星展銀行DBS

星 展 銀 行 (香 港) 有 限 公 司

DBS BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

REGULATORY DISCLOSURE STATEMENTS
For the year ended 31 December 2017

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

REGULATORY DISCLOSURES

CONTENTS

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

REGULATORY DISCLOSURES

1 INTRODUCTION

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

Basis of preparation
For regulatory reporting purposes, the Bank is required to compute its capital adequacy ratios and leverage ratio on a combined basis that includes the Bank and its overseas branch. The other financial information contained in this document is prepared based on consolidation basis that also includes its subsidiaries.

For the purposes of calculating the risk-weighted assets ("RWA"), the Bank uses the Internal Ratings-Based ("IRB") approach for the calculation of the RWA for the majority of its credit risk exposures and the Standardized approach for those exempted from the IRB approach. The Bank uses the Standardized approaches for the calculation of RWA for market risk and operational risk.

The numbers in this document are expressed in millions of Hong Kong dollars, unless otherwise stated.

2 CAPITAL ADEQUACY

2.1 Capital Adequacy Ratios

The capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules ("BCR") issued by the HKMA.

In HK$ millions	**As at 31 December 2017**	As at 31 December 2016
Capital		
Common Equity Tier 1	**35,479**	31,871
Tier 1	**36,817**	33,094
Total	**41,312**	37,353
Total RWA	**219,935**	204,232
Capital Adequacy Ratios		
Common Equity Tier 1	**16.1%**	15.6%
Tier 1	**16.7%**	16.2%
Total	**18.8%**	18.3%

2.2 Capital Conservation Buffer Ratio

The capital conservation buffer ratio for calculating the Bank's buffer level is 1.25% for 2017 (2016: 0.625%) in accordance with section 3M of the Banking (Capital) Rules.

2.3 Countercyclical Capital Buffer Ratio

The countercyclical capital buffer ratio was compiled in accordance with section 3O of the Banking (Capital) Rules.

	As at 31 December 2017	As at 31 December 2016
Countercyclical capital buffer ratio	**1.1%**	0.6%

2 CAPITAL ADEQUACY (continued)

2.4 Geographical Distribution of RWA related to Credit Exposures used in the Countercyclical Capital Buffer Ratio

The table below sets out the geographical breakdown of the RWA of private sector credit exposures relevant for the computation of the countercyclical capital buffer.

Geographical breakdown of risk-weighted amounts in relation to private sector credit exposures

		As at 31 December 2017			
	Jurisdiction	**Applicable JCCyB ratio in effect %**	**Total RWA used in computation of CCyB ratio HK$'M**	**CCyB ratio %**	**CCyB amount HK$'M**
1	Hong Kong SAR	1.25%	129,344		
2	Mainland China	0%	7,471		
3	Australia	0%	49		
4	Bahrain	0%	2		
5	Bangladesh	0%	23		
6	Belarus	0%	15		
7	Brazil	0%	18		
8	Cambodia	0%	60		
9	Canada	0%	1		
10	Chinese Taipei	0%	238		
11	Chile	0%	7		
12	Gabon	0%	5		
13	Germany	0%	129		
14	Ghana	0%	3		
15	India	0%	46		
16	Indonesia	0%	3		
17	Japan	0%	7		
18	Macau SAR	0%	1,222		
19	Malaysia	0%	28		
20	Mexico	0%	9		
21	Myanmar	0%	12		
22	New Zealand	0%	12		
23	Nigeria	0%	35		
24	Papua New Guinea	0%	3		
25	Philippines	0%	93		
26	Russia	0%	22		
27	Singapore	0%	1,545		
28	South Africa	0%	56		
29	South Korea	0%	60		
30	Spain	0%	56		
31	Thailand	0%	1		
32	United Kingdom	0%	525		
33	United States	0%	169		
34	Vietnam	0%	9		
	Total		**141,278**	**1.1%**	**1,617**

3 COMPOSITION OF CAPITAL

3.1 Financial Statements and Regulatory Scope of Consolidation

For regulatory reporting purposes, the Bank is required to compute its capital adequacy ratios and leverage ratio on a combined basis that includes the Bank and its overseas branch, while the preparation of its financial statements are based on consolidation basis that also includes its subsidiaries.

