Pillar 3 Disclosure – Regulatory Disclosures

As at 31 December 2017

Wing Lung Bank Limited

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1. Introduction

Purpose

The information contained in this document is for Wing Lung Bank Limited ("the Bank") and its subsidiaries (together "the Group") to comply with the Banking (Disclosure) Rules.

Basis of Preparation

The approaches used in calculating the Group's regulatory capital or capital charge are in accordance with the Banking (Capital) Rules. The Group uses the standardised approach to calculate its credit risk and market risk. For operational risk, the Group uses the basic indicator approach to calculate its operational risk.

The financial information contained in this document has been prepared on a consolidated basis including the Bank and certain of its subsidiaries as specified by the Hong Kong Monetary Authority ("HKMA") for its regulatory purposes. The basis of consolidation for regulatory purposes is different from that for accounting purposes.

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2. Key Capital Ratios

Capital Adequacy Ratios

The table below shows the capital ratios and risk weighted amounts ("RWAs") as contained in the ''Capital Adequacy Ratio'' return submitted to the HKMA on a consolidated basis under the requirements of section 3C(1) of the Banking (Capital) Rules.

	31 December 2017	30 September 2017
	HK$'000	HK$'000
Common Equity Tier 1 Capital	25,495,623	24,755,309
Tier 1 Capital	30,059,025	29,315,824
Total Capital	37,935,626	34,327,893
Total Risk Weighted Amounts	208,143,014	206,611,050
Common Equity Tier 1 Capital Ratio	12.25%	11.98%
Tier 1 Capital Ratio	14.44%	14.19%
Total Capital Ratio	18.23%	16.61%

Leverage Ratio

The table below shows the Tier 1 capital, total exposures and leverage ratio as contained in the ''Quarterly Template on Leverage Ratio'' submitted to the HKMA on a consolidated basis under the requirements of section 3C(1) of the Banking (Capital) Rules.

	31 December 2017	30 September 2017
	HK$'000	HK$'000
Tier 1 Capital	30,059,025	29,315,824
Total Exposures	308,594,369	297,629,832
Leverage Ratio	9.74%	9.85%

3. Overview of Risk Management

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group recognises that taking risk is core to its financial business and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Board and Executives are responsible for establishing, maintaining and operating an effective system of internal control. The internal control system of the Group comprises a well-established organizational structure and comprehensive policies and standards. The Audit Committee, Risk Committee and other designated committees have been established with the objective of assisting the Board to manage and monitor various risks. The Board's expectations regarding duty, responsibility and integrity of each department are clearly spelled out in formal policy statements, which include Firm-wide Risk Management & Control Policy, Code of Conduct, Internal Control Policy and Compliance Policy Statement, etc. The Board has clearly defined the lines of authority and responsibilities of each business and operational unit to ensure adequate checks and balances.

The Group's internal control system covers every business and operational function so as to safeguard its assets against loss and misappropriation; to maintain proper accounting records for producing reliable financial information; to provide reasonable, but not absolute, assurance against material fraud and errors. Policies and procedures are established to ensure compliance with applicable laws, regulations and industry standards. To cope with the increasingly stringent requirements from relevant regulatory authorities together with ever-changing business environment, the Board has dedicated more resources and efforts to further strengthen the Group's management structure and oversight.

The Group has had in place various risk management policies and procedures. There are specific committees and units that are responsible for identifying, assessing, monitoring and managing the risks that the Group faces. Risk management policies and major risk control limits are established and approved by the Board or the Management Committee. A more detailed discussion of the policies and procedures for managing each of the major types of risk the Group is facing, including credit, market, liquidity and operational risk, is included in note 3 "Financial Risk Management" section to the Group's 2017 Annual Report.

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3. Overview of Risk Management (Continued)

The Board is responsible for the Group's internal control system and for reviewing its effectiveness. The Group's internal audit function plays an important role in the Group's internal control framework. It provides objective assurance to the Board that a sound internal control system is maintained and operated in compliance with the established processes and standards through regular and comprehensive audits on all business and operational functions. The Audit Committee reviews the significant issues raised in the internal audit reports. Significant issues raised in the management letters from external auditors and reports from regulatory authorities will be brought to the attention of the Audit Committee to ensure that prompt remedial action is taken. All recommendations will be properly followed up to ensure they are implemented within a reasonable period of time. Pursuant to a risk based methodology, the Internal Audit Department plans its internal audit schedules annually with audit resources prioritised towards higher risk areas. The Internal Audit Plan is submitted to the Management Committee for review and the Audit Committee for approval. To preserve the audit independence, the Board has established the Audit Charter to set out the authorities and responsibilities of internal audit function. The Group Chief Auditor reports directly to the Management Committee and Audit Committee, and ultimately reports to the Board.

