(3,099,697)
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure.	-
4	Adjustments for derivative financial instruments	950,277
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	8,663
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	8,861,528
7	Other adjustments	(3,703,173)
8	**Leverage ratio exposure**	**222,795,316**

D. Countercyclical Capital Buffer Ratio

The following table set out the consolidated Countercyclical Capital Buffer Ratio of the Bank and the geographical breakdown of risk-weighted amounts in relation to private sector credit exposures:-

As at 31 December 2017

HK$ millions

	Jurisdiction	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio	CCyB ratio	CCyB amount
1	Hong Kong SAR	1.25%	77,945		
2	China	0%	9,130		
3	Australia	0%	5		
4	Canada	0%	2		
5	Cayman Islands	0%	154		
6	Chinese Taipei	0%	617		
7	Indonesia	0%	6		
8	Israel	0%	2		
9	Japan	0%	495		
10	Macau SAR	0%	11,045		
11	Malaysia	0%	147		
12	New Zealand	0%	16		
13	Saudi Arabia	0%	82		
14	Singapore	0%	976		
15	South Korea	0%	526		
16	Switzerland	0%	503		
17	Thailand	0%	248		
18	United Kingdom	0%	1,067		
19	United States	0%	1,942		
20	West Indies UK	0%	459		
	Total		105,367	0.925%	974

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk

Part I Overview of risk management and risk-weighted amount

Table OVA: Overview of risk management

Our Risk Management Framework

The Group has put in place an effective risk management framework that is developed taking into account its business profile and regulatory requirements. This framework is subject to proper oversight by the Board and the Risk Management and Compliance Committee ("RMCC") under the authority delegated by the Board. The framework ensures the Group has a consistent approach to monitor, manage and mitigate the risks arising from its activities.

Risk Governance

The Board is responsible for the overall oversight of the Group's risk management development and control. It determines the optimal risk appetite having considered the Group's capital, risk and strategy. It establishes and monitors the Group's risk appetite to ensure the Group is able to achieve sustainable growth within its risk tolerance level. As a board-level committee, RMCC stands at the highest level of the Group's risk governance structure and is ultimately accountable to the Board. It is delegated the responsibilities to promote sound risk governance and a strong risk management culture and provide guidance and oversight on the development of risk management strategies as well as the risk tolerance and risk appetite of the Group, taking into consideration advancement in risk management practices in the market and regulatory changes. Where necessary, any critical issues related to risk management and compliance will be properly discussed in the Board.

As for the routine risk management responsibilities, they are delegated to the relevant functional departments and division heads and the Group has emphasised that all employees have a role to play in risk management. In addition, effective communication between the functional departments and RMCC is enabled by a proper reporting and escalation mechanism.

Risk Appetite

To enhance the framework and risk management standards, Risk Strategy framework that covers the Group's Risk Appetite Statements ("RAS") that are reviewed annually by the Board and RMCC is established. The Risk Strategy sets out the core values and high level risk management direction of the Group, taking into account of the overall business strategy and direction, under which a robust Risk Appetite Framework is established to guide the strategic planning process and strengthen the risk-return management. The Group intends to maintain a proper risk profile when conducting its business strategy with high regard to the need to comply with the applicable regulatory requirements. Against this background, the Group strives to maintain a robust risk appetite framework complimented with the Risk Tolerance to guide the strategic planning process, strengthen the risk-return management as well as ensure the Group's risk profile remains in line with the risk appetite.

Risk Management and Internal Control Functions

Through the various Management level committees including Group Credit Committee ("GCC"), Credit Management Committee ("CMC"), Treasury & Investment Risk Committee ("TIRC"), Asset and Liability Management Committee ("ALCO") and Operational Risk and Internal Control Committee ("ORICC"), and with overall coordination by the Group Risk Division ("GRD"), the RMCC regularly reviews the Group's risk management framework and ensures that all important risk-related tasks are performed according to established policies with appropriate resources. In addition, Internal Audit also plays an important role in the framework as they represent the third line of defence and perform independent review of the risk management and the control environment.

Risk Culture

The Group is committed to fostering strong risk culture by clearly delineating the risk ownership and accountability and enhancing awareness of all staff. Moreover, all staff is required to strictly observe the requirements set out in the Code of Conduct. This is facilitated by an intranet where the relevant staff can access the policies and procedures of the Group. The staff members of the Group are also required to take refresher courses to keep update with the latest internal and regulatory requirements relating to risk management.

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part I Overview of risk management and risk-weighted amount (Continued)

Table OVA: Overview of risk management (Continued)

Risk Information Reporting

In order to provide the Board and Senior Management with a clear view of the Grou p's exposures to different risk types, comprehensive information is reported to the Board, the RMCC and respective committee regularly for review and discussion. The information packages cover a wide range of different risk information that is relevant to the Group's business strategy, risk & return balance and market outlook.

Risk Measurement Systems

The Group's risk measurement systems are designed to support the business decisions and risk control and monitoring. Riding on the risk measurement systems, the Group can ensure that the magnitude of risk is within the tolerance level.

a) Credit risk measurement system

With regard to credit risk, the Group has established policies, procedures and rating systems to identify, measure, monitor and report on credit risk. Comprehensive guidelines for management of credit risk have also been laid down in the respective policies and manual. These documents are subject to regular review and enhancement to cater for market changes, statutory requirements, and best practices in risk management processes.

