招商永隆銀行
CMB WING LUNG BANK

Regulatory Disclosures

As at 31 December 2018

CMB WING LUNG BANK LIMITED

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1. Introduction

Purpose

The information contained in this document is for CMB Wing Lung Bank Limited ("the Bank") and its subsidiaries (together "the Group") and is prepared in accordance with the Banking (Disclosure) Rules and the disclosure templates issued by the Hong Kong Monetary Authority ("HKMA").

These regulatory disclosures are governed by the Group's disclosure policy, the disclosure policy sets out the governance, control and assurance requirements for publication of the document, while this document is not required to be subject to external audit, it has been reviewed within the Group in accordance with the Group's governance processes over financial reporting and policies on disclosures.

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. For financial reporting purposes, all the subsidiaries have been consolidated in the Group's financial statements, the subsidiaries which are excluded from the regulatory scope of consolidation are specified in note 1 to the supplementary financial information of the Group's 2018 Annual Report.

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2 Key prudential ratios, overview of risk management and RWA

2.1 KM1: Key prudential ratios

		(a)	(b)	(c)	(d)	(e)
		As at 31 Dec 2018 HK$'000	As at 30 Sep 2018 HK$'000	As at 30 Jun 2018 HK$'000	As at 31 Mar 2018 HK$'000	As at 31 Dec 2017 HK$'000
	Regulatory capital (amount)					
1	Common Equity Tier 1 (CET1)	26,914,562	27,248,304	26,298,426	26,236,147	25,495,623
2	Tier 1	31,487,792	31,821,534	30,871,656	30,809,377	30,059,025
3	Total capital	38,241,718	38,523,256	37,605,712	38,843,350	37,935,626
	RWA (amount)					
4	Total RWA	212,679,559	212,795,604	211,734,816	216,174,196	208,143,014
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	12.7%	12.8%	12.4%	12.1%	12.2%
6	Tier 1 ratio (%)	14.8%	15.0%	14.6%	14.3%	14.4%
7	Total capital ratio (%)	18.0%	18.1%	17.8%	18.0%	18.2%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	1.875%	1.875%	1.875%	1.875%	1.250%
9	Countercyclical capital buffer requirement (%)	1.068%	1.100%	1.099%	1.079%	0.715%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	-	-	-	-	-
11	Total AI-specific CET1 buffer requirements (%)	2.943%	2.975%	2.974%	2.954%	1.965%
12	CET1 available after meeting the AI's minimum capital requirements (%)	8.2%	8.3%	7.9%	7.6%	7.7%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	319,201,618	307,516,983	309,951,040	315,055,802	308,594,369
14	LR (%)	9.9%	10.3%	10.0%	9.8%	9.7%
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	32,464,479	26,994,934	27,410,594	34,531,290	36,045,195
16	Total net cash outflows	19,899,892	16,325,231	17,261,100	23,640,691	24,213,421
17	LCR (%)	166.3%	164.4%	150.8%	147.3%	148.9%
	Applicable to category 2 institution only:					
17a	LMR (%)	N/A	N/A	N/A	N/A	N/A
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	204,428,285	201,657,500	196,304,932	202,475,580	N/A
19	Total required stable funding	154,736,854	146,852,429	156,748,768	161,570,091	N/A
20	NSFR (%)	132.1%	137.3%	125.2%	125.3%	N/A
	Applicable to category 2A institution only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

2 Key prudential ratios, overview of risk management and RWA (continued)

2.2 OVA: 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 4 "Financial Risk Management" section to the Group's 2018 Annual Report.

2 Key prudential ratios, overview of risk management and RWA (continued)

2.2 OVA: 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 of the Group's risk management strategies, key risk policies and risk appetite, at least annually;
- To review and recommend for the Board's approval of 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;

2 Key prudential ratios, overview of risk management and RWA (continued)

2.2 OVA: 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.

2 Key prudential ratios, overview of risk management and RWA (continued)

2.3 OV1: Overview of RWA

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

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		As at 31 Dec 2018 HK$'000	As at 30 Sep 2018 HK$'000	As of 31 Dec 2018 HK$'000
1	Credit risk for non-securitization exposures	194,523,408	190,953,492	15,561,873
2	Of which STC approach	194,523,408	190,953,492	15,561,873
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	1,230,586	1,316,222	98,447
7	Of which SA-CCR*	N/A	N/A	N/A
7a	Of which CEM	626,944	683,865	50,156
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	-	-	-
10	CVA risk	233,925	316,725	18,714
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA*	N/A	N/A	N/A
13	CIS exposures – MBA*	N/A	N/A	N/A
14	CIS exposures – FBA*	N/A	N/A	N/A
14a	CIS exposures – combination of approaches*	N/A	N/A	N/A
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which SEC-IRBA	-	-	-
18	Of which SEC-ERBA	-	-	-
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-
20	Market risk	2,916,738	5,050,763	233,339
21	Of which STM approach	2,916,738	5,050,763	233,339
22	Of which IMM approach	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	N/A	N/A	N/A
24	Operational risk	10,581,150	10,489,000	846,492
25	Amounts below the thresholds for deduction (subject to 250% RW)	5,440,980	6,872,538	435,278
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	2,247,228	2,203,136	179,778
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	2,247,228	2,203,136	179,778
27	Total	212,679,559	212,795,604	17,014,365

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3. Linkages between financial statements and regulatory exposures

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

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			Carrying values of items:				
31 December 2018 HK$'000	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, balances and placements with and loans and advances to banks	86,497,559	85,879,045	85,498,513	-	-	-	380,532
Derivative financial instruments	487,673	487,673	-	487,673	-	252,134	-
Financial assets mandatorily measured at fair value through profit or loss	2,458,985	2,087,973	-	-	-	2,087,973	-
Financial assets designated at fair value through profit or loss	4,200,028	4,200,028	4,200,028	-	-	-	-
Financial investments at fair value through other comprehensive income	47,319,415	47,182,185	47,011,698	-	-	-	170,487
Financial investments at amortized cost	679,491	148,199	148,199	-	-	-	-
Advances and other accounts	165,267,211	164,575,217	163,633,987	783,784	-	-	157,446
Interests in subsidiaries	-	787,852	599,466	-	-	-	188,386
Interests in jointly controlled entities	192,144	43,000	32,918	-	-	-	10,082
Interests in associates	2,625,812	1,381,600	1,057,677	-	-	-	323,923
Investment properties	3,266,150	3,266,150	3,266,150	-	-	-	-
Interests in leasehold land	161,427	116,006	116,006	-	-	-	-
Other properties and equipment	1,268,427	1,240,287	1,240,287	-	-	-	-
Tax recoverable	614	614	614	-	-	-	-
Deferred tax assets	50,917	40,152	-	-	-	-	40,152
Assets classified as held for sale	1,980	1,980	1,980	-	-	-	-
Total Assets	**314,477,833**	**311,437,961**	**306,807,523**	**1,271,457**	**-**	**2,340,107**	**1,271,008**

3. Linkages between financial statements and regulatory exposures (continued)

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

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			Carrying values of items:				
31 December 2018 HK$'000	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
Liabilities							
Deposits and balances from banks	(35,401,573)	(35,401,573)	-	-	-	-	(35,401,573)
Derivative financial instruments	(769,341)	(769,341)	-	-	-	(215,600)	(553,741)
Deposits from customers	(221,329,402)	(222,298,973)	-	-	-	-	(222,298,973)
Certificates of deposit issued	(7,624,032)	(7,624,032)	-	-	-	-	(7,624,032)
Subordinated debts issued	(3,128,160)	(3,128,160)	-	-	-	-	(3,128,160)
Current taxation	(211,269)	(201,950)	-	-	-	-	(201,950)
Deferred tax liabilities	(1,937)	(1,937)	-	-	-	-	(1,937)
Other accounts and accruals	(5,996,688)	(3,951,974)	-	-	-	-	(3,951,974)
Total Liabilities	**(274,462,402)**	**(273,377,940)**	**-**	**-**	**-**	**(215,600)**	**(273,162,340)**

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3. Linkages between financial statements and regulatory exposures (continued)

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

		(a)	(b)	(c)	(d)	(e)
			Items subject to:			
	31 December 2018 HK$'000	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)**	**310,166,953**	**306,807,523**	**-**	**1,271,457**	**2,340,107**
2	Liabilities carrying value amount under regulatory scope of consolidation(as per template LI1)	(215,600)	-	-	-	(215,600)
3	Total net amount under regulatory scope of consolidation	309,951,353	306,807,523	-	1,271,457	2,124,507
4	Off-balance sheet amounts	40,006,257	11,040,678	-	-	-
5	Differences due to consideration of provisions	-	220,125	-	-	-
6	Difference due to potential exposure for counterparty credit risk	-	-	-	1,013,042	-
7	**Exposure amounts considered for regulatory purposes**	**322,477,332**	**318,068,326**	**-**	**2,284,499**	**2,124,507**

3. Linkages between financial statements and regulatory exposures (continued)

3.3 LIA: 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 impairment allowance for the expect credit loss (“ECL”) for stage 1,2,3 financial assets , whereas regulatory exposure amount is net of impairment allowance for the ECL for stage 3 financial assets only. Impairment allowance for the ECL for stage 1 and 2 financial assets is included in Tier 2 capital for regulatory capital purposes.