The members of the Risk Committee are all appointed by the Board. They collectively possess relevant technical expertise and experience in risk disciplines that are adequate to enable them to discharge their responsibilities effectively. The principal duties of the Risk Committee include the following:

- To review and recommend for the Board's approval the Group's risk management strategies, key risk policies and risk appetite, at least annually;
- To review and recommend for the Board approval specified types of risk management policies and procedures;
- To review and assess the adequacy of the Group's risk management framework and policies in identifying, measuring, monitoring and controlling risks and the extent to which these are operating effectively;
- To monitor, review and conduct regular assessment of the internal control system of the Group and to monitor the risk management of the Group's exposures to credit risks, market risks, operational risks, interest rate risk, strategic risk, legal risk, reputation risk and liquidity risk by the Executives.
- To oversee the establishment and maintenance by senior management of appropriate infrastructure, resources and systems for risk management, particularly in relation to the Group's adherence to the approved risk appetite and related policies;
- To oversee and discuss the strategies for capital and liquidity management, and those for all relevant risks (on both an aggregated basis and by type of risk) of the Group, to ensure they are consistent with the stated risk appetite;
- To oversee and evaluate the design and execution of stress testing and scenario analyses;

3. Overview of Risk Management (Continued)

- To review periodic reports provided by the senior management (including the Chief Risk Officer) on the state of the Group's risk culture, risk exposure and risk management activities;
- To ensure that the staff members of the Group responsible for implementing risk management systems and controls are sufficiently independent of the Group's relevant risk-taking activities;
- To examine, without prejudice to the tasks of the Remuneration and Appraisal Committee, the incentives created by the remuneration system are aligned with the Group's risk culture and risk appetite, and ensure remuneration awards appropriately reflect risk-taking and risk outcomes; and
- To execute other duties as may be delegated by the Board.

The Group has implemented Enterprise Risk Management framework for identifying and managing potential risks of the Group. Under such framework, three lines of defence are adopted for risk management.

The first line of defence comprises risk owners at business units. They are primarily responsible for the management of the risks that their unit incur in the course of activities. These risk owners are required to set up a specific control mechanism, establish detailed procedures, and carry out ongoing risk control for their unit according to the Group's risk management framework and policy.

The second line of defence refers to those risk control units. They are responsible for providing independent oversight over the risk owners by establishing bank-wide framework, policy and control mechanism, reviewing risk issues identified by the risk takers, and reporting significant risk issues identified to the Risk Committee and the Board.

The Internal Audit Department serves as the third line of defence. The Internal Audit Department assists the Audit Committee in its oversight of the Group's overall risk management and internal control systems by conducting periodic reviews to assess the adequacy of the Group's risk management framework, control, and governance processes as designed by the first and second lines of defence.

To provide the Board and Executives with a clear view of the Group's exposures to different risk types, risk information such as those of asset quality, credit concentration, liquidity, profitability, portfolio mix, capital adequacy etc. is regularly reported to the Management Committee, the Risk Committee and the Board for review and discussion. The information is analysed with regard to factors such as the Group's risk profile, risk management strategies and market statistics.

4. Overview of Risk Weighted Amount

The table below provides an overview of the Group's total RWAs, breakdown by the approaches with which the RWAs are computed.

During the fourth quarter of 2017, total RWAs increased by HK$1.53Bn, mainly due to the increase in credit risk RWAs for non-securitisation exposures, which was driven by the increase in placements with and loans and advances to banks and advances to customers.

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4. Overview of Risk Weighted Amount (Continued)

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		As at 31 December 2017 HK$'000	As at 30 September 2017 HK$'000	As at 31 December 2017 HK$'000
1	Credit risk for non-securitisation exposures	187,724,815	186,644,509	15,017,985
2	Of which STC approach	187,724,815	186,644,509	15,017,985
2a	Of which BSC approach	-	-	-
3	Of which IRB approach	-	-	-
4	Counterparty credit risk	2,118,342	1,886,468	169,467
5	Of which SA-CCR	-	-	-
5a	Of which CEM	1,022,476	1,092,304	81,798
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	Securitisation exposures in banking book	-	-	-
13	Of which IRB(S) approach – ratings-based method	-	-	-
14	Of which IRB(S) approach – supervisory formula method	-	-	-
15	Of which STC(S) approach	-	-	-
16	Market risk	3,759,650	3,741,113	300,772
17	Of which STM approach	3,759,650	3,741,113	300,772
18	Of which IMM approach	-	-	-
19	Operational risk	10,273,975	10,232,288	821,918
20	Of which BIA approach	10,273,975	10,232,288	821,918
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)	6,470,360	6,316,075	517,629
24	Capital floor adjustment	-	-	-
24a	Deduction to RWA	2,204,128	2,209,403	176,330
24b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
24c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	2,204,128	2,209,403	176,330
25	Total	208,143,014	206,611,050	16,651,441

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

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5. Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

The following table illustrates the differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories.