The Group's credit risk management for the major types of products is set out in Note 3.2.1 of the Group's *Annual Report 2017 published in the Bank's website at* www.dahsing.com and is accessible at the following direct link: *http://www.dahsing.com/html/en/about_us/financial.html*

b) Market risk measurement system

Market risk exposure for different types of transactions is managed within various risk limits and guidelines approved by the Board, the RMCC and the TIRC under the authority delegated from the Board. Risk limits are set at the portfolio level as well as by products and by different types of risks. The risk limits comprise a combination of notional, stop-loss, sensitivity and value-at-risk ("VaR") controls. All trading positions are subject to daily mark-to-market valuation. The Risk Management and Control Department ("RMCD") within the GRD, as an independent risk management and control unit, identifies, measures, monitors and controls the risk exposures against approved limits and initiates specific actions to ensure positions are managed within an acceptable level. Any exceptions have to be reviewed and sanctioned by the appropriate level of management of TIRC, RMCC or the Board as stipulated in the relevant policies and procedures.

The Group's market risk management for the various measurement technique is set out in Note 3.3.1 to 3.3.4 of the Group's *Annual Report 2017 published in the Bank's website at* www.dahsing.com and is accessible at the following direct link: *http://www.dahsing.com/html/en/about_us/financial.html*

c) Operational risk measurement system

The Group manages its operating risk through a set of operational risk policies, risk tool-kits, operational risk incident reporting and tracking system, and control self-assessment and key risk indicator tools. The Operational Risk and Internal Control Committee ("ORICC") has been set up to oversee the operational risk management and internal control matters of the Group. Together with a well-established internal control system, operational risk can be adequately identified, assessed, monitored and mitigated. In addition, to minimize the impact on the Group's business in the event of system failure or disasters, back-up sites and operation recovery policies and plans have been established and tested for all critical business and operations functions.

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part I Overview of risk management and risk-weighted amount (Continued)

Table OVA: Overview of risk management (Continued)

Stress Testing

The Group regularly performs stress tests on the key risks relating to its businesses based on a robust framework. The Group has adopted various stress testing methodologies and techniques such as scenario stress testing, sensitivity stress test and reverse stress testing to assess the potential impact of stressed business conditions on the Group's financial positions, in particular, capital adequacy, profitability, and liquidity. The escalation process and the potential courses of management action are also properly documented in the relevant policies and procedures.

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part I Overview of risk management and risk-weighted amount (Continued)

<u>Template OV1: Overview of RWA</u>

The following table provides an overview of capital requirements in terms of a detailed breakdown of RWAs for various risks as at 31 December 2017 and 30 September 2017 respectively:

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		December 2017 (HK$'000)	September 2017 (HK$'000)	December 2017 (HK$'000)
1	Credit risk for non-securitization exposures	125,893,499	123,696,247	10,071,480
2	Of which STC approach	125,893,499	123,696,247	10,071,480
2a	Of which BSC approach	-	-	-
3	Of which IRB approach	-	-	-
4	Counterparty credit risk	1,246,495	1,684,509	99,720
5	Of which SA-CCR	-	-	-
5a	Of which CEM	1,246,495	1,684,509	99,720
6	Of which IMM(CCR) approach	-	-	-
7	Equity exposures in banking book under the market-based approach	-	-	-
8	CIS exposures – LTA	-	-	-
9	CIS exposures – MBA	-	-	-
10	CIS exposures – FBA	-	-	-
11	Settlement risk	-	-	-
12	Securitization exposures in banking book	355,213	347,826	28,417
13	Of which IRB(S) approach – ratings-based method	-	-	-
14	Of which IRB(S) approach – ratings-based method	-	-	-
15	Of which STC(S) approach	355,213	347,826	28,417
16	Market risk	2,007,563	1,777,963	160,605
17	Of which STM approach	2,007,563	1,777,963	160,605
18	Of which IMM approach	-	-	-
19	Operational risk	9,148,750	8,962,800	731,900
20	Of which BIA approach	9,148,750	8,962,800	731,900
21	Of which STO approach	-	-	-
21a	Of which ASA approach	-	-	-
22	Of which AMA approach	N/A	N/A	N/A
23	Amounts below the thresholds for deduction (subject to 250% RW)	3,085,575	3,085,575	246,846
24	Capital floor adjustment	-	-	-
24a	Deduction to RWA	(637,833)	(518,783)	(51,027)
24b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	(196,657)	(191,706)	(15,733)
24c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	(441,176)	(327,077)	(35,294)
25	Total	141,099,262	139,036,137	11,287,941

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

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part II Linkages between financial statements and regulatory disclosures

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

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

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
HK$'000			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with banks and other financial institutions	17,343,673	17,343,673	17,337,530	-	-	-	6,143
Placements with banks and other financial institutions maturing between one and twelve months	11,856,241	11,856,241	11,856,241	-	-	-	-
Trading securities	8,837,554	8,837,554	-	-	-	8,837,554	-
Derivative financial instruments	897,967	897,967	-	897,967	-	897,967	-
Financial assets at fair value through profit and loss	353,347	353,347	324,930	-	28,417	-	-
Advances and other accounts	126,737,107	126,618,840	125,678,505	205,614	-	-	734,720
Available-for-sale securities	38,223,189	38,222,774	38,222,774	-	-	-	-
Held-to-maturity securities	6,233,704	6,233,704	6,233,704	-	-	-	-
Investments in subsidiaries	-	2,068	2,068	-	-	-	-
Investments in associated companies	4,134,651	1,213,057	1,213,057	-	-	-	-

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part II Linkages between financial statements and regulatory disclosures (Continued)