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 (unadjusted) in an active market for an identical instrument.

Level 2 – Valuation techniques based on observable input either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments values using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

3. Linkages between financial statements and regulatory exposures (continued)

3.3 LIA: 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.

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3. Linkages between financial statements and regulatory exposures (continued)

3.4 PV1: Prudent valuation adjustments

31 December 2018 HK$'000		(a) Equity	(b) Interest rates	(c) FX	(d) Credit	(e) Commodities	(f) Total	(g) Of which: In the trading book	(h) Of which: In the banking book
1	Close-out uncertainty, of which:	-	-	-	-	-	-	-	-
2	*Mid-market value*	-	-	-	-	-	-	-	-
3	*Close-out costs*	-	-	-	-	-	-	-	-
4	*Concentration*	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	(179,050)	-	(179,050)	(3,644)	(175,406)
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risks	-	-	-	-	-	-	-	-
8	Investing and funding costs						-	-	-
9	Unearned credit spreads						-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other adjustments	(73,311)	-	-	-	-	(73,311)	-	(73,311)
12	**Total adjustments**	(73,311)	-	-	(179,050)	-	(252,361)	(3,644)	(248,717)

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4. Composition of regulatory capital

4.1 CC1: Composition of regulatory capital

31 December 2018		(a) **Amount HK$'000**	(b) **Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	1,160,951	[k]
2	Retained earnings	31,471,365	[r]
3	Disclosed reserves	854,475	[l] + [m] + [n] + [q]
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	**CET1 capital before regulatory adjustments**	33,486,791	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	(40,152)	[h]
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	(28,883)	[d] - [j]
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	(850,324)	[-a] - [c] - [e] - [f] - [g] - [o]
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable

4. Composition of regulatory capital (continued)

4.1 CC1: Composition of regulatory capital (continued)

31 December 2018		(a) **Amount HK$'000**	(b) **Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	(5,652,870)	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(4,085,870)	[m] + [s]
26b	Regulatory reserve for general banking risks	(1,567,000)	[t]
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	**Total regulatory deductions to CET1 capital**	(6,572,229)	
29	**CET1 capital**	26,914,562	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	4,573,230	[u]
31	of which: classified as equity under applicable accounting standards	4,573,230	
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Capital instruments subject to phase-out arrangements from AT1 capital*	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
36	**AT1 capital before regulatory deductions**	4,573,230	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	

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4. Composition of regulatory capital (continued)

4.1 CC1: Composition of regulatory capital (continued)

31 December 2018		(a) Amount HK$'000	(b) Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
41	National specific regulatory adjustments applied to AT1 capital	-	[o]
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	**Total regulatory deductions to AT1 capital**	-	
44	**AT1 capital**	4,573,230	
45	**Tier 1 capital (T1 = CET1 + AT1)**	31,487,792	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	3,128,160	[i]
47	*Capital instruments subject to phase-out arrangements from Tier 2 capital*	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	*of which: capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,787,125	[-b] + [t]
51	**Tier 2 capital before regulatory deductions**	4,915,285	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	1,838,641	
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	1,838,641	45% of ([m] + [s])
57	**Total regulatory adjustments to Tier 2 capital**	1,838,641	
58	**Tier 2 capital (T2)**	6,753,926	
59	**Total regulatory capital (TC = T1 + T2)**	38,241,718	
60	**Total RWA**	212,679,559	
	Capital ratios (as a percentage of RWA)		

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4. Composition of regulatory capital (continued)

4.1 CC1: Composition of regulatory capital (continued)

31 December 2018		(a) Amount HK$'000	(b) Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Capital ratios (as a percentage of RWA)		
61	**CET1 capital ratio**	12.65%	
62	**Tier 1 capital ratio**	14.81%	
63	**Total capital ratio**	17.98%	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	2.943%	
65	of which: capital conservation buffer requirement	1.875%	
66	of which: bank specific countercyclical capital buffer requirement	1.068%	
67	of which: higher loss absorbency requirement	0.00%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	8.15%	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant capital investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	187,335	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	2,172,160	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	1,787,125	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	2,517,861	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	

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4. Composition of regulatory capital (continued)

4.1 CC1: Composition of regulatory capital (continued)

31 December 2018		(a) **Amount HK$'000**	(b) **Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	Not applicable
82	*Current cap on AT1 capital instruments subject to phase-out arrangements*	-	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on Tier 2 capital instruments subject to phase-out arrangements*	1,820,092	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	-	

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4. Composition of regulatory capital (continued)

4.1 CC1: Composition of regulatory capital (continued)

Notes to the template:

Row No.	Description	Hong Kong basis	Basel III basis
		HK$'000	**HK$'000**
9	**Other intangible assets (net of associated deferred tax liability)**	-	-
	Explanation 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.		
10	**Deferred tax assets (net of associated deferred tax liabilities)**	(40,152)	-
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
18	**Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	-	-
	Explanation 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 MA 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.		
19	**Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	(850,324)	(692,877)
	Explanation 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 MA 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.		

CMB WING LUNG BANK LIMITED

4. Composition of regulatory capital (continued)

4.1 CC1: Composition of regulatory capital (continued)

<u>**Notes to the template**</u>:

Row No.	Description	Hong Kong basis	Basel III basis
		HK$'000	**HK$'000**
39	**Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	-	-
	<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..		
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)**	-	-
	<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.		
Remarks: The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.			

<u>**Abbreviations**</u>:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

4. Composition of regulatory capital (continued)

4.2 CC2: Reconciliation of regulatory capital to balance sheet

	(a)	(b)	(c)
	Consolidated statement of financial position as in published financial statements As at 31 Dec 2018 HK$'000	**Under regulatory scope of consolidation** As at 31 Dec 2018 HK$'000	**Reference**
Assets			
Cash, balances and placements with and loans and advances to banks	86,497,559	85,879,045	
Derivative financial instruments	487,673	487,673	
Financial assets mandatorily measured at fair value through profit or loss	2,458,985	2,087,973	
Financial assets designated at fair value through profit or loss	4,200,028	4,200,028	
Financial investments at fair value through other comprehensive income	47,319,415	47,182,185	
of which:			
- significant capital investments in financial sector entities exceeding 10% threshold		170,487	[a]
Financial investment at amortised cost	679,491	148,199	
Advances and other accounts	165,267,211	164,575,217	
- Loans			
of which:			
- collective impairment allowances reflected in regulatory capital		(220,125)	[b]
- significant capital investments in financial sector entities exceeding 10% threshold		157,446	[c]
- Other assets			
of which:			
- Defined benefit pension fund net assets		34,591	[d]
Interests in subsidiaries	-	787,852	
of which:			
- significant capital investments in financial sector entities exceeding 10% threshold		188,386	[e]
Interests in jointly controlled entities	192,144	43,000	
of which:			
- significant capital investments in financial sector entities exceeding 10% threshold		10,082	[f]
Interests in associates	2,625,812	1,381,600	
of which:			
- significant capital investments in financial sector entities exceeding 10% threshold		323,923	[g]
Investment properties	3,266,150	3,266,150	
Interests in leasehold land	161,427	116,006	
Other properties and equipment	1,268,427	1,240,287	
Tax recoverable	614	614	
Deferred tax assets	50,917	40,152	[h]
Assets classified as held for sale	1,980	1,980	
Total assets	**314,477,833**	**311,437,961**	