The following entities are within the Group's accounting scope of consolidation but are excluded from its regulatory scope of consolidation.

Name of entity	Principal activities	Total Assets In HK$ millions	Total Equity In HK$ millions
Dao Heng Finance Limited	Inactive	59	59
Hang Lung Bank (Nominee) Limited	Provision of nominee services	–	–
DBS Kwong On (Nominees) Limited	Provision of nominee services	–	–
Overseas Trust Bank Nominees Limited	Provision of nominee services	–	–
Ting Hong Nominees Limited	Provision of nominee, trustee and agency services	–	–
DBS Trustee (Hong Kong) Limited	Inactive	5	5
DBS Trustee H.K. (New Zealand) Limited	Provision of trustee and trust administration services	1	1
DBS COMPASS Limited	Inactive	8	8

3 COMPOSITION OF CAPITAL (continued)

3.2 Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet

Table 1 : Reconciliation of Regulatory Scope Consolidated Balance Sheet to Capital Components

In HK$ millions	Balance sheet as per published financial statements	Under regulatory scope of consolidation	Cross reference to Table 2
	As at 31 December 2017	As at 31 December 2017	
Assets			
Cash and balances with central banks	2,911	2,911	
Government securities and treasury bills	20,111	20,111	
Due from banks	200,726	200,726	
Derivatives	1,188	1,188	
Bank and corporate securities	11,095	11,095	
Loans and advances to customers	153,163	153,163	
of which: Collective impairment allowances eligible for inclusion in Tier 2 capital		*(199)*	(1)
Excess of total expected loss amount over total eligible provision under the IRB approach		*621*	(2)
Other assets	5,471	5,471	
of which: Deferred tax assets		*45*	(3)
Subsidiaries		53	
Properties and other fixed assets	1,986	1,986	
Goodwill and intangibles	168	–	
Total assets	**396,819**	**396,704**	
Liabilities			
Due to banks	7,666	7,666	
Deposits and balances from customers	327,483	327,496	
Derivatives	883	883	
Certificates of deposit issued	4,189	4,189	
Other liabilities	13,708	13,708	
Amount due to subsidiaries	–	67	
Subordinated liability	4,220	4,220	(4)
Total liabilities	**358,149**	**358,229**	
Equity			
Ordinary shares		*7,595*	(5)
Preference shares		*1,400*	(6)
Share capital	8,995	8,995	
Retained earnings		*27,272*	(7)
Other reserves		*2,208*	(8)
Reserves	29,675	29,480	
of which: Retained earnings earmarked as regulatory reserve		*1,031*	(9)
which includes regulatory reserve eligible for inclusion in Tier 2		*128*	(10)
of which: Fair value gains on revaluation of land and buildings		*23*	(11)
Total equity	**38,670**	**38,475**	
Total liabilities and equity	**396,819**	**396,704**	

3 COMPOSITION OF CAPITAL (continued)

3.2 Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet (continued)

Table 2 : Capital Disclosures

As at 31 December 2017

		Component of regulatory capital reported by Bank HK$'M	Amounts subject to Pre-Basel III Treatment HK$'M	Cross reference to Table 1
	Common Equity Tier 1 ("CET1") capital: Instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	7,595		(5)
2	Retained earnings	27,272		(7)
3	Disclosed reserves	2,208		(8)
4	Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	NA		
	Public sector capital injections grandfathered until 1 January 2018	NA		
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 deductions**	**37,075**		
	CET1 capital: regulatory deductions			
7	Valuation adjustments	–		
8	Goodwill (net of associated deferred tax liability)	–		
9	Other intangible assets (net of associated deferred tax liability)	–	–	
10	Deferred tax assets net of deferred tax liabilities	45		(3)
11	Cash flow hedge reserve	–		
12	Excess of total EL amount over total eligible provisions under the IRB approach	497	124	(2)-(12)-(13)
13	Gain-on-sale arising from securitization transactions	–		
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–	–	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	–	–	
16	Investments in own 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)	–	–	
20	Mortgage servicing rights (amount above 10% threshold)	NA		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	NA		
22	Amount exceeding the 15% threshold	NA		
23	*of which: significant investments in the common stock of financial sector entities*	NA		
24	*of which: mortgage servicing rights*	NA		
25	*of which: deferred tax assets arising from temporary differences*	NA		
26	National specific regulatory adjustments applied to CET1 capital	1,054		
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	23		(11)
26b	Regulatory reserve for general banking risks	1,031		(9)