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

HK$'000	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Investments in jointly controlled entities	81,157	20,000	20,000	-	-	-	-
Goodwill	811,690	811,690	-	-	-	-	811,690
Intangible assets	58,252	58,252	-	-	-	-	58,252
Furniture and equipment	424,373	424,042	424,042	-	-	-	-
Bank premises	2,523,879	2,523,879	2,523,879	-	-	-	-
Investment properties	1,179,442	1,179,442	1,179,442	-	-	-	-
Deferred income tax assets	81,492	81,492	-	-	-	-	81,492
Total assets	**219,777,718**	**216,678,022**	**205,016,172**	**1,103,581**	**28,417**	**9,735,521**	**1,692,297**
Liabilities							
Deposits from banks and other financial institutions	2,277,391	2,277,391	-	-	-	-	2,277,391
Derivative financial instruments	682,784	682,784	-	682,784	-	682,784	-
Trading liabilities	8,668,508	8,668,508	-	-	-	8,668,508	-
Deposits from customers	162,726,496	162,882,473	-	-	-	-	162,882,473
Certificates of deposit issued	7,183,706	7,183,706	-	-	-	-	7,183,706
Subordinated notes	5,487,366	5,487,366	-	-	-	-	5,487,366
Other accounts and accruals	6,096,111	5,989,463	-	-	-	-	5,989,463
Current income tax liabilities	451,650	436,621	-	-	-	-	436,621
Deferred income tax liabilities	86,578	86,467	-	-	-	-	86,467
Total liabilities	**193,660,590**	**193,694,779**	-	**682,784**	-	**9,351,292**	**184,343,487**

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part II Linkages between financial statements and regulatory disclosures (Continued)

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

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

		(a)	(b)	(c)	(d)	(e)
	HK$'000		Items subject to:			
		Total	credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	**214,985,739**	**205,016,187**	**28,417**	**1,103,581**	**9,735,521**
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	(9,351,292)	-	-	(682,784)	(9,351,292)
3	Total net amount under regulatory scope of consolidation	205,634,447	205,016,187	28,417	420,797	384,229
4	Off-balance sheet amounts	76,672,730	1,734,178	-	-	-
5	*Differences due to consideration of provisions*	-	393,972	-	-	-
6	*Differences due to potential exposure for counterparty credit risk*	-	-	-	950,206	-
7	**Exposure amounts considered for regulatory purposes**	**282,307,177**	**207,144,337**	**28,417**	**1,371,003**	**384,229**

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part II Linkages between financial statements and regulatory disclosures (Continued)

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

(1) Template LI1

The regulatory scope of consolidation is different from the consolidation basis for financial reporting purpose. The details of the subsidiaries which are excluded from the regulatory scope of consolidation are specified in Section B.1.2 above. This difference in scope of consolidation results in the differences between the amounts reported in columns (a) and (b).

(2) Template LI2

The differences between accounting values and amounts considered for regulatory purposes are mainly attributable to the difference in the reporting treatment for impairment allowances and off-balance sheet exposures for accounting and regulatory reporting purposes.

- The on-balance sheet exposure presented represents the carrying value after netting the individual impairment allowances and collective impairment allowances, whereas for regulatory reporting, the exposure amount reported represents the carrying value after netting individual impairment allowances, but before deducting collective impairment allowances.

- For regulatory reporting purposes, counterparty credit risk exposures consist of both the current exposures, and the potential exposures which are derived by applying the CCF to the notional amount of the contracts. The notional amount of the contracts is the amount of an off-balance sheet item adopted for financial reporting.

(3) Systems and controls to ensure that the valuation estimates are prudent and reliable

Fair values are subject to a control framework that the Board is held responsible for ensuring proper valuation governance and control processes of the Group. It delegates the responsibility for overseeing the valuation process for financial instruments to the TIRC. Valuation is performed independently by RMCD and where appropriate, by independent and professionally qualified valuers and the valuation results are periodically verified to ensure the integrity of the fair value measurement process.

The fair value of financial instruments 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 under current market conditions regardless of whether that price is directly observable or estimated using a valuation technique.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency. A quoted price in an active market provides the most reliable evidence of fair value and shall be used whenever available. If a financial asset or a financial liability has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used by the Group.

Where observable market quotation of financial instruments is not directly available, the Group estimates the fair value of such financial instruments by using appropriate valuation techniques that are widely recognised including present value techniques and standard option pricing models. In applying valuation techniques for these financial instruments, the Group maximises the use of relevant observable inputs (for examples, interest rates, foreign exchange rates, volatilities, credit spreads) and minimises the use of unobservable inputs. For example, the fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows, the fair value of foreign exchange forward contracts is generally based on current forward rates and the fair value of option contracts is derived using appropriate pricing models, such as Black-Scholes model.

Price data and parameters used in the measurement process are reviewed carefully and adjusted, if necessary, to take consideration of the current market developments.

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part II Linkages between financial statements and regulatory disclosures (Continued)

Template LIA: Explanations of differences between accounting and regulatory exposure amounts (Continued)

(3) Systems and controls to ensure that the valuation estimates are prudent and reliable (Continued)

The Group measures fair values using the following hierarchy that reflects the significance of the observable and unobservable inputs used in the fair value measurement:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes equity securities and derivatives that are listed on exchanges.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts.

Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity and debt securities with significant unobservable components.

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part III Credit risk for non-securitization exposures

Table CRA: General information about credit risk

Risk management objectives and policies for credit risk

The Group's main credit risk is that borrowers or counterparties may default on their payment obligations due to the Group. These obligations arise from the Group's lending and investment activities, and trading of financial instruments (including derivatives).

Business units originating credit are the primary owners of credit risk and the first line of defence. They are responsible for the identification and assessment of credit risk to conform to the approved credit risk appetite and policies. Credit units specializing in different business areas, as part of GRD, are the second line of defence responsible for approving credit, managing credit risk and formulating credit policy and internal control frameworks. All credit units report to Chief Credit Officer who in turn reports to Head of Group Risk. Chief Credit Officer oversees all credit related activities of the Group whereas Head of Group Risk oversees all risk taking activities of the Group.