4. Composition of regulatory capital (continued)

4.2 CC2: Reconciliation of regulatory capital to balance sheet (continued)

	(a)	(b)	(c)
	Consolidated statement of financial position as in published financial statements As at 31 Dec 2018 HK$'000	**Under regulatory scope of consolidation** As at 31 Dec 2018 HK$'000	**Reference**
Liabilities			
Deposits and balances from banks	35,401,573	35,401,573	
Derivative financial instruments	769,341	769,341	
Deposits from customers	221,329,402	222,298,973	
Certificates of deposit issued	7,624,032	7,624,032	
Subordinated debts issued	3,128,160	3,128,160	
of which:			
- subordinated debt eligible for inclusion in regulatory capital		3,128,160	[i]
- subordinated debt not eligible for inclusion in regulatory capital		-	[i]
Current taxation	211,269	201,950	
Deferred tax liabilities	1,937	1,937	
of which:			
- Deferred tax liabilities on defined benefit pension fund net assets		5,708	[j]
Other accounts and accruals	5,996,688	3,951,974	
Total liabilities	**274,462,402**	**273,377,940**	
Shareholders' equity			
Share capital	1,160,951	1,160,951	[k]
Reserves	34,270,559	32,325,840	
of which:			
- Capital reserve		20,000	[l]
- Bank premises revaluation reserve		396,163	[m]
- Investment revaluation reserve		(271,597)	[n]
- Other reserve		709,909	[q]
- Retained earnings		31,471,365	[r]
of which:			
- revaluation of land and buildings		3,689,707	[s]
- regulatory reserve for general banking risks		1,567,000	[t]
Total equity attributable to shareholders of the Bank	**35,431,510**	**33,486,791**	
Additional equity instruments	4,573,230	4,573,230	[u]
Non-controlling interests	10,691	-	
Total equity	**40,015,431**	**38,060,021**	
Total equity and liabilities	**314,477,833**	**311,437,961**	

4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments

4.3.1 Terms and conditions of regulatory capital instruments issued as at 31 December 2018

The regulatory capital instruments included in the Bank's consolidated capital base as at 31 December 2018 are as follows:

1. Common Equity Tier 1 Capital (Ordinary share capital)

2. US$130 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 30 Sep 2014)

3. US$130 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 29 Dec 2014)

4. RMB1,000 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 03 Feb 2015)

5. US$170 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 Apr 2017)

6. US$400 million subordinated fixed rate notes due 2027

The main features of the regulatory capital instruments are set out in the following sections. Full terms and conditions, which are available in English only, are published on the Bank's website at
http://www.cmbwinglungbank.com/wlb_corporate/en/about-us/investor-communication/capital-instruments-issued-terms_20181231.html

4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.2. Common Equity Tier 1 Capital (Ordinary share capital)

		(a)
		Quantitative / qualitative information
1	Issuer	CMB Wing Lung Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Law of Hong Kong Special Administrative Region
	Regulatory treatment	
4	Transitional Basel III rules #	Common Equity Tier 1
5	Post-transitional Basel III rules +	Common Equity Tier 1
6	Eligible at solo / group / solo and group	Solo and group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HK$1,161 million as at 31 December 2018
9	Par value of instrument	NA
10	Accounting classification	Shareholders' equity
11	Original date of issuance	Since incorporation
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend / coupon	Discretionary dividend amount
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	NA
22	Non-cumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA

4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.2. Common Equity Tier 1 Capital (Ordinary share capital) (continued)

		(a)
		Quantitative / qualitative information
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Non-cumulative subordinated additional tier 1 capital securities
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA

Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the Banking (Capital) Rules.

+ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the Banking (Capital) Rules.

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4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.3. US$130 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 30 September 2014)

		(a)
		Quantitative / qualitative information
1	Issuer	CMB Wing Lung Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	English Law (subordination governed by Law of Hong Kong Special Administrative Region)
	Regulatory treatment	
4	Transitional Basel III rules #	N/A
5	Post-transitional Basel III rules +	Additional Tier 1
6	Eligible at solo / group / solo and group	Solo and group
7	Instrument type (types to be specified by each jurisdiction)	Undated Non-Cumulative Subordinated Capital Securities
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	US$130 million as at 31 December 2018
9	Par value of instrument	US$130 million
10	Accounting classification	Equity - par value
11	Original date of issuance	30 September 2014
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional redemption date: 1 October 2019 (First Call Date) Redemption for taxation reasons: Yes Redemption for regulatory reasons: Yes Redemption price: Redeemed at the outstanding principal amount together with distributions accrued to the date of redemption
16	Subsequent call dates, if applicable	Any Distribution Payment Date after the First Call Date
	Coupons / dividends	
17	Fixed or floating dividend / coupon	Fixed
18	Coupon rate and any related index	6 per cent per annum for the period from, and including, the Issue Date to, but excluding the First Call Date. The then prevailing 5 year U.S. Treasury Rate plus 413 bps for the period from, and including, the First Call Date and each Distribution Reset Date thereafter to, but excluding, the immediately following Distribution Reset Date
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary

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4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.3. US$130 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 30 September 2014) (continued)

		(a) **Quantitative / qualitative information**
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	If a Non-Viability Event occurs, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then principal amount of, and cancel any accrued but unpaid distribution in respect of, each Capital Security in whole or in part. "Non-Viability Event" means the earlier of: (a) the HKMA notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; and (b) the HKMA notifying the Issuer 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 Issuer would become non-viable.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Tier 2 subordinated notes
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the Banking (Capital) Rules.

+ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the Banking (Capital) Rules.

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4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.4. US$130 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 29 December 2014)

		(a)
		Quantitative / qualitative information
1	Issuer	CMB Wing Lung Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	English Law (subordination governed by Law of Hong Kong Special Administrative Region)
	Regulatory treatment	
4	Transitional Basel III rules #	N/A
5	Post-transitional Basel III rules +	Additional Tier 1
6	Eligible at solo / group / solo and group	Solo and group
7	Instrument type (types to be specified by each jurisdiction)	Undated Non-Cumulative Subordinated Capital Securities
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	US$130 million as at 31 December 2018
9	Par value of instrument	US$130 million
10	Accounting classification	Equity - par value
11	Original date of issuance	29 December 2014
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional redemption date: 30 December 2019 (First Call Date) Redemption for taxation reasons: Yes Redemption for regulatory reasons: Yes Redemption price: Redeemed at the outstanding principal amount together with distributions accrued to the date of redemption
16	Subsequent call dates, if applicable	Any Distribution Payment Date after the First Call Date
	Coupons / dividends	
17	Fixed or floating dividend / coupon	Fixed
18	Coupon rate and any related index	5.8 per cent per annum for the period from, and including, the Issue Date to, but excluding the First Call Date. The then prevailing 5 year U.S. Treasury Rate plus 413 bps for the period from, and including, the First Call Date and each Distribution Reset Date thereafter to, but excluding, the immediately following Distribution Reset Date
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary

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4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.4. US$130 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 29 December 2014) (continued)

		(a)
		Quantitative / qualitative information
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	If a Non-Viability Event occurs, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then principal amount of, and cancel any accrued but unpaid distribution in respect of, each Capital Security in whole or in part. "Non-Viability Event" means the earlier of: (a) the HKMA notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; and (b) the HKMA notifying the Issuer 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 Issuer would become non-viable.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Tier 2 subordinated notes
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the Banking (Capital) Rules.
+ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the Banking (Capital) Rules.

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4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.5. RMB1,000 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 3 February 2015)

		(a)
		Quantitative / qualitative information
1	Issuer	CMB Wing Lung Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	English Law (subordination governed by Law of Hong Kong Special Administrative Region)
	Regulatory treatment	
4	Transitional Basel III rules #	N/A
5	Post-transitional Basel III rules +	Additional Tier 1
6	Eligible at solo / group / solo and group	Solo and group
7	Instrument type (types to be specified by each jurisdiction)	Undated Non-Cumulative Subordinated Capital Securities
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	RMB1,000 million as at 31 December 2018
9	Par value of instrument	RMB1,000 million
10	Accounting classification	Equity - par value
11	Original date of issuance	3 February 2015
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional redemption date: 4 February 2020 (First Call Date) Redemption for taxation reasons: Yes Redemption for regulatory reasons: Yes Redemption price: Redeemed at the outstanding principal amount together with distributions accrued to the date of redemption
16	Subsequent call dates, if applicable	Any Distribution Payment Date after the First Call Date
	Coupons / dividends	
17	Fixed or floating dividend / coupon	Fixed
18	Coupon rate and any related index	5.5 per cent per annum
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA

4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.5. RMB1,000 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 3 February 2015) (continued)

		(a)
		Quantitative / qualitative information
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	If a Non-Viability Event occurs, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then principal amount of, and cancel any accrued but unpaid distribution in respect of, each Capital Security in whole or in part. "Non-Viability Event" means the earlier of: (a) the HKMA notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; and (b) the HKMA notifying the Issuer 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 Issuer would become non-viable.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Tier 2 subordinated notes
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the Banking (Capital) Rules.

+ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the Banking (Capital) Rules.