31 December 2017							
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
Assets							
Cash and short-term funds	49,344,947	49,028,218	47,519,284	-	-	-	1,508,934
Placements with and loans and advances to banks	28,139,871	28,139,871	28,139,871	-	-	-	-
Trading securities	1,074,095	1,040,934	-	-	-	1,040,934	-
Derivative financial instruments	1,408,541	1,408,541	-	1,408,541	-	423,422	-
Financial assets designated at fair value through profit or loss	5,943,598	5,646,902	5,646,902	-	-	-	-
Available-for-sale securities	46,390,389	45,024,979	44,928,794	-	-	-	96,185
Held-to-maturity securities	331,356	331,356	331,356	-	-	-	-
Advances and other accounts	159,017,509	158,346,645	157,161,822	987,057	-	-	197,766
Interests in subsidiaries	-	787,852	679,020	-	-	-	108,832
Interests in jointly controlled entities	2,159,614	1,349,600	1,166,798	-	-	-	182,802
Interest in an associate	3,592	-	-	-	-	-	-
Investment properties	3,225,920	3,379,420	3,379,420	-	-	-	-
Interests in leasehold land	167,366	133,516	133,516	-	-	-	-
Other properties and equipment	1,370,474	1,165,353	1,165,353	-	-	-	-
Tax recoverable	2,681	2,681	2,681	-	-	-	-
Deferred tax assets	37,841	37,721	-	-	-	-	37,721
Assets classified as held for sale	149,021	-	-	-	-	-	-
Total assets	**298,766,815**	**295,823,589**	**290,254,817**	**2,395,598**	**-**	**1,464,356**	**2,132,240**
Liabilities							
Deposits and balances from banks	(33,134,691)	(33,134,691)	-	-	-	-	(33,134,691)
Trading liabilities	(77,380)	(77,380)	-	-	-	-	(77,380)
Derivative financial instruments	(794,593)	(794,593)	-	-	-	(413,747)	(380,846)
Deposits from customers	(210,963,646)	(211,851,713)	-	-	-	-	(211,851,713)
Certificates of deposit issued	(4,582,410)	(4,582,410)	-	-	-	-	(4,582,410)
Subordinated debts issued	(4,675,302)	(4,675,302)	-	-	-	-	(4,675,302)
Current taxation	(174,624)	(123,890)	-	-	-	-	(123,890)
Deferred tax liabilities	(67,826)	(65,246)	-	-	-	-	(65,246)
Other accounts and accruals	(6,536,172)	(4,507,997)	-	-	-	-	(4,507,997)
Total liabilities	**(261,006,644)**	**(259,813,222)**	**-**	**-**	**-**	**(413,747)**	**(259,399,475)**

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6. Main sources of differences between regulatory exposure amounts and carrying values in financial statements

The following table illustrates the main sources of differences between regulatory exposure amounts and carrying values in financial statements.

31 December 2017						
HK$'000						
		(a)	(b)	(c)	(d)	(e)
			Items subject to:			
		Total	credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	Assets carrying value amount under scope of regulatory consolidation (as per item 4)	293,691,349	290,254,817	-	2,395,598	1,464,356
2	Liabilities carrying value amount under regulatory scope of consolidation (as per item 4)	(413,747)	-	-	-	(413,747)
3	Total net amount under regulatory scope of consolidation	293,277,602	290,254,817	-	2,395,598	1,050,609
4	Off-balance sheet amounts	64,005,639	13,285,016	-	-	-
5	Differences due to consideration of provisions		295,674	-	-	-
6	Difference due to potential exposure for counterparty credit risk		-	-	1,015,867	-
7	**Exposure amounts considered for regulatory purposes**	**308,297,581**	**303,835,507**	**-**	**3,411,465**	**1,050,609**

7. Explanations of differences between accounting and regulatory exposure amounts

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with Section 3C of the Banking (Capital) Rules. Subsidiaries not included in consolidation for regulatory purposes are non-financial companies and the insurance companies that are authorized and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Banking (Capital) Rules and the Banking Ordinance.

The main difference between accounting and regulatory exposure amounts is that accounting exposure amount is net of individual assessment impairment allowance and collective assessment impairment allowance, whereas regulatory exposure amount is net of individual assessment impairment allowance only. Collective assessment impairment allowance is included in Tier 2 capital for regulatory capital purposes.

Collective assessed impairment allowances are provided for (i) portfolios of homogenous assets that are individually below preset thresholds; and (ii) losses that have been incurred but have not yet been individually identified, using available data on historical loss experience, and economic conditions, statistical analysis and supplemented by experienced judgement.

On the other hand, counterparty credit risk exposures for regulatory purposes consist of both the current exposures and the potential exposures which are derived by applying the credit conversion factor (CCF) to the notional principal of the transactions or contracts.

Systems and controls applied to assets valuation

In order to ensure that the valuation estimates are prudent and reliable, the Group has implemented the following valuation processes and methodologies:

The Group measures fair values using the following hierarchy of methods:

Level 1 – Quoted market price in an active market for an identical instrument.

Level 2 – Valuation techniques based on observable input either directly from prices or indirectly derived from prices which includes quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in less active markets; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Valuation techniques using significant unobservable inputs, it includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. It also includes valuation that is based on quoted prices for similar instruments where significant the unobservable adjustments or assumptions are required to reflect differences between the instruments.

7. Explanations of differences between accounting and regulatory exposure amounts (Continued)

Market prices or model inputs used in the valuation process are either determined or validated by an independent function. Fair values of financial instruments are determined with reference to external quoted market prices or observable model inputs and validated against secondary sources when appropriate. For fair values that are determined through valuation models, the validation may include the logics, inputs, and outputs by an independent function, and evaluation of any adjustments required on top of the valuation models.

Valuation adjustment will be applied on instruments where significant valuation uncertainty and financial impact may arise. The Group considers that bid offer adjustment, liquidity valuation adjustment and model risk adjustment are relevant.