The Group has a GCC for approving major credit exposures. CMC and TIRC, which are both chaired by the Chief Executive with certain Executive Directors and senior business and credit officers as members, are the committees responsible for approval of credit policy and portfolio monitoring of the loan and treasury businesses respectively. Reports on credit risk exposures, including asset quality, loan impairment charges, larger and higher risk exposures, are prepared by credit function for regular review by these management-level committees. Summary of similar information is also regularly submitted to RMCC for review. RMCC is a board-level committee.

Credit risk measurement, underwriting, approval and monitoring requirements are detailed in credit policies which are regularly updated to reflect the changes in credit risk appetite, business strategy, market conditions and regulatory requirements. The Group manages all types of credit risk on a prudent basis. Credits are extended within the parameters set out in the credit policies and are approved by different levels of management based upon established guidelines and delegated authorities. Credit exposures, limits and asset quality are regularly monitored and controlled by management, credit committees and GRD. The Group's internal auditors, as a third line of defence, also conduct regular reviews and audits to ensure compliance with credit policies and procedures, and regulatory guidelines. The Group's legal and compliance functions work closely with credit units to ensure that all credit underwriting activities are in compliance with the legal and regulatory requirements.

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part III Credit risk for non-securitization exposures (Continued)

Template CR1: Credit quality of exposures

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

		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments (HK$'000)	Net values (HK$'000)
		Defaulted exposures (HK$'000)	Non-defaulted exposures (HK$'000)		
1	Loans	884,488	149,602,184	(673,288)	149,813,384
2	Debt securities	-	53,797,807	-	53,797,807
3	Off-balance sheet exposures	-	76,672,730	(232)	76,672,498
4	**Total**	**884,488**	**280,072,721**	**(673,520)**	**280,283,689**

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part III Credit risk for non-securitization exposures (Continued)

Template CR2: Changes in defaulted loans and debt securities

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

		(a)
		31 December 2017 Amount (HK$'000)
1	**Defaulted loans and debt securities at end of the previous reporting period (30 June 2017)**	**1,033,734**
2	Loans and debt securities that have defaulted since the last reporting period	155,814
3	Returned to non-defaulted status	(19,572)
4	Amounts written off	(74,084)
5	Other changes (mainly being settlement, repayments and effect of foreign exchange rate changes)	(211,404)
6	**Defaulted loans and debt securities at end of the current reporting period (31 December 2017)**	**884,488**

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part III Credit risk for non-securitization exposures (Continued)

Table CRB: Additional disclosure related to credit quality of exposures

(1) Methods adopted for determining impairments and the Group's definition of a restructured exposure

Impairment allowances are recognized for loans, securities and derivative exposures which have objective evidence of impairment at the end of the reporting period for financial reporting purposes. In determining whether objective evidence of impairment exists, the following criteria are assessed:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity to debt ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Group's policy requires the review of individual financial assets that are above pre-set thresholds at least annually or more regularly when individual circumstances warrant. Individual impairment allowances on all individually significant accounts are determined by an evaluation of the incurred loss at the end of the reporting period on a case-by-case basis. The assessment normally encompasses review of collateral held (including re-confirmation of its enforceability) and the anticipated receipts from liquidating collateral for an individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) assets that are individually assessed but do not have individual impairment.

Individually impaired loans are defined as those loans having objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated cash flows of the loans that can be reliably estimated.

Collectively impaired loans and advances refer to those unsecured loans and advances assessed for impairment on a collective basis and which have become overdue for more than 90 days as at the reporting date. The collective impairment allowance for these impaired loans, which is a part of the overall collective impairment allowances, is made.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent periods, the asset, if past due again, is considered and disclosed as past due loans.

Restructured exposures refer to loans and other assets that have been restructured and renegotiated between the Bank and the borrower because of a deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or of repayment period, are 'non-commercial' to the Bank.

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part III Credit risk for non-securitization exposures (Continued)

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

(2) Breakdown of Credit Risk Exposures by Industry

The following table illustrates the breakdown of credit risk exposures by industry as at 31 December 2017:

	HK$'000
Property development and investment	36,989,286
Financial concerns	52,101,512
Wholesale and retail trade	21,414,938
Others	68,261,657
Individuals	102,189,816
Total	**280,957,209**

(3) Breakdown of Credit Risk Exposures by Geographical Areas

The following table illustrates the breakdown of credit risk exposures by geographical areas as at 31 December 2017:

	HK$'000
Hong Kong	191,133,374
Mainland China	42,530,317
Others	47,293,518
Total	**280,957,209**

(4) Breakdown of Credit Risk Exposures by Residual Maturity

The following table illustrates the breakdown of credit risk exposures by residual maturity as at 31 December 2017:

	HK$'000
No later than 1 year	176,601,329
1-5 years	60,558,530
Over 5 years	43,797,350
Total	**280,957,209**

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part III Credit risk for non-securitization exposures (Continued)

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

(5) Impaired Exposures of Credit Risk Exposures

The following table illustrates the impaired exposures of credit risk exposures as at 31 December 2017:

	Impaired Exposures HK$'000	Allowances HK$'000	Write-offs HK$'000	Total HK$'000
Loans	755,264	280,641	-	474,623
Debt securities	-	-	-	-
Off-balance sheet items	-	-	-	-
Total	**755,264**	**280,641**	**-**	**474,623**

	Impaired loans and advances HK$'000	Individually assessed allowances HK$'000	Collectively assessed allowances HK$'000	Advances written off during the period HK$'000
Property development and investment	78,967	12,814	49,761	-
Wholesale and retail trade	380,199	144,888	160,435	83,650
Manufacturing	233,171	91,372	98,861	179,718
Others	34,517	20,437	27,040	1,909
Individuals	28,410	11,130	42,308	2,612
Total	**755,264**	**280,641**	**378,405**	**267,889**