4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.6. US$170 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 April 2017)

		(a)
		Quantitative / qualitative information
1	Issuer	CMB Wing Lung Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN number: HK0000337607
3	Governing law(s) of the instrument	English Law (subordination governed by Law of Hong Kong Special Administrative Region)
	Regulatory treatment	
4	Transitional Basel III rules #	N/A
5	Post-transitional Basel III rules +	Additional Tier 1
6	Eligible at solo / group / solo and group	Solo and group
7	Instrument type (types to be specified by each jurisdiction)	Undated Non-Cumulative Subordinated Capital Securities
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	US$170 million as at 31 December 2018
9	Par value of instrument	US$170 million
10	Accounting classification	Equity - par value
11	Original date of issuance	27 April 2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional redemption date: 28 April 2022 (First Call Date) Redemption for taxation reasons: Yes Redemption for regulatory reasons: Yes Redemption price: Redeemed at the outstanding principal amount together with distributions accrued to the date of redemption
16	Subsequent call dates, if applicable	Any Distribution Payment Date after the First Call Date
	Coupons / dividends	
17	Fixed or floating dividend / coupon	Fixed
18	Coupon rate and any related index	5.2 per cent per annum for the period from, and including, the Issue Date to, but excluding the First Call Date. The then prevailing 5 year U.S. Treasury Rate plus 313 bps for the period from, and including, the First Call Date and each Distribution Reset Date thereafter to, but excluding, the immediately following Distribution Reset Date
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative

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4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.6. US$170 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 April 2017) (continued)

		(a)
		Quantitative / qualitative information
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	If a Non-Viability Event occurs, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then principal amount of, and cancel any accrued but unpaid distribution in respect of, each Capital Security in whole or in part. "Non-Viability Event" means the earlier of: (a) the HKMA notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; and (b) the HKMA notifying the Issuer 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 Issuer would become non-viable. At the sole discretion of the relevant Hong Kong Resolution Authority, the outstanding amount of Additional Tier 1 Capital Securities can be adjusted upon the exercise of Hong Kong Bail-in Power in accordance with the Hong Kong Financial Institutions (Resolution) Ordinance.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Tier 2 subordinated notes
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the Banking (Capital) Rules.

+ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the Banking (Capital) Rules.

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4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.7. US$400 million subordinated fixed rate notes due 2027

		(a)
		Quantitative / qualitative information
1	Issuer	CMB Wing Lung Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN number: XS1716657876
3	Governing law(s) of the instrument	English Law (subordination governed by Law of Hong Kong Special Administrative Region)
	Regulatory treatment	
4	Transitional Basel III rules #	NA
5	Post-transitional Basel III rules +	Tier 2
6	Eligible at solo / group / solo and group	Solo and group
7	Instrument type (types to be specified by each jurisdiction)	Other Tier 2 instruments - Subordinated Notes
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	US$399.73 million as at 31 December 2018
9	Par value of instrument	US$400 million
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	22 November 2017
12	Perpetual or dated	Dated
13	Original maturity date	22 November 2027
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional redemption date: 22 November 2022 (First Call Date) Redemption for taxation reasons: Yes Redemption price: Redemption at par together with interest accrued to the date fixed for redemption, final amount subject to adjustment following occurence of a Non-Viability Event Redemption for regulatory reasons: Redemption at par together with interest accrued to the date fixed for redemption, final amount subject to adjustment following occurence of a Non-Viability Event
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend / coupon	Fixed
18	Coupon rate and any related index	Interest at 3.75% per annum is payable on a semi-annually basis for the first 5 years from the date of issue to the optional redemption date. Thereafter, if the notes are not redeemed, the interest rate will reset and the notes will bear interest at 5 year US Treasury rate on that date plus 175 basis points.

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4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.7. US$400 million subordinated fixed rate notes due 2027 (continued)

		(a)
		Quantitative / qualitative information
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then prevailing principal amount and cancel any accrued but unpaid interest in respect of, each Subordinated Note (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Subordinated Note. "Non-Viability Event" means the earlier of: (a) the HKMA notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; and (b) the HKMA notifying the Issuer 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 Issuer would become non-viable. Each holder of such Subordinated Notes shall be subject to having Subordinated Notes held by each being written off, cancelled, converted or modified, or to having its form changed, in the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority without prior notice.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Unsubordinated creditors and depositors

4. Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.7. US$400 million subordinated fixed rate notes due 2027 (continued)

		(a)
		Quantitative / qualitative information
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the Banking (Capital) Rules.

+ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the Banking (Capital) Rules.

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5. Macroprudential supervisory measures

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

	31 December 2018	(a)	(c)	(d)	(e)
	Geographical breakdown by Jurisdiction (J)	**Applicable JCCyB ratio in effect (%)**	**RWA used in computation of CCyB ratio HK$'000**	**AI-specific CCyB ratio (%)**	**CCyB amount HK$'000**
1	Hong Kong SAR	1.8750%	88,675,424		
2	United Kingdom	1.0000%	1,240		
3	Sum		88,676,664		
4	Total		155,740,821	1.0676%	1,662,677

6. Leverage ratio

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

	31 December 2018	(a)
	Item	**Value under the LR framework HK$'000**
1	Total consolidated assets as per published financial statements	314,477,833
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(3,039,872)
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4	Adjustments for derivative contracts	1,007,551
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	13,342,795
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(14,461)
7	Other adjustments	(6,572,228)
8	**Leverage ratio exposure measure**	**319,201,618**

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6. Leverage ratio (continued)

6.2 LR2: Leverage ratio

		(a)	(b)
		HK$'000	
		As at 31 Dec 2018	As at 30 Sep 2018
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	310,029,068	296,175,217
2	Less: Asset amounts deducted in determining Tier 1 capital	(6,572,228)	(5,779,251)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	303,456,840	290,395,966
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	487,673	603,151
5	Add-on amounts for PFE associated with all derivative contracts	1,042,701	1,101,767
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	(35,150)	(47,158)
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	**Total exposures arising from derivative contracts**	1,495,224	1,657,760
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	921,220	654,013
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	921,220	654,013
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	40,221,730	43,751,105
18	Less: Adjustments for conversion to credit equivalent amounts	(26,878,935)	(28,923,762)
19	**Off-balance sheet items**	13,342,795	14,827,343
Capital and total exposures			
20	**Tier 1 capital**	31,487,792	31,821,534
20a	**Total exposures before adjustments for specific and collective provisions**	319,216,079	307,535,082
20b	**Adjustments for specific and collective provisions**	(14,461)	(18,099)
21	**Total exposures after adjustments for specific and collective provisions**	319,201,618	307,516,983
Leverage ratio			
22	**Leverage ratio**	9.9%	10.3%

7. Liquidity

7.1 LIQA: Liquidity risk management

Governance of liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. This may be caused by market disruption or liquidity squeeze whereby the Group may only unwind specific exposures at significantly discounted values.

The Group adopts a prudent risk appetite in setting liquidity risk tolerance. Risk appetite is set in the form of liquidity risk limit and metric framework.

The management of the Group's liquidity risk is governed by the liquidity risk management policies and principles which are approved by the Board of Directors ("Board"). Management Committee is one of the committees set up under the Board. The duties of Management Committee are to approve the risk management framework that is in line with the Group's business objectives and risk profile. The Asset and Liability Management Committee ("ALCO") is a committee formed by the Management Committee on behalf of the Board. ALCO is responsible for overseeing the Group's overall liquidity management. Its main responsibility is to develop the strategy, policy and limits for managing liquidity risk. Regular meetings are held to review the compliance status of the risk matrix established and the needs for change in strategy and policy. Daily liquidity management is managed by the Treasury Department. Financial Accounting Department monitors the risk matrix and submits regular reports of the liquidity profile to ALCO. Internal Audit periodically performs independent reviews on liquidity management framework to ensure the validity and effectiveness of the Group's liquidity risk management functions.

7. Liquidity (continued)

7.1 LIQA: Liquidity risk management (continued)

Funding strategy

The Group sets its liquidity funding strategy according to the size and sophistication of its business, as well as the nature and complexity of its activities.

The objective of the Group's funding strategy is to strive for a balance between business growth opportunities and funding stability. The Group seeks to maintain diversified and stable funding sources with an appropriate mix of liabilities including customer deposits, interbank borrowings, issuance of negotiable certificates of deposit and debt instruments.

In setting the Group's annual budget, the diversity and stability of various funding sources is considered so that the appropriate mix of liabilities is maintained.

To manage the currency mismatch and avoid over-reliance on the currency swap market, the Group sets limits on cross currency funding ratios. The cross currency funding ratios limit the extent of one currency's assets being funded by other currencies through the swap market. In addition, the Group sets limits on individual currency liquidity coverage ratios so as to control the extent of cash flow mismatch by currencies.

Liquidity stress testing

Liquidity stress testing is regularly conducted to project the Group's cash flows under stress scenarios and to evaluate the sufficiency of liquidity cushion. The stress scenarios cover institution-specific crisis scenario, general market crisis scenario and combined scenario. The stress test results are regularly reported to ALCO. It is the Group's policy that the liquidity cushion should be able to cover projected cash outflows under various prescribed stress scenarios.