(i) Bid offer adjustment:

For the equity, bond, foreign exchange spot, foreign exchange forward, foreign exchange swap, currency options and interest rate swap and cross currency swap portfolio, would be adjusted to the prudent side of the bid offer close-out price.

(ii) Liquidity valuation adjustment:

Liquidity valuation adjustment would be applied to level 2 and level 3 financial instruments only.

For the fixed income, liquidity valuation adjustment is being performed for less liquid position based on the product specific nature.

For the foreign exchange portfolio, liquidity valuation adjustment of spot, forward and swap is not being performed due to the highly liquid market and insignificant positions on minor currencies.

For the currency option portfolio, liquidity valuation adjustment is not being performed due to insignificant position.

For the interest rate swap and cross currency swap, liquidity valuation adjustment is not being performed considering that the outstanding positions largely originate from dynamic hedging of the underlying bond/loans or customers demand since customers are normally not allowed or expected to early terminate the contracts, thus the associated hedging positions would be held to maturity by the Group at the same time.

(iii) Model risk adjustment:

If simulation technique is used for the structured product, model risk adjustment would be considered. The adjustment would be based on the alternate model if there is a significant variance between the original valuation and the price derived from alternate model.

8. General Information about Credit Risk

The Group takes on exposure to credit risk, which is the risk that an obligor (including guarantor) or a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit exposures arise principally from loans and advances, debt securities, derivative financial instruments, treasury bills, and other on-balance sheet exposures to counterparties in the Group's asset portfolio. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for at the end of the reporting period.

The Group has established credit policies that govern credit extension criteria, credit approval, review and monitoring processes, the internal credit rating system and impairment assessment processes. The Group's credit risk management and control are centralised in Credit Management Department which reports to the Credit Committee and Management Committee regularly. The Board of Directors has ultimate responsibility for the effectiveness of credit risk management processes.

The Group manages and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries and countries.

To avoid concentration risk, credit exposures to individual customers, counterparties and industry sectors are carefully managed and monitored by the use of limits. All credit risk limits are approved by the Management Committee. The Management Committee is also responsible for the review and approval of the largest credit exposures and portfolio management of risk concentrations. Approval authorities are delegated to the Group's Credit Committee and other lending officers. Actual credit exposures, including on- and off-balance sheet exposures, limits and asset quality are regularly monitored and controlled by the Credit Management Department by keeping a central liability record for each group of related counterparties and are subject to checks by the internal audit function.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

8. General Information about Credit Risk (Continued)

In assessing credit risk of loans and advances to customers and to banks and other counterparties, effective systems are adopted for measurement and monitoring of the credit risk as part of the credit assessment process. The Group's credit grading system, which in general, takes into account the underlying credit-worthiness of the counterparties, including the financial strengths of the guarantors (as the case may be), collateral pledged and the risk of specific transactions, allows differentiation and management of credit risk for asset portfolios of respective business units.

For debt securities, external ratings from recognised external credit assessment institutions are used for assessing and managing credit risk exposures. The investments in these securities allow the Group to achieve an appropriate level of returns commensurate with the risks and to maintain a readily available source of funding at the same time.

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9. Credit Quality of Exposures

The table below provides an overview of the credit quality of the on and off-balance sheet assets of the Group.

31 December 2017					
HK$'000					
		(a)	(b)	(c)	(d)
		Gross carrying amounts of [1]			
		Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net values [2]
1	Loans	112,157	155,722,272	378,947	155,455,482
2	Debt securities	-	49,951,754	-	49,951,754
3	Off-balance sheet exposures	-	24,327,052	-	24,327,052
4	**Total**	**112,157**	**230,001,078**	**378,947**	**229,734,288**

[1] Refers to the accounting value of the assets before any impairment allowances but after write-offs
[2] Refers to total gross carrying amount less impairment allowances

10. Changes in Defaulted Loans and Debt Securities

The table below identifies the changes in defaulted loans and debt securities from the previous reporting period, including the flows between non-defaulted and defaulted categories and reductions due to write-offs.

The decrease in defaulted loans and debt securities in the second half of 2017 was mainly driven by loans returned to non-defaulted status that were partially offset by new defaulted loans.

		(a) Amount HK$'000
1	**Defaulted loans and debt securities at end of the previous reporting period (30 June 2017)**	**234,871**
2	Loans and debts securities that have defaulted since the last reporting period	15,830
3	Returned to non-defaulted status	(132,016)
4	Amounts written off	(4,707)
5	Other changes [1]	(1,821)
6	**Defaulted loans and debt securities at end of the current reporting period (31 December 2017)**	**112,157**

[1] Other changes comprise foreign exchange, changes in existing defaulted loans and recoveries

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11. Additional Disclosure Related to Credit Quality of Exposures

- Breakdown of Credit Risk Exposures by Industry

The following table illustrates the breakdown of credit risk exposures by industry.