3 COMPOSITION OF CAPITAL (continued)

3.2 Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet (continued)

Table 2 : Capital Disclosures (continued)

As at 31 December 2017

		Component of regulatory capital reported by Bank HK$'M	Amounts subject to Pre-Basel III Treatment HK$'M	Cross reference to Table 1
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**	1,596		
29	**CET1 capital**	**35,479**		
	Additional Tier 1 ("AT1") capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	1,400		
31	*of which: classified as equity under applicable accounting standards*	1,400		(6)
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**	1,400		
	AT1 capital: regulatory deductions			
37	Investments in own AT1 capital instruments	–	–	
38	Reciprocal cross-holdings in AT1 capital instruments	–	–	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	–	
41	National specific regulatory adjustments applied to AT1 capital	62		
41a	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 1 capital	62		
i	*of which: Excess of total EL amount over total eligible provisions under the IRB approach*	62		(12)
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–		
43	**Total regulatory deductions to AT1 capital**	62		
44	**AT1 capital**	**1,338**		
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	**36,817**		
	Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	4,220		(4)
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 impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	327		(10)-(1)

3 COMPOSITION OF CAPITAL (continued)

3.2 Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet (continued)

Table 2 : Capital Disclosures (continued)

As at 31 December 2017

		Component of regulatory capital reported by Bank HK$'M	Amounts subject to Pre-Basel III Treatment HK$'M	Cross reference to Table 1
51	**Tier 2 capital before regulatory deductions**	4,547		
	Tier 2 capital: regulatory deductions			
52	Investments in own Tier 2 capital instruments	–	–	
53	Reciprocal cross-holdings in Tier 2 capital instruments	–	–	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	–	
56	National specific regulatory adjustments applied to Tier 2 capital	52		
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	(10)		(11) * 45%
56b	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital	62		
i	*of which: Excess of total EL amount over total eligible provisions under the IRB approach*	62		(13)
57	**Total regulatory deductions to Tier 2 capital**	52		
58	**Tier 2 capital**	**4,495**		
59	**Total capital (Total capital = Tier 1 + Tier 2)**	**41,312**		
59a	Deduction items under Basel III which during transitional period remain subject to risk-weighting, based on pre-Basel III treatment	–		
i	*of which: Mortgage servicing rights*	–		
ii	*of which: Defined benefit pension fund net assets*	–		
iii	*of which: Investments in own CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments*	–		
iv	*of which: Capital investment in a connected company which is a commercial entity*	–		
v	*of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation*	–		
vi	*of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation*	–		
60	**Total risk weighted assets**	**219,935**		
	Capital ratios (as a percentage of risk weighted assets)			
61	**CET1 capital ratio**	**16.1%**		
62	**Tier 1 capital ratio**	**16.7%**		
63	**Total capital ratio**	**18.8%**		
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3A, or s.3B, as the case requires, of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	6.9%		

3 COMPOSITION OF CAPITAL (continued)

3.2 Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet (continued)

Table 2 : Capital Disclosures (continued)

As at 31 December 2017

		Component of regulatory capital reported by Bank HK$'M	Amounts subject to Pre-Basel III Treatment HK$'M	Cross reference to Table 1
65	*of which: capital conservation buffer requirement*	1.3%		
66	*of which: bank specific countercyclical buffer requirement*	1.1%		
67	*of which: G-SIB or D-SIB buffer requirement*	0.0%		
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3A, or s.3B, as the case requires, of the BCR	10.7%		
	National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	NA		
70	National Tier 1 minimum ratio	NA		
71	National Total capital minimum ratio	NA		
	Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	1,586		
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	45		
74	Mortgage servicing rights (net of related tax liability)	NA		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	NA		
	Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardized (credit risk) approach (prior to application of cap)	338		
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	327		
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	–		
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	1,065		
	Capital instruments subject to phase-out arrangements			
80	Current cap on CET1 capital instruments subject to phase out arrangements	NA		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	NA		
82	Current cap on AT1 capital instruments subject to phase out arrangements	–		
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	–		
84	Current cap on Tier 2 capital instruments subject to phase out arrangements	–		
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	–		