7. Liquidity (continued)

7.1 LIQA: Liquidity risk management (continued)

Contingency funding plan

Contingency Funding Plan (CFP) of the Group clearly defines a set of triggering events that will activate the Plan. The mechanisms of CFP incorporate:

- A set of early warning indicators that helps to identify any emerging liquidity risks at an early stage.
- A list of potential funding sources, with due consideration of their reliability, priority and the expected available time during liquidity crisis.
- Detailed action steps and properly assigned responsibilities for implementing the CFP in case of need.

Balances of high quality liquid asset and maturity analysis

For details of the high quality liquid asset held by the Group, please refer to Note 4.3 (a)(vi) of the Group's 2018 Annual Report.

For the maturity analysis of the Group, please refer to Note 4.3 (b) of the Group's 2018 Annual Report.

7. Liquidity (continued)

7.2 LIQ1: Liquidity Coverage Ratio - for category 1 institution

For the quarter ended 31 December 2018

Number of data points used in calculating the average value of the LCR and related components set out in this template: 75		HK$000 equivalent	
		(a)	(b)
Basis of disclosure: ~~consolidated~~ / unconsolidated / ~~Hong Kong office~~ (delete as appropriate)		**Unweighted value** (average)	**Weighted value** (average)
A. HQLA			
1	Total HQLA		32,464,479
B. Cash outflows			
2	Retail deposits and small business funding, of which:	141,478,812	10,615,874
3	*Stable retail deposits and stable small business funding*	3,542,825	177,141
4	*Less stable retail deposits and less stable small business funding*	70,838,673	7,083,867
4a	*Retail term deposits and small business term funding*	67,097,314	3,354,866
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	69,281,044	47,721,128
6	*Operational deposits*	-	-
7	*Unsecured wholesale funding (other than small business funding) not covered in row 6*	69,093,198	47,533,282
8	*Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period*	187,846	187,846
9	Secured funding transactions (including securities swap transactions)		1,288,863
10	Additional requirements, of which:	24,960,978	6,775,010
11	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	859,984	859,984
12	*Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	-	-
13	*Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	24,100,994	5,915,026
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	1,676,523	1,676,523
15	Other contingent funding obligations (whether contractual or non-contractual)	27,577,140	1,057,174
16	**Total Cash Outflows**		69,134,572
C. Cash Inflows			
17	Secured lending transactions (including securities swap transactions)	-	-
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	50,623,399	40,634,132
19	Other cash inflows	10,109,214	9,566,222
20	**Total Cash Inflows**	60,732,613	50,200,354
D. Liquidity Coverage Ratio			**Adjusted value**
21	**Total HQLA**		32,464,479
22	**Total Net Cash Outflows**		19,899,892
23	**LCR (%)**		166.3%

7. Liquidity (continued)

7.2 LIQ1: Liquidity Coverage Ratio - for category 1 institution (continued)

For the quarter ended 30 September 2018

Number of data points used in calculating the average value of the LCR and related components set out in this template: 76		HK$000 equivalent	
		(a)	(b)
Basis of disclosure: ~~consolidated~~ / unconsolidated / ~~Hong Kong office~~ (delete as appropriate)		**Unweighted value** (average)	**Weighted value** (average)
A. HQLA			
1	Total HQLA		26,994,934
B. Cash outflows			
2	Retail deposits and small business funding, of which:	139,947,836	10,645,601
3	*Stable retail deposits and stable small business funding*	3,625,886	181,294
4	*Less stable retail deposits and less stable small business funding*	72,964,181	7,296,418
4a	*Retail term deposits and small business term funding*	63,357,769	3,167,889
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	66,479,059	44,152,502
6	*Operational deposits*	-	-
7	*Unsecured wholesale funding (other than small business funding) not covered in row 6*	64,505,447	42,178,890
8	*Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period*	1,973,612	1,973,612
9	Secured funding transactions (including securities swap transactions)		124,788
10	Additional requirements, of which:	24,114,923	6,580,922
11	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	709,907	709,907
12	*Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	-	-
13	*Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	23,405,016	5,871,015
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	1,716,060	1,716,060
15	Other contingent funding obligations (whether contractual or non-contractual)	26,195,260	855,070
16	**Total Cash Outflows**		64,074,943
C. Cash Inflows			
17	Secured lending transactions (including securities swap transactions)	-	-
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	53,958,954	43,906,640
19	Other cash inflows	9,047,849	8,651,264
20	**Total Cash Inflows**	63,006,803	52,557,904
D. Liquidity Coverage Ratio			**Adjusted value**
21	**Total HQLA**		26,994,934
22	**Total Net Cash Outflows**		16,325,231
23	**LCR (%)**		164.4%

7. Liquidity (continued)

7.2 LIQ1: Liquidity Coverage Ratio - for category 1 institution (continued)

Notes:

- The weighted amount of high-quality liquid assets ("HQLA") is to be calculated as the amount after applying the haircuts as required under the Banking (Liquidity) Rules.
- The unweighted amounts of cash inflows and cash outflows are to be calculated as the principle amounts in the calculation of the LCR as required under the Banking (Liquidity) Rules.
- The weighted amounts of cash inflows and cash outflows are to be calculated as the amount after applying the inflow and outflow rates as required under the Banking (Liquidity) Rules.
- The adjusted value of total HQLA and the total net cash outflows have taken into account any applicable ceiling as required under the Banking (Liquidity) Rules.

The Group’s average LCR of the third and fourth quarter in 2018 remained stable at 164.4% and 166.3% respectively.

The Group maintains HQLA which can be sold or pledged as collateral to provide liquidity even under periods of stress. The group invests in good credit quality investments with deep and liquid market to ensure short term funding requirements are covered within prudent limits.

Level 1 assets comprise cash, balances with central bank and high quality central government and central bank securities, while Level 2 assets comprise corporate securities of investment grade. The majority of the HQLA is composed of Level 1 assets.

The net cash outflows are mainly from retail and corporate customer deposits which are the Group's primary source of funds, together with deposits and balances from banks. The Group ensures a sound and diversified range of funding sources, through monitoring the structure, the stability and the core level of the deposit portfolio.

Intra-group funding transactions are transacted at arm's length and treated in a manner in line with other third party transactions, with regular monitoring and appropriate control.

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7. Liquidity (continued)

7.3 LIQ2: Net Stable Funding Ratio - for category 1 institution

31 December 2018

		(a)	(b)	(c)	(d)	(e)
Basis of disclosure: ~~consolidated~~ / unconsolidated / ~~Hong Kong office~~ (delete as appropriate)		**Unweighted value by residual maturity**				**Weighted amount HK$'000**
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
A.	**Available stable funding ("ASF") item**					
1	Capital:	38,297,030	-	-	3,128,160	41,425,190
2	*Regulatory capital*	38,297,030	-	-	3,128,160	41,425,190
2a	*Minority interests not covered by row 2*	-	-	-	-	-
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and small business funding:	-	133,545,653	7,777,695	1,120,221	128,511,880
5	*Stable deposits*		3,952,952	59,946	7,173	3,819,426
6	*Less stable deposits*		129,592,701	7,717,749	1,113,048	124,692,454
7	Wholesale funding:	-	103,950,784	10,254,323	2,442,924	33,481,576
8	*Operational deposits*		-	-	-	-
9	*Other wholesale funding*	-	103,950,784	10,254,323	2,442,924	33,481,576
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	2,810,388	5,652,125	2,019,277	-	1,009,639
12	*Net derivative liabilities*	99,448				
13	*All other funding and liabilities not included in the above categories*	2,710,940	5,652,125	2,019,277	-	1,009,639
14	**Total ASF**					204,428,285
B.	**Available stable funding ("ASF") item**					
15	Total HQLA for NSFR purposes				37,651,336	3,097,056
16	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
17	Performing loans and securities:	3,700,165	113,117,625	36,881,766	109,862,828	141,220,001
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	-	-	-	-
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	399,789	93,907,425	20,726,112	32,343,539	57,192,498
20	*Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:*	3,156,789	15,440,356	14,906,257	54,936,154	63,607,066
21	*With a risk-weight of less than or equal to 35% under the STC approach*	-	189,580	165,084	4,726,219	3,249,374

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7. Liquidity (continued)