31 December 2017					
HK$'000					
		(a)	(b)	(c)	(d)
		Carrying Amounts			
		Loans	Debt Securities	Off Balance Sheet Items	Total
1	Property development	5,942,656	1,631,348	3,796,602	11,370,606
2	Property investment	9,739,970	155,679	572,924	10,468,573
3	Financial concerns	25,007,502	34,381,184	1,731,473	61,120,159
4	Stockbrokers	5,041,477	-	262,775	5,304,252
5	Wholesale and retail trade	970,855	-	324,578	1,295,433
6	Manufacturing	361,210	1,669,177	68,332	2,098,719
7	Transport and transport equipment	3,656,432	95,663	3,071	3,755,166
8	Recreational activities	2,378	-	-	2,378
9	Information technology	299,038	2,909,520	1,350	3,209,908
10	Others	13,448,747	9,109,183[1]	2,242,553	24,800,483
11	Individuals	21,867,584	-	1,663,343	23,530,927
12	Trade finance	615,114	-	506,517	1,121,631
13	Loans for use outside Hong Kong	63,472,355	-	13,153,534	76,625,889
14	Trade bills	5,409,111	-	-	5,409,111
15	**Total**	**155,834,429**	**49,951,754**	**24,327,052**	**230,113,235**

[1] Of which HK$5,248,665k being electric and gas

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11. Additional Disclosure Related to Credit Quality of Exposures (Continued)

- Breakdown of Credit Risk Exposures by Geographical Areas

The following table illustrates the breakdown of credit risk exposures by geographical areas.

31 December 2017					
HK$'000					
		(a)	(b)	(c)	(d)
		Carrying Amounts			
		Loans	Debt Securities	Off Balance Sheet Items	Total
1	Hong Kong	121,327,161	49,932,222	21,605,177	192,864,560
2	People's Republic of China	24,128,025	-	384,375	24,512,400
3	Macau	5,654,244	-	1,690,490	7,344,734
4	United States of America	4,724,999	19,532	647,010	5,391,541
5	Others	-	-	-	-
6	**Total**	**155,834,429**	**49,951,754**	**24,327,052**	**230,113,235**

- Breakdown of Credit Risk Exposures by Residual Maturity

The following table illustrates the breakdown of credit risk exposures by residual maturity.

31 December 2017					
HK$'000					
		(a)	(b)	(c)	(d)
		Carrying Amounts			
		Less than or equal to 1 year	1 to 5 years	More than 5 years	Total
1	Loans	64,279,918	72,562,328	18,992,183	155,834,429
2	Debt securities	23,496,498	26,455,256	-	49,951,754
3	Off balance sheet items	24,327,052	-	-	24,327,052
4	**Total**	**112,103,468**	**99,017,584**	**18,992,183**	**230,113,235**

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11. Additional Disclosure Related to Credit Quality of Exposures (Continued)

- Impaired Exposures of Credit Risk Exposures

The following table illustrates the impaired exposures of credit risk exposures

31 December 2017					
HK$'000					
		(a)	(b)	(c)	(d)
		Carrying Amounts			
		Impaired Exposures	Allowances	Write-offs	Total
1	Loans	356,514	83,274	-	273,240
2	Debt securities	-	-	-	-
3	Off balance sheet items	-	-	-	-
4	**Total**	**356,514**	**83,274**	**-**	**273,240**

31 December 2017					
HK$'000					
		(a)	(b)	(c)	(d)
		Carrying Amounts			
		Loans	Debt Securities	Off Balance Sheet Items	Total
1	Property development	-	-	-	-
2	Property investment	-	-	-	-
3	Financial concerns	-	-	-	-
4	Stockbrokers	-	-	-	-
5	Wholesale and retail trade	60,630	-	-	60,630
6	Manufacturing	1,284	-	-	1,284
7	Transport and transport equipment	-	-	-	-
8	Recreational activities	-	-	-	-
9	Information technology	-	-	-	-
10	Others	49,627	-	-	49,627
11	Individuals	1,666	-	-	1,666
12	Trade finance	12,019	-	-	12,019
13	Loans for use outside Hong Kong	231,288	-	-	231,288
14	Trade bills	-	-	-	-
15	**Total**	**356,514**	-	-	**356,514**

11. Additional Disclosure Related to Credit Quality of Exposures (Continued)

- Impaired Exposures of Credit Risk Exposures (Continued)

31 December 2017					
HK$'000					
		(a)	(b)	(c)	(d)
		Carrying Amounts			
		Loans	Debt Securities	Off Balance Sheet Items	Total
1	Hong Kong	356,514	-	-	356,514
2	People's Republic of China	-	-	-	-
3	Others	-	-	-	-
4	**Total**	**356,514**	-	-	**356,514**

- Aging Analysis of Accounting Past Due Exposures

The following table illustrates the aging analysis of accounting past due exposures.

31 December 2017					
HK$'000					
		(a)	(b)	(c)	(d)
		Carrying Amounts			
	Overdue for	Loans	Debt Securities	Off Balance Sheet Items	Total
1	Six months or less, but over three months	13,946	-	-	13,946
2	One year or less, but over six months	47,430	-	-	47,430
3	Over one year	84,775	-	-	84,775
4	**Total**	**146,151**	-	-	**146,151**

11. Additional Disclosure Related to Credit Quality of Exposures (Continued)

- Breakdown of Restructured Exposures

The following table illustrates the breakdown of restructured exposures.