NA: not applicable

3 COMPOSITION OF CAPITAL (continued)

3.2 Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet (continued)

Table 2 : Capital Disclosures (continued)

Note to the template

<table>
<tr><th>Row No.</th><th>Description</th><th>Hong Kong basis</th><th>Basel III basis</th></tr>
<tr><td rowspan="2">10</td><td>Deferred tax assets net of deferred tax liabilities</td><td>HK$45m</td><td>nil</td></tr>
<tr><td colspan="3">Explanation

As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), deferred tax assets (“DTAs”) that rely on future profitability of the bank to be realised are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition of 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 Mortgage Servicing Rights (“MSRs”), DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.</td></tr>
</table>

3 COMPOSITION OF CAPITAL (continued)

3.3 Differences between Accounting and Regulatory Scopes of Consolidation and Mapping of Financial Statement Categories with Regulatory Risk Categories

	As at 31 December 2017						
			Carrying values of items:				
In HK$ millions	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 the market risk framework	not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with central banks	2,911	2,911	2,911	–	–	–	–
Government securities and treasury bills	20,111	20,111	14,550	–	–	5,561	–
Due from banks	200,726	200,726	200,726	–	–	–	–
Derivatives	1,188	1,188	–	1,175	–	787	13
Bank and corporate securities	11,095	11,095	11,093	–	–	2	–
Loans and advances to customers	153,163	153,163	153,163	–	–	–	–
Other assets	5,471	5,471	3,132	–	–	–	2,339
Subsidiaries	–	53	53	–	–	–	–
Properties and other fixed assets	1,986	1,986	1,986	–	–	–	–
Goodwill and Intangibles	168	–	–	–	–	–	–
Total assets	**396,819**	**396,704**	**387,614**	**1,175**	**–**	**6,350**	**2,352**
Liabilities							
Due to banks	7,666	7,666	–	–	–	–	7,666
Deposits and balances from customers	327,483	327,496	–	–	–	–	327,496
Derivatives	883	883	–	732	–	811	151
Certificates of deposit issued	4,189	4,189	–	–	–	–	4,189
Other liabilities	13,708	13,708	–	–	–	4,394	9,314
Amounts due to subsidiaries	–	67	–	–	–	–	67
Subordinated liability	4,220	4,220	–	–	–	–	4,220
Total liabilities	**358,149**	**358,229**	**–**	**732**	**–**	**5,205**	**353,103**

The above table illustrates the key differences between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation. The amounts shown in the column “Carrying values under scope of regulatory consolidation” do not equal the sum of the amounts shown in the remaining columns of the table for “Derivatives” as it is subject to regulatory capital charges in credit risk, counterparty credit risk and market risk categories.

3 COMPOSITION OF CAPITAL (continued)

3.4 Main Sources of Differences between Regulatory Exposure Amounts and Carrying Values in Financial Statements

		As at 31 December 2017				
			Items subject to:			
	In HK$ millions	Total	credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	**Assets carrying value amount under scope of regulatory consolidation**	394,352	387,614	–	1,175	6,350
2	Liabilities carrying value amount under regulatory scope of consolidation	(5,126)	–	–	(732)	(5,205)
3	Total net amount under regulatory scope of consolidation	389,226	387,614	–	443	1,145
4	Off-balance sheet amounts	160,328	50,680	–	–	–
5	Potential future exposures	1,122	–	–	1,122	–
6	Differences due to consideration of provisions	1,822	1,822	–	–	–
7	Differences due to specific regulatory adjustments and other differences	(7,222)	(7,222)	–	–	–
8	**Exposure amounts considered for regulatory purposes**	**545,276**	**432,894**	**–**	**1,565**	**1,145**

Explanations of differences between accounting and regulatory exposure amounts

The key differences between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation are: (i) off-balance sheet exposures including contingent liabilities and commitments after application of Credit Conversion Factor (“CCF”), (ii) potential future exposures for derivatives, offset by netting where an enforceable master netting agreement is in place, (iii) differences due to consideration of provisions and (iv) differences due to specific regulatory adjustments and other differences, including recognition of effect of credit risk mitigations.