7.3 LIQ2: Net Stable Funding Ratio - for category 1 institution (continued)

31 December 2018		(a)	(b)	(c)	(d)	(e)
Basis of disclosure: ~~consolidated~~ / unconsolidated / ~~Hong Kong office~~ (delete as appropriate)		Unweighted value by residual maturity				**Weighted amount HK$'000**
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
22	*Performing residential mortgages, of which:*	-	279,154	262,956	7,527,040	5,259,170
23	*With a risk-weight of less than or equal to 35% under the STC approach*	-	267,839	252,586	7,049,334	4,842,140
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	143,587	3,490,690	986,441	15,056,095	15,161,267
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	9,837,093	451,051	-	-	9,547,346
27	*Physical traded commodities, including gold*	74,456				63,288
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*	136,927				136,927
29	*Net derivative assets*	-				-
30	*Total derivative liabilities before deduction of variation margin posted*	503,830				-
31	*All other assets not included in the above categories*	9,121,880	451,051	-	-	9,347,131
32	Off-balance sheet items				872,451	872,451
33	**Total RSF**					154,736,854
34	**Net Stable Funding Ratio (%)**					132.1%

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7. Liquidity (continued)

7.3 LIQ2: Net Stable Funding Ratio - for category 1 institution (continued)

30 September 2018		(a)	(b)	(c)	(d)	(e)
Basis of disclosure: ~~consolidated~~ / unconsolidated / ~~Hong Kong office~~ (delete as appropriate)		Unweighted value by residual maturity				Weighted amount HK$'000
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
A.	**Available stable funding ("ASF") item**					
1	Capital:	37,622,424	-	-	3,126,783	40,749,207
2	*Regulatory capital*	37,622,424	-	-	3,126,783	40,749,207
2a	*Minority interests not covered by row 2*	-	-	-	-	-
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and small business funding:	-	130,795,635	10,799,008,	1,108,053	128,749,169
5	*Stable deposits*		4,032,355	86,375	7,639	3,920,433
6	*Less stable deposits*		126,763,280	10,712,633	1,100,414	124,828,736
7	Wholesale funding:	-	95,833,408	6,209,299	2,245,649	31,155,810
8	*Operational deposits*		-	-	-	-
9	*Other wholesale funding*	-	95,833,408	6,209,299	2,245,649	31,155,810
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	3,348,163	3,860,267	2,010,797	-	1,003,314
12	*Net derivative liabilities*	75,097				
13	*All other funding and liabilities not included in the above categories*	3,273,066	3,860,267	2,010,797	-	1,003,314
14	**Total ASF**					201,657,500
B.	**Required stable funding ("RSF") item**					
15	Total HQLA for NSFR purposes				35,687,562	3,859,108
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:	3,594,607	112,987,169	31,400,906	102,573,379	132,003,452
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	-	-	-	-
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	199,578	91,083,104	15,605,275	27,774,943	49,439,624
20	*Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:*	3,281,625	19,111,276	12,679,591	53,534,362	63,241,222
21	*With a risk-weight of less than or equal to 35% under the STC approach*	-	195,924	163,506	4,739,004	3,253,953
22	*Performing residential mortgages, of which:*	-	291,860	263,040	7,550,801	5,274,042

7. Liquidity (continued)

7.3 LIQ2: Net Stable Funding Ratio - for category 1 institution (continued)

30 September 2018

		(a)	(b)	(c)	(d)	(e)
Basis of disclosure: ~~consolidated~~ / unconsolidated / ~~Hong Kong office~~ (delete as appropriate)		**Unweighted value by residual maturity**				**Weighted amount HK$'000**
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
23	*With a risk-weight of less than or equal to 35% under the STC approach*	-	280,784	253,516	7,107,941	4,887,312
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	113,404	2,500,929	2,853,000	13,713,273	14,048,564
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	10,274,905	706,494	37,321	-	9,968,131
27	*Physical traded commodities, including gold*	92,206				78,375
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*	147,508				147,508
29	*Net derivative assets*	-				-
30	*Total derivative liabilities before deduction of variation margin posted*	581,970				-
31	*All other assets not included in the above categories*	9,453,221	706,494	37,321	-	9,742,248
32	Off-balance sheet items				1,021,738	1,021,738
33	**Total RSF**					146,852,429
34	**Net Stable Funding Ratio (%)**					137.3%

Note:

The Group's NSFR at end-September and end-December in 2018 stood at 137.3% and 132.1% respectively. The slightly decrease in NSFR was caused by the increase in required stable fund arising from performing loan to financial institutions.

The available stable funding provided by various funding sources remained relatively stable. No material change was found in the diversity and stability of funds over the period.

8. Credit risk for non-securitization exposures

8.1 CRA: 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.

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.

8. Credit risk for non-securitization exposures (continued)

8.1 CRA: General information about credit risk (continued)

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.

The Group has issued credit related commitments including guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to a customer as required. These instruments represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. These instruments carry similar level of the same credit risk as loans.

Commitments to extend credit represent unused portions of authorised facility limits in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

8.2 CR1: Credit quality of exposures

31 December 2018		(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 *	371,423	248,193,941	550,303	248,015,061
2	Debt securities	388,436	51,482,181	624,018	51,246,599
3	Off-balance sheet exposures	-	19,820,517	34,950	19,785,567
4	**Total**	**759,859**	**319,496,639**	**1,209,271**	**319,047,227**

***** include advances to customers, trade bills, balances and placements with and loans and advances to banks

8. Credit risk for non-securitization exposures (continued)

8.3 CR2: Changes in defaulted loans and debt securities

31 December 2018		(a) Amount HK$'000
1	**Defaulted loans and debt securities at end of the previous reporting period (30 June 2018)**	**50,845**
2	Loans and debt securities that have defaulted since the last reporting period	889,622
3	Returned to non-defaulted status	-
4	Amounts written off	(73,309)
5	Other changes	(107,299)
6	**Defaulted loans and debt securities at end of the current reporting period (31 December 2018)**	**759,859**

8.4 CRB: Additional disclosure related to credit quality of exposures

The Group undertakes ongoing credit analysis and monitoring of its credit portfolio, and requires the review of individual financial assets that are above preset thresholds at least annually or more regularly when individual circumstances require. Since 1 January 2018, the Group has adopted and implemented the new expected credit loss ("ECL") impairment model under HKFRS 9, as opposed to an incurred credit loss model under HKAS 39,. The ECL model requires an entity to account for ECL and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition. The Group's internal credit rating system assists management to capture the varying level, nature and drivers of credit risk of all in-scope financial assets in order to reasonably ensure that the corresponding ECL are appropriately measured. ECL is updated on a timely basis to reflect changes in credit risk quality for all in-scope financial assets. The model used in the ECL computation process is validated on at least an annual basis.

At initial recognition, impairment allowance is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less that 12 months) ("12-month ECL"). In the event of a significant increase in credit risk, impairment allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ("life-time ECL"). The application of ECL model will result in three stages of financial assets, namely Stage 1, Stage 2 and Stage 3. Detailed definition of the three stages of financial assets, application of the ECL model and the approach for determining impairment allowances is set out in Notes 1.7 and 4.1(c) of the Group's 2018 Annual Report.

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.

8. Credit risk for non-securitization exposures (continued)

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

- Breakdown of Credit Risk Exposures by Industry

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

31 December 2018		(a) Gross carrying amount HK$'000
1	Property development	7,596,560
2	Property investment	12,590,282
3	Financial concerns	153,027,097
4	Stockbrokers	2,132,221
5	Wholesale and retail trade	1,390,355
6	Manufacturing	1,960,112
7	Transport and transport equipment	3,142,641
8	Recreational activities	574
9	Information technology	3,096,414
10	Others	36,675,769
11	Individuals	22,710,237
12	Trade finance	1,393,584
13	Loans for use outside Hong Kong	69,834,028
14	Trade bills	4,706,624
15	**Total**	**320,256,498**

- Breakdown of Credit Risk Exposures by Geographical Areas

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

31 December 2018		(a) Gross carrying amount HK$'000
1	Hong Kong	283,862,536
2	People's Republic of China	24,327,590
3	Macau	6,954,613
4	United States of America	5,111,759
5	**Total**	**320,256,498**

8. Credit risk for non-securitization exposures (continued)

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

- Breakdown of Credit Risk Exposures by Residual Maturity

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

31 December 2018		(a) Gross carrying amount HK$'000
1	Less than or equal to 1 year	194,846,993
2	1 to 5 years	102,450,909
3	More than 5 years	22,958,596
4	**Total**	**320,256,498**

- Impaired Exposures of Credit Risk Exposures by industry

31 December 2018 HK$'000		(a) Impaired exposures	(b) Allowances	(c) Write-offs during the year
1	Property development	-	-	-
2	Property investment	149	-	-
3	Financial concerns	2,626	(2,067)	-
4	Stockbrokers	-	-	-
5	Wholesale and retail trade	445	(334)	56,509
6	Manufacturing	-	-	-
7	Transport and transport equipment	-	-	-
8	Recreational activities	-	-	-
9	Information technology	-	-	-
10	Others	905,589	(556,627)	53,886
11	Individuals	152,209	(114,092)	-
12	Trade finance	10,622	(6,880)	-
13	Loans for use outside Hong Kong	218,116	(171,666)	-
14	Trade bills	-	-	-
15	**Total**	**1,289,756**	**(851,666)**	**110,395**