31 December 2017				
HK$'000				
		(a)	(b)	(c)
		Carrying Amounts		
		Impaired	**Not Impaired**	**Total**
1	Restructured exposures	231,635	26,620	258,255
2	**Total**	**231,635**	**26,620**	**258,255**

The Group undertakes ongoing credit analysis and monitoring of its credit portfolios, and requires the review of individual financial assets that are above preset thresholds at least annually or more regularly when individual circumstances require. Impairment allowances are recognised for losses that have been incurred at the end of the reporting period based on objective evidence of impairment as described in note 1.7 "Impairment of financial assets" to the Group's 2017 Annual Report. The Group's internal credit rating system assists management to determine whether objective evidence of impairment exists.

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the end of the reporting period on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses commitment of collateral held and the anticipated cash flows for that individual account adjusted at the relevant discount rates.

Collectively assessed impairment allowances are provided for (i) portfolios of homogenous assets that are individually below preset thresholds; and (ii) losses that have been incurred but have not yet been individually identified, using available data on historical loss experience, and economic conditions, statistical analysis and supplemented by experienced judgment.

Rescheduled assets refer to those that have been restructured or renegotiated 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 include assets for which the revised repayment terms, either of interest or of loan repayment period, are 'non-commercial' to the Group.

12. Qualitative Disclosures Related to Credit Risk Mitigation

The Group seeks to obtain collateral to mitigate credit risk to an acceptable level. All credit decisions, whether or not secured by collateral, are based on counterparties' repayment capacity. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal types of collateral in credit risk mitigation include:

- Mortgages over residential properties and other properties;
- Charges over business assets such as cash deposits, premises, machineries, inventory and accounts receivable; and
- Charges over financial instruments such as equities and debt securities.

Below is information on recognised credit risk mitigation by type of guarantor and collateral.

31 December 2017		
HK$'000		
	Loans	Debt Securities
Recognised Guarantee, of which:	7,106,939	157,755
by Sovereign	715	-
by Public Sector Entity	377,408	-
by Bank	5,262,608	-
by Corporate	1,466,208	157,755
Recognised Collateral, of which:	1,889,742	-
by Cash	1,888,631	-
by Residential Property	1,111	-

The Group has established policies to govern the determination of eligibility of assets taken as collateral for credit risk mitigation. In order for an asset to be considered as effective risk mitigation, the market value of the asset should be readily determinable or can be reasonably established. The asset is marketable and there exists a readily available secondary market for disposal of the asset. In addition, the Group is able to secure control over the asset if necessary. The collateral is revalued periodically ranging from daily to annually, depending on the type of collateral. As for those past due exposures, the main types of collateral held are cash deposits and properties.

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of the assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

13. Overview of Recognised Credit Risk Mitigation

The table below illustrates the exposures and their respective recognised credit risk mitigation.

31 December 2017						
HK$'000						
		(a)	(b)	(c)	(d)	(e)
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognised collateral	Exposures secured by recognised guarantees	Exposures secured by recognised credit derivative contracts
1	Loans	143,653,263	11,802,219	1,889,742	7,106,939	-
2	Debt securities	41,576,345	8,375,409	-	157,755	-
3	Total	185,229,608	20,177,628	1,889,742	7,264,694	-
4	of which defaulted	46,407	6,248	1,111	4,521	-

14. Qualitative Disclosures on Use of ECAI Ratings under STC Approach

The Group adopts the Standardised approach, which mainly features the risk-weighting of credit risk exposures according to credit ratings provided by External Credit Assessment Institutions ("ECAIs") recognised by the HKMA, in assessing the capital adequacy of credit risk exposures.

Credit ratings from Fitch Ratings, Moody's Investors Service and Standard and Poor's Ratings Services are used in the Group for risk-weighting credit risk exposures under the following exposure classes:

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

In accordance with the requirements prescribed in Part 4 of the Banking (Capital) Rules in respect of the application of ECAI ratings, for an exposure falling under any of the exposure classes listed above that consists of a debt obligation issued or undertaken by the obligor which has one or more than one ECAI issue specific rating, the Group would apply the issue specific rating(s) directly in risk-weighting the exposure; while for an exposure listed above which does not have an ECAI issue specific rating and the obligor of which has an ECAI issuer rating, the Group would use the ECAI issuer rating in risk-weighting the exposure under any of the following circumstances:

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

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

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15. Credit Risk Exposures and Effects of Recognised Credit Risk Mitigation – For STC Approach

The following table illustrates the effects of credit risk mitigation ("CRM") on the calculation of capital requirements for credit risk exposures under the Standardised approach.

31 December 2017							
HK$'000							
		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		**Exposures post-CCF and post-CRM**		**RWA and RWA density**	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	37,882,120	-	37,884,263	67	290,471	0.77%
2	PSE exposures	-	-	373,654	206,548	116,040	20.00%
2a	Of which : domestic PSEs	-	-	373,654	206,548	116,040	20.00%
2b	Of which : foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	78,410,353	1,015,671	74,621,988	1,983,214	31,359,024	40.94%
5	Securities firm exposures	751,344	3,812,609	550,365	1,327	275,846	50.00%
6	Corporate exposures	137,054,999	48,027,545	130,114,670	10,728,799	131,714,261	93.52%
7	CIS exposures	-	-	-	-	-	-
8	Cash items	903,835	-	11,887,375	282,088	2,212,879	18.18%
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	7,827,881	10,147,630	7,789,131	336,116	6,093,936	75.00%
11	Residential mortgage loans	14,452,306	413,396	14,093,929	7	5,258,318	37.31%
12	Other exposures which are not past due exposures	10,211,525	1,000,618	10,178,988	158,677	10,337,665	100.00%
13	Past due exposures	56,158	-	56,158	-	66,373	118.19%
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	Total	287,550,521	64,417,469	287,550,521	13,696,843	187,724,813	62.32%

16. Credit Risk Exposures by Asset Classes and by Risk Weights – For STC Approach

The following table provides a breakdown of credit risk exposures treated under the Standardised approach by asset class and risk weight. The risk weight assigned corresponds with level of risk attributed to each exposure.