	HK$'000
Hong Kong	702,373
Mainland China	26,578
Others	26,313
Total	**755,264**

Aging Analysis of Accounting Past Due Exposures

The following table illustrates the aging analysis of accounting past due exposures as at 31 December 2017:

	HK$'000
Six months or less but over three months	91,458
One year or less but over six months	126,354
Over one year	582,967
Total	**800,779**

Breakdown of Restructured Exposures

The following table illustrates the breakdown of restructured exposures as at 31 December 2017:

	Impaired HK$'000	Not Impaired HK$'000	Total HK$'000
Restructured exposures	16,285	328,583	344,868

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part III Credit risk for non-securitization exposures (Continued)

Table CRC: Qualitative disclosures related to credit risk mitigation

Policies and processes relating to the use of credit risk mitigation

For loans and advances, the Group has guidelines on the acceptability of specific classes of collateral for securing loans and advances and the lending ratio of different collateral types. The extent of collateral coverage over the loans and advances depends on the types of customers and product offered.

The principal collateral types are:

- Mortgages over properties;
- Charge over deposits;
- Charges over financial instruments such as debt securities and equities;
- Standby letter of credit issued by financial institutions; and
- Charge over accounts receivables.

In addition to tangible collateral, where necessary, the Group also takes guarantees as credit risk mitigant. Besides, in order to minimise credit loss, the Group will, where possible, seek additional collateral from the borrower as soon as impairment indicators are noticed on relevant individual loans and advances.

Collateral agreements and guarantees, once executed, are kept in safe custody. Collaterals are subject to regular revaluation and close monitoring. The frequency of collateral revaluation of different classes of collateral and concentration limit of major types of collateral are incorporated in the credit policy and guidelines. The frequency of collateral revaluation depends on the collateral type and market practice. For marketable securities, they are marked-to-market on a daily basis. For property collateral, the revaluation is conducted by independent appraiser on a periodic basis. The Group does not apply netting for credit risk exposures relating to general banking facilities.

For derivatives, repurchase agreements (“repo”) and other repo-style transactions with financial market counterparties, collateral arrangements are typically covered under market-standard documentation, such as International Swaps & Derivatives Association (“ISDA”) Agreements and Master Repurchase Agreements. In the event of a default, the credit risk exposure is reduced by master-netting arrangements under a netting-eligible jurisdiction.

Collateral held against derivatives is generally cash in US dollar. Reverse repo-transactions are generally limited to large institutions with reasonably good credit standing or intragroup companies. The Group takes haircuts against the underlying collaterals of these transactions that are commensurate with collateral quality to ensure credit risks are adequately mitigated.

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part III Credit risk for non-securitization exposures (Continued)

Template CR3: Overview of recognized credit risk mitigation

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

		(a)	(b1)	(b)	(d)	(f)
	HK$'000	Exposures unsecured: carrying amount	Exposures to be secured (Note)	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	127,888,561	21,924,823	20,354,548	1,570,275	-
2	Debt securities	53,797,807	-	-	-	-
3	**Total**	**181,686,368**	**21,924,823**	**20,354,548**	**1,570,275**	**-**
4	Of which defaulted	143,866	456,657	396,461	60,196	-

Note: Amounts reported under column (b1) represent exposures which have at least one recognized CRM (collateral, financial guarantees, or credit derivative contracts) associated with them.

The allocation of the carrying amount of multi-secured exposures to different forms of recognized CRM in columns (b), (d) and (f) is made by order of priority, starting with the form of recognized CRM expected to be called first in the event of loss, and within the limits of the carrying amount of the secured exposures.

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part III Credit risk for non-securitization exposures (Continued)

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

Process adopted for using ECAI ratings and the extent to which the ratings are used for RWA calculation

Standard & Poor's Rating Services, Moody's Investor Services and Fitch Ratings are the external credit assessment institutions ("ECAIs") that the Group uses for the assessment of its credit risk exposures to banks, sovereigns, public sector entities, and collective investment schemes as well as securitisation exposures and exposures to rated corporates. There has been no change in this regard during the reporting period.

The process it uses to map ECAI issuer ratings to exposures booked in its banking book follows the process prescribed in Part 4 of the Banking (Capital) Rules. For an exposure which does not have an ECAI issue specific rating and the obligor of which has an ECAI issuer rating but does not have a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the obligor, the Group would use the ECAI issuer rating in risk-weighting the exposure, provided that the exposure is unsecured and not subordinated to the obligor.

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part III Credit risk for non-securitization exposures (Continued)

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

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

		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		**Exposures post-CCF and post-CRM**		**RWA and RWA density**	
	Exposure classes	On-balance sheet amount (HK$'000)	Off-balance sheet amount (HK$'000)	On-balance sheet amount (HK$'000)	Off-balance sheet amount (HK$'000)	RWA (HK$'000)	RWA density (%)
1	Sovereign exposures	13,104,343	-	13,874,500	-	2,823	0%
2	PSE exposures	967,943	175,000	1,730,019	-	296,109	17%
2a	Of which: domestic PSEs	718,471	175,000	1,480,547	-	296,109	20%
2b	Of which: foreign PSEs	249,472	-	249,472	-	-	0%
3	Multilateral development bank exposures	398,365	-	398,365	-	-	0%
4	Bank exposures	40,465,720	29,812	40,930,086	14,420	14,190,236	35%
5	Securities firm exposures	2,055,517	2,252,323	2,055,517	-	1,027,759	50%
6	Corporate exposures	82,392,790	19,942,296	78,903,392	1,649,582	71,099,769	88%
7	CIS exposures	-	-	-	-	-	-
8	Cash items	738,306	-	3,895,590	-	459,404	12%
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	16,418,864	51,646,284	16,081,377	15,960	12,071,231	75%
11	Residential mortgage loans	35,712,675	85,196	34,950,599	17,039	15,108,461	43%
12	Other exposures which are not past due exposures	10,955,618	2,541,819	10,390,696	37,177	11,055,333	106%
13	Past due exposures	571,801	-	571,801	-	582,374	102%
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	**Total**	**203,781,942**	**76,672,730**	**203,781,942**	**1,734,178**	**125,893,499**	**61%**