Systems and controls of valuation estimates

Please refer to note 38 Financial Risk Management of DBS Bank (Hong Kong) Limited’s financial statements for details.

3 COMPOSITION OF CAPITAL (continued)

3.5 Main Features of Capital Instruments

		CET 1 Capital Ordinary Shares	**Additional Tier 1 Capital HK$1.4b Preference Shares issued in October 2016**	**Tier 2 Capital US$540m Subordinated Loan issued in December 2017**
1	Issuer	DBS Bank (Hong Kong) Limited	DBS Bank (Hong Kong) Limited	DBS Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA	NA
3	Governing law(s) of the instrument	Hong Kong law	Hong Kong Law	Hong Kong law
	Regulatory treatment			
4	Transitional Basel III rules	Common Equity Tier 1	Additional Tier 1	Tier 2
5	Post-transitional Basel III rules	Common Equity Tier 1	Additional Tier 1	Tier 2
6	Eligible at solo/ group/ group & solo	Solo	Solo	Solo
7	Instrument type	Ordinary Shares	Preference Shares	Subordinated loan
8	Amount recognised in regulatory capital (currency in mil, as of most recent reporting date)	HK$7,595 million	HK$1,400 million	HK$4,220 million
9	Par value of instrument	NA	HK$1,400 million	US$540 million
10	Accounting classification	Shareholders' equity	Shareholders' equity	Liability – amortized cost
11	Original date of issuance	Since incorporation	13 October 2016	13 December 2017
12	Perpetual or dated	Perpetual	Perpetual	Dated
13	Original maturity date	No maturity	No maturity	13 December 2027
14	Issuer call subject to prior supervisory approval	No	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	NA	First optional call date: 13 October 2021 Contingent call dates: Change of Qualification Event, or Tax Event Redemption amount: Liquidation Preference together with, subject to certain limitations and qualifications, accrued but unpaid Dividends	First optional call date: 13 December 2022 Contingent call dates: Change of Qualification Event or Tax Event Redemption amount: Principal amount together with accrued and unpaid interest
16	Subsequent call dates, if applicable	NA	Optional call dates – any date after 13 October 2021	Optional call dates – any date after 13 December 2022

3 COMPOSITION OF CAPITAL (continued)

3.5 Main Features of Capital Instruments (continued)

		CET 1 Capital Ordinary Shares	Additional Tier 1 Capital HK$1.4b Preference Shares issued in October 2016	Tier 2 Capital US$540m Subordinated Loan issued in December 2017
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Discretionary dividend amount	Fixed	Floating
18	Coupon rate and any related index	The Ordinary Shares receive distributable profits that have been declared as dividend	3.9% per annum	USD 3-month LIBOR plus 1.62% per annum
19	Existence of a dividend stopper	NA	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Cumulative or non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Convertible	Non-convertible
24	If convertible, conversion trigger(s)	NA	The Preference shares would be converted into ordinary shares of the Bank upon the occurrence of the trigger event. Trigger event is the earlier of: (i) The HKMA notifying the Bank in writing that it is of the opinion that a conversion is necessary, without which the Bank would become non-viable, or (ii) The HKMA notifying the Bank in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.	NA
25	If convertible, fully or partially	NA	Fully or partially	NA