- Impaired Exposures of Credit Risk Exposures by geographical areas

31 December 2018 HK$'000		(a) Impaired exposures	(b) Allowances	(c) Write-offs during the year
1	Hong Kong	1,071,640	(680,000)	39,330
2	People's Republic of China	218,116	(171,666)	71,065
3	Macau	-	-	-
4	United States of America	-	-	-
5	**Total**	**1,289,756**	**(851,666)**	**110,395**

8. Credit risk for non-securitization exposures (continued)

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

- Aging Analysis of Accounting Past Due Exposures

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

31 December 2018					
HK$'000					
		(a)	(b)	(c)	(d)
		Gross Carrying Amounts			
	Overdue for	Loans	Debt Securities	Off Balance Sheet Items	Total
1	Six months or less, but over three months	209,004	-	-	209,004
2	One year or less, but over six months	154,524	388,436	-	542,960
3	Over one year	7,895	-	-	7,895
4	**Total**	**371,423**	**388,436**	**-**	**759,859**

- Breakdown of Restructured Exposures

The following table illustrates the breakdown of restructured exposures.

31 December 2018				
HK$'000				
		(a)	(b)	(c)
		Gross Carrying Amounts		
		Impaired	**Not Impaired**	**Total**
1	Restructured exposures	146,222	2,005	148,227
2	**Total**	146,222	2,005	148,227

8. Credit risk for non-securitization exposures (continued)

8.5 CRC: 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 2018		
HK$'000		
	Loans	Debt Securities
Recognised Guarantee, of which:	20,141,139	156,562
by Sovereign	-	-
by Public Sector Entity	361,112	-
by Bank	18,346,914	-
by Corporate	1,433,113	156,562
Recognised Collateral, of which:	2,607,440	-
by Cash	2,607,440	-
by Residential Property	-	-

8. Credit risk for non-securitization exposures (continued)

8.5 CRC: Qualitative disclosures related to credit risk mitigation (continued)

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.

The principal derivatives used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. Most of the Group's derivative positions have been entered into to meet customer demand and to hedge these and other trading positions. The Management Committee places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions. Given the purpose for entering into such derivative transaction, collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

8.6 CR3: Overview of recognized credit risk mitigation

31 December 2018						
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	225,266,482	22,748,579	2,607,440	20,141,139	-
2	Debt securities	51,090,037	156,562	-	156,562	-
3	Total	276,356,519	22,905,141	2,607,440	20,297,701	-
4	of which defaulted	662,301	97,558	11,106	86,452	-

8. Credit risk for non-securitization exposures (continued)

8.7 CRD: 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. There has been no change on the ECAIs during the reporting period.

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.

8. Credit risk for non-securitization exposures (continued)

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

		(a)	(b)	(c)	(d)	(e)	(f)
	31 December 2018 HK$'000	**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	20,631,191	-	20,631,479	-	144,668	0.7%
2	PSE exposures	-	-	361,642	199,261	112,180	20.0%
2a	Of which: domestic PSEs	-	-	361,642	199,261	112,180	20.0%
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	106,066,618	244,496	120,010,317	1,163,784	43,400,409	35.8%
5	Securities firm exposures	364,397	1,007,672	437,178	1,431	219,305	50.0%
6	Corporate exposures	143,844,997	27,131,072	127,015,846	9,114,337	127,351,866	93.6%
7	CIS exposures	-	-	-	-	-	-
8	Cash items	943,861	-	3,802,683	84,696	575,260	14.8%
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	7,907,668	10,781,834	7,868,876	493,941	6,272,113	75.0%
11	Residential mortgage loans	13,640,330	396,609	13,288,819	7	5,029,388	37.8%
12	Other exposures which are not past due exposures	11,076,662	660,048	11,058,883	198,695	11,257,578	100.0%
13	Past due exposures	112,889	-	112,889	-	160,641	142.3%
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	**Total**	**304,588,613**	**40,221,731**	**304,588,612**	**11,256,152**	**194,523,408**	**61.6%**

8. Credit risk for non-securitization exposures (continued)

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

31 December 2018 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	19,909,787	-	720,593	-	1,099	-	-	-	-	-	20,631,479
2	PSE exposures	-	-	560,903	-	-	-	-	-	-	-	560,903
2a	Of which: domestic PSEs	-	-	560,903	-	-	-	-	-	-	-	560,903
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	60,626,258	-	58,545,373	-	2,002,470	-	-	-	121,174,101
5	Securities firm exposures	-	-	-	-	438,609	-	-	-	-	-	438,609
6	Corporate exposures	-	-	2,769,676	-	13,633,537	-	119,218,607	508,363	-	-	136,130,183
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	1,305,908	-	2,507,763	-	-	-	73,708	-	-	-	3,887,379
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	-	-	-	-	-	8,362,817	-	-	-	-	8,362,817
11	Residential mortgage loans	-	-	-	12,448,888	-	670,643	169,295	-	-	-	13,288,826
12	Other exposures which are not past due exposures	-	-	-	-	-	-	11,257,578	-	-	-	11,257,578
13	Past due exposures	-	-	-	-	-	-	17,386	95,503	-	-	112,889
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**21,215,695**	**-**	**67,185,193**	**12,448,888**	**72,618,618**	**9,033,460**	**132,739,044**	**603,866**	**-**	**-**	**315,844,764**

9. Counterparty Credit risk

9.1 CCRA: 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.

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.

9. Counterparty Credit risk (continued)

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

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.

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

		(a)	(b)	(c)	(d)	(e)	(f)
31 December 2018 HK$'000 Exposures class		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	448,975	1,009,016		-	1,457,991	623,063
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					626,330	599,535
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	**Total**						1,222,598

9.3 CCR2: CVA capital charge

31 December 2018 HK$'000		(a) EAD post CRM	(b) RWA
Netting sets for which CVA capital charge is calculated by the advanced CVA method		-	-
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	1,396,481	233,931
4	Total	1,396,481	233,931

9. Counterparty Credit risk (continued)

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

	31 December 2018 HK$'000	(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
	Exposure class / Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	476,640	-	775,302	-	27,993	-	-	-	1,279,935
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	111,226	-	-	-	111,226
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	109,476	521,387	-	-	-	630,863
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	65,938	-	-	-	-	-	786	-	-	-	66,724
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	**Total**	65,938	-	476,640	-	775,302	109,476	661,392	-	-	-	2,088,748

9. Counterparty Credit risk (continued)

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

<table>
<tr><th rowspan="2"></th><th>(a)</th><th>(b)</th><th>(c)</th><th>(d)</th><th>(e)</th><th>(f)</th></tr>
<tr><th colspan="4">Derivative contracts</th><th colspan="2">SFTs</th></tr>
<tr><th rowspan="2">31 December 2018
HK$'000</th><th colspan="2">Fair value of recognized collateral received</th><th colspan="2">Fair value of posted collateral</th><th rowspan="2">Fair value of recognized collateral received</th><th rowspan="2">Fair value of posted collateral</th></tr>
<tr><th>Segregated</th><th>Unsegregated</th><th>Segregated</th><th>Unsegregated</th></tr>
<tr><td>Cash - domestic currency</td><td>-</td><td>996,828</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Cash - other currencies</td><td>-</td><td>1,451,273</td><td>157,454</td><td>300,511</td><td>-</td><td>-</td></tr>
<tr><td>Total</td><td>-</td><td>2,448,101</td><td>157,454</td><td>300,511</td><td>-</td><td>-</td></tr>
</table>

9.6 CCR6: Credit-related derivatives contracts

31 December 2018 HK$'000	(a) Protection bought	(b) 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)	-	-

9. Counterparty Credit risk (continued)

9.7 CCR8: Exposures to CCPs

31 December 2018 HK$'000		(a) Exposure after CRM	(b) RWA
1	**Exposures of the AI as clearing member or client to qualifying CCPs (total)**		**1,369**
2	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	70,452	1,369
3	(i) OTC derivative transactions	70,452	1,369
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	136,927	
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	-	-

10. Market risk

10.1 MRA: 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’s 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.

10. Market risk (continued)

10.2 MR1: Market risk under STM approach

31 December 2018 HK$'000		(a) RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	2,070,237
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	845,013
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	1,488
7	Other approach	-
8	Securitization exposures	-
9	**Total**	**2,916,738**

11. Interest rate risk in banking book

11.1 IRRBB: Interest rate exposures in banking book (before 30 June 2019)

Interest rate risk is the risk arising from adverse movement in interest rates, and primarily results from the timing differences in the re-pricing of interest-bearing assets, liabilities, and off-balance sheet items in the banking book. Assessments are made for the repricing risk, basis risk, options risk, and yield curve risk to evaluate the level of the interest rate risk.