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part III Credit risk for non-securitization exposures (Continued)

<u>Template CR5: Credit risk exposures by asset classes and by risk weights – for STC approach</u>

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

	(HK$'000)	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
	Exposure class \ Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	13,860,387	-	14,113	-	-	-	-	-	-	-	13,874,500
2	PSE exposures	249,472	-	1,480,547	-	-	-	-	-	-	-	1,730,019
2a	Of which: domestic PSEs	-	-	1,480,547	-	-	-	-	-	-	-	1,480,547
2b	Of which: foreign PSEs	249,472	-	-	-	-	-	-	-	-	-	249,472
3	Multilateral development bank exposures	398,365	-	-	-	-	-	-	-	-	-	398,365
4	Bank exposures	-	-	21,542,270	-	18,596,613	-	509,425	-	-	296,198	40,944,506
5	Securities firm exposures	-	-	-	-	2,055,517	-	-	-	-	-	2,055,517
6	Corporate exposures	-	-	2,576,940	-	14,386,919	-	63,589,115	-	-	-	80,552,974
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	1,598,570	-	2,297,020	-	-	-	-	-	-	-	3,895,590
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	-	-	-	-	-	16,097,337	-	-	-	-	16,097,337
11	Residential mortgage loans	-	-	-	25,524,989	6,169,790	732,155	2,540,704	-	-	-	34,967,638
12	Other exposures which are not past due exposures	-	-	-	-	-	-	10,367,052	-	-	60,821	10,427,873
13	Past due exposures	60,196	-	-	-	-	-	370,067	141,538	-	-	571,801
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**16,166,990**	**-**	**27,910,890**	**25,524,989**	**41,208,839**	**16,829,492**	**77,376,363**	**141,538**	**-**	**357,019**	**205,516,120**

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part IV Counterparty Credit risk

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

Risk management objectives and policies related to counterparty credit risk

Counterparty Credit Risk is defined as the risk that a counterparty defaults before the final settlement of the cash flows of derivatives or securities financing transactions.

The Group exercises strict control limits in tenor and outstanding amounts on net open positions arising from derivative transactions, repo-style transactions and credit derivative contracts booked in its banking book or trading book. The credit risk exposures associated with these contracts are predominantly their fair values (i.e. the positive marked-to-market values favourable to the Group). These credit risk exposures, together with potential exposures from market movements, are managed as part of the overall lending limits allowed to counterparties and are used to calculate the Group's regulatory capital under the CEM. Collateral or other security is generally not obtained for such credit risk exposures except cash margin transfer to cover credit risk exposure arising from OTC derivative transactions under credit support arrangement with counterparties. Collateral may however be required on a case-by-case basis if the counterparty is a customer of the Group's Commercial Banking business.

Credit limits and exposures to counterparties are subject to the Group's overarching credit risk management framework. The Group has in place a set of policies to effectively manage such counterparty credit risk. Counterparties (including CCPs) are assessed individually using assigned credit risk ratings or ECAIs ratings. After the credit exposures are assessed, credit limits are proposed by the business unit, and are approved by the credit risk function after an independent credit assessment.

Settlement risk arises in situations where a payment in cash or a delivery of securities or equities is made in expectation of a corresponding receipt in cash, securities or equities. To mitigate settlement risk, daily settlement limits are established for individual counterparty on the aggregate of all settlements on a day. The Group will also enter into netting arrangements and make settlement on the basis of delivery against payment as appropriate.

The Group actively monitors the exposure to counterparties in OTC derivative trades to protect the balance sheet in the event of a counterparty default. Counterparty risk exposures that may be adversely affected by market risk events are identified, reviewed and acted upon by management, and highlighted to the appropriate risk committees.

The Group has in place the policies and procedures to control and monitor wrong-way risk, including requiring prior approval before entering into prescribed wrong-way risk deals.

Under the terms of the current collateral obligations of the Group with respect to derivative contracts, collateral movements are not linked with the credit ratings of the Group.

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part IV Counterparty Credit risk (Continued)

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

The following table presents a comprehensive breakdown of counterparty default risk exposures (other than those to CCPs), RWAs, and, where applicable, main parameters under the approaches used to calculate default risk exposures in respect of derivative contracts and SFTs as at 31 December 2017:

		(a)	(b)	(c)	(d)	(e)	(f)
		Replacement cost (RC) (HK$'000)	PFE (HK$'000)	Effective EPE (HK$'000)	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM (HK$'000)	RWA (HK$'000)
1	SA-CCR (for derivative contracts)	650,036	950,206		1.4	1,600,242	628,136
1a	CEM	-	-		-	-	-
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	**Total**						-

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part IV Counterparty Credit risk (Continued)

Template CCR2: CVA capital charge

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

		(a)	(b)
		EAD post CRM (HK$'000)	RWA (HK$'000)
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	2,216,691	614,063
4	**Total**	**2,216,691**	**614,063**

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part IV Counterparty Credit risk (Continued)