31 December 2017												
HK$'000												
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
		Risk Weights										
	Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM) [1]
1	Sovereign exposures	36,431,976	-	1,452,354	-	-	-	-	-	-	-	37,884,330
2	PSE exposures	-	-	580,202	-	-	-	-	-	-	-	580,202
2a	Of which : domestic PSEs	-	-	580,202	-	-	-	-	-	-	-	580,202
2b	Of which : foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	29,586,966	-	43,153,208	-	3,865,028	-	-	-	76,605,202
5	Securities firm exposures	-	-	-	-	551,692	-	-	-	-	-	551,692
6	Corporate exposures	-	-	2,789,737	-	13,794,838	-	124,258,894	-	-	-	140,843,469
7	CIS exposures	-	-	-	-	-	-		-	-	-	-
8	Cash items	1,416,927	-	10,674,572	-	-	-	77,964	-	-	-	12,169,463
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	-	-	-	-	-	8,125,247	-	-	-	-	8,125,247
11	Residential mortgage loans	-	-	-	13,346,670		641,130	106,136	-	-	-	14,093,936
12	Other exposures which are not past due exposures [2]	-	-	-	-	-	-	10,337,665	-	-	-	10,337,665
13	Past due exposures	-	-	4,849	-	1,965	-	19,190	30,154	-	-	56,158
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**37,848,903**	**-**	**45,088,680**	**13,346,670**	**57,501,703**	**8,766,377**	**138,664,877**	**30,154**	**-**	**-**	**301,247,364**

[1] Total credit risk exposures amount refers to both on and off-balance sheet amounts that are used for computing capital requirements, net of impairment allowances and write-offs and after application of CRM and CCF
[2] Includes other exposures not included in the above asset classes, such as fixed assets

17. Qualitative Disclosures Related to Counterparty Credit Risk (including Those Arising From Clearing Through CCPs)

Counterparty credit risk ("CCR") is the risk of a counterparty defaulting before the final settlement of the transaction, which generally represents uncertain exposures that can vary over time with the movement of underlying market factors such as those in over-the-counter ("OTC") derivatives.

To mitigate the credit risk arise from counterparty, credit risk mitigation may be considered to include obtaining guarantee from a third party with stronger financial standing, or other measures such as rights of set-off, option-to-terminate and material-change triggers etc to be incorporated in the master or bilateral agreements.

The Group currently uses the current exposure method for purpose of providing capital for counterparty exposures in accordance with the Banking (Capital) Rules. Internally, the Group measures counterparty credit exposure using the marked-to-market exposure with appropriate add-on for future potential exposures.

The Group has internal limit for counterparty exposure with respect to OTC derivative contracts. When the limit is reached, the Group will take appropriate actions including reduction of the position.

Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. It is further classified into "general wrong-way risk" and "specific wrong-way risk".

- "General wrong-way risk" arises when the probability of default of counterparties is positively correlated with general market risk factors.
- "Specific wrong-way risk" arises when the exposure to a counterparty is positively correlated with the probability of default of the counterparty due to the nature of the transaction with the counterparty.

The Group has established policies to govern the wrong-way risk. Any wrong-way risk will be assessed before considering to grant a credit line, assessment and mitigation are documented in the credit application.

17. Qualitative Disclosures Related to Counterparty Credit Risk (including Those Arising From Clearing Through CCPs) (Continued)

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

All Credit Support Annexes ("CSA") will be centralised dealing in Treasury Department, and the Group is using mark-to-market ("MTM") approach for collateral management. As such, the impact of downgrade of the Group to the collateral will be minimal.

18. Analysis of Counterparty Default Risk Exposures (Other Than Those to CCPs) by Approaches

The table below provides an overview of the CCR for OTC derivatives and Securities Financing Transactions ("SFTs").

31 December 2017							
HK$'000							
		(a)	(b)	(c)	(d)	(e)	(f)
	Exposure classes	Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR (for derivative contracts)	-	-		-	-	-
1a	CEM	1,370,863	969,537		-	2,340,400	1,022,476
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					775,280	744,443
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	Total						1,766,919

19. CVA Capital Charge

The Credit Valuation Adjustment ("CVA") is made to the mark-to-market valuation of OTC derivatives, for which these are calculated under the Standardised CVA method for the Group.