The Asset and Liability Management Committee is delegated by the Management Committee to oversee the Bank's interest rate risk management, establish the strategy and policy for managing interest rate risk, and determine the means for ensuring that such strategies and policies are implemented.

Interest rate risk is managed daily by the Treasury Department of the Bank within the limits approved by the Board or the Management Committee. The Market Risk Management Department of the Bank is responsible for monitoring the activities relating to interest rate risk. The Internal Audit Department performs periodic reviews to ensure that the interest rate risk management functions are implemented effectively.

The Bank manages the interest rate risk on the banking book primarily by using gap analysis and sensitivity analysis. Gap analysis provides a static view of the maturity and re-pricing characteristics of the Group's assets, liabilities, and off-balance sheet positions. Re-pricing gap limits are set up to control the Bank's interest rate risk.

Monthly basis sensitivity analysis through a hypothetical interest rate shock of 200 basis points across the yield curve on the Bank's assets, liabilities, and off-balance sheet positions is used to evaluate the impact of changes in interest rates on earnings and economic value. Limits are set up to control the interest rate risk exposure from both earnings and economic value perspectives. The results are reported to the Asset and Liability Management Committee on a monthly basis.

The sensitivity analysis is based on the following assumptions: (i) all position within a given time band are assumed to mature or reprice simultaneously; (ii) there is a parallel shift in the yield curve and in interest rates; (iii) there are no other changes to the portfolio; (iv) no change in the timing of payments that may occur as a result of change in the interest rate environment; and (v) deposits without fixed maturity dates are assumed to be repriced on the next day. The sensitivity analysis is based on a static interest rate risk profile of assets and liabilities and is used for risk management purposes only. Thus, actual changes in the Bank's net interest income and the economic value resulting from the increases in interest rates may differ from the results of this sensitivity analysis.

11. Interest rate risk in banking book

11.1 IRRBB: Interest rate exposures in banking book (before 30 June 2019)

The Group monitors the interest rate risk exposures on a monthly basis by assessing the impact on earnings in banking book due to parallel movements of 200 basis points upward in all yield curves. The impact on earnings of the Group is calculated by assuming that the changes in interest rates last for a period of 12 months and all positions are repriced at the mid-point of each time band.

				Currency		
	HKD	**USD**	**AUD**	**RMB**	**Others**	**Total**
31 December 2018	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Interest rate risk						
(200 basis points upward) - Increase/(decrease) in earnings	612,524	(135,408)	1,041	139,609	(57,096)	560,670

				Currency		
	HKD	**USD**	**AUD**	**RMB**	**Others**	**Total**
31 December 2018	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Interest rate risk						
Impact on economic value if interest rates rise by 200 basis points	102,386	320,708	(2,944)	94,333	54,513	568,996

12. Remuneration

12.1 REMA: Remuneration policy

The Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee ("Committee") is established with specific terms of reference and chaired by an independent non-executive director with majority of its members (over 50%) are independent non-executive directors. The Committee is delegated by the Board with the authority and duties to study, review and approve the Bank's remuneration policy and to monitor its implementation in the Bank (including its subsidiaries and overseas branches). The Committee is also responsible for reviewing and approving the remuneration of the Bank's Senior Management and Key Personnel.

Senior Management are Management Committee members including Chief Executive Officer and General Managers, who are responsible for oversight of the firm-wide strategy or activities or those of the material business lines.

Key Personnel are employees whose duties or activities in the course of their employment involve the assumption of material risk or the taking on of material exposures on behalf of the Bank, including Deputy General Managers, Chief Financial Officer, Chief Information Officer & Chief Operating Officer, Chief Risk Officer*, Assistant General Managers, and business Department/Subsidiary Heads directly report to General Managers.

* Chief Risk Officer's role is performed by General Manager.

Design & Structure of Remuneration Process

The remuneration policy of the Bank is designed to encourage employee behavior that supports the Bank's overall business goals and objectives, long-terms financial soundness and risk management framework. It aims to create long-term value for the Bank and to align the remuneration of employees with the Bank's profitability, time horizon of risks and capital adequacy.

12. Remuneration (continued)

12.1 REMA: Remuneration policy (continued)

The risk control functions of the Bank conduct regular review (at least annually), independent of the Bank Management, on the adequacy and effectiveness of the Bank's remuneration policy and its implementation to ensure that it is consistent with regulatory requirements and promote effective risk management. The remuneration policy was then reviewed and approved in the Committee meeting held once a year. Risk control personnel are compensated in a manner that is independent of the business areas they oversee, aligned with their performance objectives and commensurate their respective roles in the Bank.

Remuneration Structure

The remuneration of employees is composed of an appropriate mix of fixed and variable remuneration. Fixed remuneration includes salaries, allowances, year-end payments and pension contributions. Variable remuneration refers to cash bonus payments and is awarded based on the performance of the Bank, units and individual employees. The fixed remuneration is set at a level which is sufficient to attract and retain employees with relevant skills, knowledge and expertise to discharge their functions while the award of variable remuneration does not induce excessive risk taking. The size and allocation of variable remuneration take into account of the full range of current and potential risks associated with the relevant employees' activities. The proportion of variable remuneration to total remuneration generally increases in line with the seniority, roles, responsibilities and activities of employees within the Bank.

Performance Measurement

Pre-determined performance criteria including both financial and non-financial factors are used to assess the performance of individual employees and support the award of variable remuneration. Financial factors include quantitative measures such as profit, revenue, turnover or volume. Non-financial factors include criteria such as adherence to risk management policies, compliance with legal/ regulatory/ ethical standards, result of internal audit reviews, adherence to corporate values and customer satisfaction. The non-financial factors constitute a significant part of employees' overall performance measurement. In general, both quantitative measures and qualitative assessments play vital roles in determining risk adjustments and assessments for all types of risks.

12. Remuneration (continued)

12.1 REMA: Remuneration policy (continued)

Deferral Arrangement

A proportion of the employees' variable remuneration is required to be deferred and be realized over a timeframe if the payout amount reaches a certain prescribed threshold so as to allow their performance and the associated risks to be observed and validated over a sufficient period of time. The award of deferred variable remuneration is subject to a 3-year vesting period and pre-defined vesting conditions. The payment of deferred variable remuneration will be made gradually over the vesting period and no faster than on a pro-rata basis.

In the event of resignation, or in circumstances where it is later established that any performance measurement was based on data which is later proven to have been manifestly misstated, or it is later established that there has been fraud or other malfeasance on the part of the relevant employees, or violations of internal control policies, the unvested portion of deferred variable remuneration will be forfeited or claw-back.

Remuneration Instrument

The remuneration (including fixed and variable portions) is paid in cash.

12. Remuneration (continued)

12.2 REM1: Remuneration awarded during financial year

31 December 2018			(a)	(b)
Remuneration amount and quantitative information			Senior management HK$'000	Key personnel HK$'000
1	Fixed remuneration	Number of employees	4	16
2		Total fixed remuneration	16,341	27,457
3		Of which: cash-based	16,341	27,457
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable remuneration	Number of employees	4	13
10		Total variable remuneration	10,650	14,375
11		Of which: cash-based	10,650	14,375
12		Of which: deferred	5,250	5,608
13		Of which: shares or other share-linked instruments	-	-
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	**Total remuneration**		**26,991**	**41,832**

12.3 REM2: Special payments

31 December 2018		(a)	(b)	(c)	(d)	(e)	(f)
Special payments		Guaranteed bonuses		Sign-on awards		Severance payments	
		Number of employees	Total amount HK$'000	Number of employees	Total amount HK$'000	Number of employees	Total amount HK$'000
1	Senior management	-	-	-	-	-	-
2	Key personnel	-	-	-	-	-	-

12. Remuneration (continued)

12.4 REM3: Deferred remuneration

31 December 2018		(a)	(b)	(c)	(d)	(e)
Deferred and retained remuneration		Total amount of outstanding deferred remuneration HK$'000	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment HK$'000	Total amount of amendment during the year due to ex post explicit adjustments (Resignation) HK$'000	Total amount of amendment during the year due to ex post implicit adjustments HK$'000	Total amount of deferred remuneration paid out in the financial year HK$'000
1	Senior management					
2	Cash	8,690	8,690	-	-	2,940
3	Shares	-	-	-	-	-
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel					
7	Cash	9,209	9,209	2,256	-	5,790
8	Shares	-	-	-	-	-
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	**Total**	**17,899**	**17,899**	**2,256**	**-**	**8,730**