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

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

		(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
	Exposure class / Risk Weight	0% (HK$'000)	10% (HK$'000)	20% (HK$'000)	35% (HK$'000)	50% (HK$'000)	75% (HK$'000)	100% (HK$'000)	150% (HK$'000)	250% (HK$'000)	Others (HK$'000)	Total default risk exposure after CRM (HK$'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	-	-	415,363	-	808,475	-	-	-	-	-	1,223,838
5	Securities firm exposures	-	-	-	-	195	-	-	-	-	-	195
6	Corporate exposures	4,588	-	-	-	51,295	-	212,918	-	-	-	268,801
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	10,172	-	-	-	-	10,172
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	54	-	-	-	-	85,311	11,871	-	-	-	97,236
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	**Total**	**4,642**	**-**	**415,363**	**-**	**859,965**	**95,483**	**224,789**	**-**	**-**	**-**	**1,600,242**

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part IV Counterparty Credit risk (Continued)

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

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

HK$'000	(a)	(b)	(c)	(d)	(e)	(f)
	Derivative contracts				SFTs[1]	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency[2]	-	-	-	-	-	-
Cash - other currencies	586,753	-	205,614	-	453,740,008	410,047,560
Corporate bonds	-	-	-	-	-	462,403,337
Other sovereign debt	-	-	-	-	423,543,397	-
Total	**586,753**	**-**	**205,614**	**-**	**877,283,405**	**872,450,897**

[1] For "Collateral used in SFTs" reported in columns (e) and (f), the collateral used is defined as referring to both legs of the transaction. For example, an AI transfers securities to a third party, which in turn posts collateral to the AI. The AI should report both legs of the transaction in the template; on one hand the collateral received is reported in column (e), on the other hand the collateral posted by the AI is reported in column (f).

[2] "Domestic currency" refers to the AI's reporting currency (not the currency / currencies in which the derivative contract or SFT is denominated).

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part IV Counterparty Credit risk (Continued)

Template CCR6: Credit-related derivatives contracts

The following table presents the amount of credit-related derivative contracts as at 31 December 2017, broken down into credit protection bought and credit protection sold:

	(a)	(b)
HK$"000	Protection bought	Protection sold
Notional amounts		
Single-name credit default swaps	-	-
Index credit default swaps	-	-
Total return swaps	-	-
Credit-related options	-	-
Other credit-related derivative contracts	-	-
Total notional amounts	-	-
Fair values		
Positive fair value (asset)	-	-
Negative fair value (liability)	-	-

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part IV Counterparty Credit risk (Continued)

Template CCR8: Exposures to CCPs

The following table presents a comprehensive breakdown of exposures to both qualifying and non-qualifying CCPs and the respective RWAs, covering all types of credit risk exposures (including default risk exposures to the CCPs, credit risk exposures arising from initial margins posted, and default fund contributions made, to the CCPs) as at 31 December 2017:

		(a)	(b)
		Exposure after CRM (HK$'000)	RWA (HK$'000)
1	**Exposures of the AI as clearing member or client to qualifying CCPs (total)**		**4,296**
2	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	214,783	4,296
3	(i) OTC derivative transactions	214,783	4,296
4	(ii) Exchange-traded derivative contracts	-	-
5	(iii) Securities financing transactions	-	-
6	(iv) Netting sets subject to valid cross-product netting agreements	-	-
7	Segregated initial margin	-	
8	Unsegregated initial margin	-	-
9	Funded default fund contributions	-	-
10	Unfunded default fund contributions	-	-
11	**Exposures of the AI as clearing member or client to non-qualifying CCPs (total)**		**-**
12	Default risk exposures to non-qualifying CCPs (excluding items disclosed in rows 17 to 20), of which:	-	-
13	(i) OTC derivative transactions	-	-
14	(ii) Exchange-traded derivative contracts	-	-
15	(iii) Securities financing transactions	-	-
16	(iv) Netting sets subject to valid cross-product netting agreements	-	-
17	Segregated initial margin	-	
18	Unsegregated initial margin	-	-
19	Funded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part V Securitization exposures

Table SECA: Qualitative disclosures related to securitization exposures

Risk management objectives and policies for securitization transactions

During the reporting period, the Group did not participate in securitization activities and only acted as an investor in a limited amount of securitisation exposures that it held with an intention to offload them in the short future. The Group uses the standardised (securitisation) approach to calculate the credit risk for securitisation exposures on Basel III basis. Standard & Poor's and Moody's are the ECAIs that the Group has used in relation to each and all classes of the securitisation exposures.

The asset securitisation exposures of the Group represented investment in structured investment vehicles managed by third party portfolio managers. The investment is classified as a financial asset designated at fair value through profit or loss in the Group's banking book and has been assessed as impaired since 2007.

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part V Securitization exposures (Continued)

Template SEC1: Securitization exposures in banking book

The table below presents a breakdown of securitization exposures in the banking book as at 31 December 2017:

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
		Acting as originator (excluding sponsor)			Acting as sponsor			Acting as investor		
		Traditional (HK$'000)	Synthetic (HK$'000)	Sub-total (HK$'000)	Traditional (HK$'000)	Synthetic (HK$'000)	Sub-total (HK$'000)	Traditional (HK$'000)	Synthetic (HK$'000)	Sub-total (HK$'000)
1	Retail (total) – of which:	-	-	-	-	-	-	-	201,615	201,615
2	residential mortgage	-	-	-	-	-	-	-	176,576	176,576
3	credit card	-	-	-	-	-	-	-	-	-
4	other retail exposures	-	-	-	-	-	-	-	25,039	25,039
5	re-securitization exposures	-	-	-	-	-	-	-	-	-
6	Wholesale (total) – of which:	-	-	-	-	-	-	-	153,598	153,598
7	loans to corporates	-	-	-	-	-	-	-	55,219	55,219
8	commercial mortgage	-	-	-	-	-	-	-	35,862	35,862
9	lease and receivables	-	-	-	-	-	-	-	-	-
10	other wholesale	-	-	-	-	-	-	-	62,517	62,517
11	re-securitization exposures	-	-	-	-	-	-	-	-	-