3 COMPOSITION OF CAPITAL (continued)

3.5 Main Features of Capital Instruments (continued)

		CET 1 Capital Ordinary Shares	Additional Tier 1 Capital HK$1.4b Preference Shares issued in October 2016	Tier 2 Capital US$540m Subordinated Loan issued in December 2017
26	If convertible, conversion rate	NA	Conversion price is the net tangible assets per ordinary share at the latest month end prior to conversion, floored at HK$1 per ordinary share	NA
27	If convertible, mandatory or optional conversion	NA	Mandatory	NA
28	If convertible, specify instrument type convertible into	NA	Common Equity Tier 1	NA
29	If convertible, specify issuer of instrument it converts into	NA	DBS Bank (Hong Kong) Limited	NA
30	Write-down feature	No	No	Yes
31	If write-down, write-down trigger(s)	NA	NA	Trigger event is the earlier of: (i) The HKMA notifying the Bank in writing that it is of the opinion that a write-off is necessary, without which the Bank would become non-viable, or (ii) The HKMA notifying the Bank in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.
32	If write-down, full or partial	NA	NA	Fully or Partially
33	If write-down, permanent or temporary	NA	NA	Permanent
34	If temporary write-down, description of write-up mechanism	NA	NA	NA

3 COMPOSITION OF CAPITAL (continued)

3.5 Main Features of Capital Instruments (continued)

		CET 1 Capital Ordinary Shares	Additional Tier 1 Capital HK$1.4b Preference Shares issued in October 2016	Tier 2 Capital US$540m Subordinated Loan issued in December 2017
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Immediately subordinated to Additional Tier 1 capital instruments	Immediately subordinated to Tier 2 capital instruments	Immediately subordinated to senior creditors
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	NA	NA	NA
		Terms and conditions – Ordinary Shares https://www.dbs.com/iwov-resources/pdf/hongkong/tnc-ordinary-shares.pdf	Terms and conditions – Preference Shares https://www.dbs.com/iwov-resources/pdf/hongkong/tnc-preference-shares.pdf	Terms and conditions – Subordinated Loan https://www.dbs.com/iwov-resources/pdf/hongkong/tnc-subordinated-loan-agreement.pdf

4 LEVERAGE RATIO

4.1 Leverage Ratio

The leverage ratios were compiled in accordance with the Leverage Ratio Framework issued by the HKMA.

In HK$ millions	**As at 31 December 2017**	As at 31 December 2016
Capital and Total exposures		
Tier 1 capital	**36,817**	33,094
Total exposures	**412,783**	368,769
Leverage Ratio	**8.9%**	9.0%

4 LEVERAGE RATIO (continued)

4.2 Components of Leverage Ratio

Common Disclosure Template

	Item	Leverage ratio framework As at 31 December 2017 HK$'M
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	393,893
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(1,596)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	392,297
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	443
5	Add-on amounts for PFE associated with all derivatives transactions	1,122
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	–
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	–
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	–
9	Adjusted effective notional amount of written credit derivatives	–
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	–
11	Total derivative exposures (sum of lines 4 to 10)	1,565
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	–
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	–
14	CCR exposure for SFT assets	–
15	Agent transaction exposures	–
16	Total securities financing transaction exposures (sum of lines 12 to 15)	–
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	160,328
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	(141,407)
19	Off-balance sheet items (sum of lines 17 and 18)	18,921
	Capital and total exposures	
20	Tier 1 capital	36,817
21	Total exposures (sum of lines 3, 11, 16 and 19)	412,783
	Leverage ratio	
22	**Basel III leverage ratio**	8.9%

4 LEVERAGE RATIO (continued)

4.2 Components of Leverage Ratio (continued)

Summary Comparison Table

	Item	Leverage ratio framework As at 31 December 2017 HK$'M
1	Total consolidated assets as per published financial statements	396,819
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	45
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	–
4	Adjustments for derivative financial instruments	377
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	18,921
7	Other adjustments	(3,379)
8	**Leverage ratio exposure**	412,783

5 RISK MANAGEMENT APPROACH

In executing our strategic priorities and business opportunities, the Group is faced with economic, financial and other types of risk. These risks are interdependent and require a holistic approach to risk management. Very broadly, these risks can be aligned around the following key risk categories:

a) Credit
b) Market
c) Liquidity
d) Operational
e) Reputational
f) Business and Strategic

These key risks are explained in further details in Sections 7-11.

The Board oversees the Group's affairs and provides sound leadership for the CEO and management. Authorised by the Board, various Board committees oversee specific responsibilities based on clearly defined terms of references.