31 December 2017			
HK$'000			
		(a)	(b)
		EAD post CRM 1	RWA
	Netting sets for which CVA capital charge is calculated by the advanced CVA method		
1	(i)VaR (after application of multiplication factor if applicable)		-
2	(ii)Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardised CVA method	2,170,245	345,507
4	Total	2,170,245	345,507

[1] EAD refers to the amount relevant for capital requirements calculation, after taking into account the effects of CRM

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20. Counterparty Default Risk Exposures (Other Than Those to CCPs) by Asset Classes and by Risk Weights – For STC Approach

The table below represents the risk weights used in the calculation of capital for the Group's portfolio subjected to the CCR requirements under the Standardised Approach by asset classes.

31 December 2017												
HK$'000												
		(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
		Risk Weights										Total default risk exposure after CRM
	Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which : domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which : foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	737,994	-	1,148,403	-	6,480	-	-	-	1,892,877
5	Securities firm exposures	-	-		-	-	-	-	-	-	-	-
6	Corporate exposures	-	-		-	-	-	277,275	-	-	-	277,275
7	CIS exposures	-	-		-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	123,394	-	-	-	-	123,394
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Othe exposures which are not past due exposures	85,954	-	84,202	-	-	-	651,978	-	-	-	822,134
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	**Total**	**85,954**	**-**	**822,196**	**-**	**1,148,403**	**123,394**	**935,733**	**-**	**-**	**-**	**3,115,680**

21. Composition of Collateral for Counterparty Default Risk Exposures (Including Those for Contracts or Transactions Cleared Through CCPs)

The table below shows the composition of collateral for counterparty default risk exposures.

31 December 2017						
HK$'000						
	(a)	(b)	(c)	(d)	(e)	(f)
	Derivative contracts				SFTs	
	Fair value of recognised collateral received		Fair value of posted collateral		Fair value of recognised collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	66,737	6,578	-	-	-
Cash - other currencies	-	1,533,036	205,199	162,461	-	-
Total	-	1,599,773	211,777	162,461	-	-

22. Credit-related derivatives contracts

The table below shows the amount of credit-related derivatives contracts broken down into credit protection bought and credit protection sold:.

31 December 2017		
HK$'000		
	(a)	(b)
	Protection bought	Protection sold
Notional amounts		
Credit default swaps	-	-
Total return swaps	-	-
Other credit-related derivative contracts	-	-
Total notional amounts	-	-
Fair values		
Positive fair value (asset)	-	-
Negative fair value (liability)	-	-
	-	-

23. Exposures to CCPs

The table below shows the exposures to CCPs.

31 December 2017			
HK$'000			
		(a)	(b)
		Exposure after CRM	RWA
1	**Exposures of the AI as clearing member or client to qualifying CCPs (total)**		**5,916**
2	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which :	98,432	1,969
3	(i) OTC derivative transactions	98,432	1,969
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	197,353	
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 qualifying CCPs (excluding items disclosed in rows 7 to 10), 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	-	-

24. Qualitative Disclosures Related to Market Risk

The Group has established risk governance management framework to oversee and monitor market risk. This framework is built around a structure that enables the Board to discharge the responsibility for on-going market risk management to the Risk Committee (“RC”), the Management Committee (“MC”), the Risk Management Committee (“RMC”) and the Asset and Liability Management Committee (“ALCO”). The ALCO deals with all market risk limits issues of the Group and decides the corresponding strategy while RMC is responsible for conducting a regular review of market risk faced by the Group, stress testing and deciding the Market Risk Appetite of the Group. Risk appetite has been defined in accordance with the Group’s business strategies and objectives to govern the trading book activities; and under the approved risk appetite, risk limits and management action triggers are set with reference to the nature, volume of transaction and risk appetite of the Group. Market Risk Appetite is approved by the Board and the market risk limits are approved by the MC.

The Group has implemented Enterprise Risk Management framework for identifying and managing potential risks of the Group. Under such framework, three lines of defence are adopted for market risk management. The first line of defence comprises risk owners at business units. They are primarily responsible for the day-to-day market risk management. The second line of defence refers to the Market Risk Management Department (“MRMD”) and the third line of defence refers to the Internal Audit Department.

MRMD coordinates market risk management related matters of the Group and formulates market risk management policies. MRMD also carries out the daily monitoring of the market risk/trading book position and reports to the Group Chief Risk Officer who is responsible for overseeing the Group’s risk management issues which include, but are not limited to, the risk management infrastructure, strategies, appetites, culture and resources.

Market risk management policies have been set up to identify, measure, monitor, control, and report on the market risk, where appropriate, to allocate adequate capital to cover those risks. Market risk management policies and limits are regularly reviewed and monitored to align with market changes, statutory requirements, and best practices in risk management processes.

Different systems are employed to facilitate the calculation, measurement, analysis and reporting of market risk and risk reports are prepared for different level of governance on a regular basis. Through different policies, sensitivity analysis, stress testing and limit structures, market risk analysis is conducted on different dimensions, including but not limited to risk factors, concentration, currencies and duration in the form of potential loss and impact to capital adequacy.

25. Market Risk under STM Approach

The table below provides an overview of RWA for market risk by risk.

31 December 2017		
HK$'000		
		(a)
		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	976,738
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	2,781,412
4	Commodity Exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	1,500
7	Other approach	-
8	Securitisation exposures	-
9	**Total**	**3,759,650**