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part V Securitization exposures (Continued)

Template SEC2: Securitization exposures in trading book

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	HK$'000	Acting as originator (excluding sponsor)			Acting as sponsor			Acting as investor		
		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
1	Retail (total) – of which:	-	-	-	-	-	-	-	-	-
2	residential mortgage	-	-	-	-	-	-	-	-	-
3	credit card	-	-	-	-	-	-	-	-	-
4	other retail exposures	-	-	-	-	-	-	-	-	-
5	re-securitization exposures	-	-	-	-	-	-	-	-	-
6	Wholesale (total) – of which:	-	-	-	-	-	-	-	-	-
7	loans to corporates	-	-	-	-	-	-	-	-	-
8	commercial mortgage	-	-	-	-	-	-	-	-	-
9	lease and receivables	-	-	-	-	-	-	-	-	-
10	other wholesale	-	-	-	-	-	-	-	-	-
11	re-securitization exposures	-	-	-	-	-	-	-	-	-

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part V Securitization exposures (Continued)

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

The following table presents securitization exposures in the banking book where the Bank Group acts as an originating institution of securitization transactions and the associated capital requirements as at 31 December 2017:

	HK$000	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
		Exposure values (by RW bands)					Exposure values (by regulatory approach)				RWAs (by regulatory approach)				Capital charges after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%
1	**Total exposures**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Traditional securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Of which retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Of which retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part V Securitization exposures (Continued)

<u>Template SEC4: Securitization exposures in banking book and associated capital requirements – where AI acts as investor</u>

The following table presents securitization exposures in the banking book where the Group acts as an investing institution of securitization transactions and the associated capital requirements as at 31 December 2017:

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
	HK$'000	Exposure values (by RW bands)					Exposure values (by regulatory approach)				RWAs (by regulatory approach)				Capital charges after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%	IRB(S) RBM	IRB(S) SFM	STC(S)	1250%
1	**Total exposures**	**-**	**-**	**-**	**-**	**28,417**	**-**	**-**	**-**	**28,417**	**-**	**-**	**-**	**355,213**	**-**	**-**	**-**	**28,417**
2	Traditional securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Of which retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic securitization	-	-	-	-	28,417	-	-	-	28,417	-	-	-	355,213	-	-	-	28,417
10	Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Of which retail	-	-	-	-	16,129	-	-	-	16,129	-	-	-	201,615	-	-	-	16,129
12	Of which wholesale	-	-	-	-	12,288	-	-	-	12,288	-	-	-	153,598	-	-	-	12,288
13	Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part VI Market risk

Table MRA: Qualitative disclosures related to market risk

Risk management objectives and policies for market risk

The Group has established risk governance framework to oversee and manage market risk associated with its trading positions in foreign exchange, debt securities, equity securities and derivatives. Market risk exposures are managed within various risk limits and guidelines approved by the Board, RMCC or TIRC under the authority delegated from the Board.

The Group has formulated market risk management policies to identify, measure, monitor and control market risk exposures. RMCD, as an independent risk management and control unit, monitors market risk exposures against approved limits on a daily basis. Any exceptions have to be reviewed and sanctioned by the appropriate level of management of TIRC, RMCC or the Board as stipulated in the relevant policies. Risk reports are prepared for different level of governance on a regular basis.

BCM and DSB China run their treasury functions locally under their own set of limits and policies and within the overall market risk controls set by the Group. TIRC, assisted by RMCD, oversees the market risk arising from the treasury operations of BCM and DSB China.

Risk appetite has been defined to govern the Group's trading activities. Hedging is allowed and monitored within market risk management framework. The Group measures and analyses market risk using various techniques and multiple systems commonly used in the industry and controls market risk exposures within established risk limits, which are set at the portfolio level as well as by products and by risk factors, and comprise a combination of notional, stop-loss, sensitivity and value-at-risk controls. The Group also performs stress testing on its trading positions regularly to gauge the potential impact that could arise in extreme market conditions.

E. Risk-Weighted Amount, Credit risk and Counterparty risk, and Market risk (Continued)

Part VI Market risk

<u>Template MR1: Market risk under STM approach</u>

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

		(a)
		RWA (HK$'000)
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	293,425
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	1,714,025
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	113
7	Other approach	-
8	Securitization exposures	-
9	**Total**	**2,007,563**

Abbreviations

A	
AI	Authorised institution
AMA	Advanced measurement approach
ASA	Alternative standardised approach
AT1	Additional Tier 1
B	
BIA	Basic indicator approach
BSC	Basic approach
C	
CCF	Credit conversion factor
CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical capital buffer
CEM	Current exposure method
CET1	Common equity tier 1
CIS	Collective investment scheme
CRM	Credit risk mitigation
CVA	Credit valuation adjustment
E	
EAD	Exposure at default
F	
FBA	Fall-back approach
H	
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China
I	
IMM	Internal models approach
IMM(CCR)	Internal models (counterparty credit risk) approach
IRB	Internal ratings-based approach
IRB(S)	Internal ratings-based (securitisation) approach
J	
JCCyB	Jurisdiction countercyclical capital buffer
L	
LTA	Look through approach
M	
MBA	Mandate-based approach
N	
N/A	Not applicable
O	
OTC	Over-the-counter
P	
PFE	Potential future exposure
PSE	Public sector entity
R	
RC	Replacement cost
RW	Risk-weight
RWA	Risk-weighted asset/risk-weighted amount
S	
SA-CCR	Standardised approach for counterparty credit risk
SFT	Securities financing transaction
STC	Standardised (credit risk) approach
STC(S)	Standardised (securitisation) approach
STM	Standardised (market risk) approach
STO	Standardised (operational risk) approach
V	
VaR	Value at risk