Under our risk management approaches, the Board, through the Board Risk Management Committee ("BRMC"), sets our Risk Appetite, oversees the establishment of enterprise-wide risk management policies and processes, and sets risk limits to guide the Group's risk-taking. The BRMC also oversees the identification, monitoring, management and reporting of credit, market, liquidity, operational and reputational risks.

To facilitate the BRMC's risk oversight, the following risk management committees have been established:

Risk Management Committees

HK Risk Executive Committee ("Risk ExCo")	As the overall executive body regarding risk matters, the Risk ExCo oversees DBS' risk management as a whole.
HK Risk Culture and Conduct Committee ("RCCC")	RCCC provides oversight and direction relating to the management and implementation of risk culture and conduct agenda.
HK Product Oversight Committee ("POC")	POC reports to the Risk Exco and oversees the risks associated with new or changed products and services to ensure these are offered in line with the Bank's strategy and risk appetite, in the interest of protecting the bank's franchise.
HK Credit Risk Committee ("HK CRC") **HK Market and Liquidity Risk Committee ("HK MLRC")** **HK Operational Risk Committee ("HK ORC")**	Each committee reports to the Risk ExCo, and the committees as a whole serve as an executive forum to discuss and implement DBS' risk management. Key responsibilities: • Assess and approve risk-taking activities • Oversee the Group's risk management infrastructure, which includes frameworks, decision criteria, authorities, people, policies, standards, processes, information and systems • Approve risk policies, the evaluation and endorsement of risk models • Assess and monitor specific credit concentration • Recommend scenarios and the resulting macroeconomic variable projections used for enterprise-wide stress tests The members in these committees comprise representatives from the Risk Management Group ("RMG") as well as key business and support units.

5 RISK MANAGEMENT APPROACH (continued)

Our Risk Appetite takes into account a spectrum of risk types, and it is implemented using thresholds, policies, processes and controls.

Threshold structures are essential in making the Group's Risk Appetite an intrinsic part of our businesses, because they help to keep all our risks within acceptable levels. Portfolio risk limits for the quantifiable risk types reach all parts of the Group from the top down, and these are implemented using formal frameworks. As for the non-quantifiable risk types, these are controlled under qualitative principles through established policies.

We manage these risks by diversifying our risk across industries and individual exposures. In addition, the Group relies on specialist knowledge of our regional markets and industry segments to effectively assess our risks.

The Group has three lines of defense when it comes to risk taking where each line of defense has a clear responsibility. Working closely with the support units, our business units are our first line of defense for risk management. Their responsibilities include identification and management of risks inherent in their businesses/ countries and ensuring that our business operations remain within approved boundaries of our risk appetite and policies.

Corporate oversight and control functions such as RMG, Legal and Compliance and parts of Technology and Finance form the second line of defense. They are responsible for design and maintenance of the internal control frameworks covering financial, operational, compliance and information technology controls as well as risk management policies and systems. In addition, RMG is responsible for identifying individual and portfolio risk, approving transactions and trades and ensuring that they are within approved limits, and monitoring and reporting on the portfolio. These are carried out with a view of current and future potential developments, and evaluated through stress testing.

Group Audit forms the third line of defense. It provides an independent assessment and assurance on the reliability, adequacy and effectiveness of our system of internal controls, risk management procedures, governance framework and processes.

The Group believes that effective safeguards against undesired business conduct have to go beyond a "tick-the-box" mentality. Other than relying on published codes of conduct, the Group also advocates the following organisational safeguards to maintain a strong risk and governance culture:

- Tone from the top
- Aligning strategies and incentives via balanced scorecard. Performance is assessed against the scorecard to determine remuneration, providing a clear line of sight between employee goals and organisational imperatives.
- Respecting voice of control functions
- Risk ownership
- Having established escalation protocols
- Encouraging constructive challenges at all level
- Reinforcing cultural alignment

In addition to cultivating a strong risk and governance culture, robust internal control processes and systems have been designed and implemented to support the respective risk management approaches. These are reviewed regularly by the respective risk units to assess and ensure their effectiveness.

5 RISK MANAGEMENT APPROACH (continued)

Risk management reports including exposure and position information for all significant risk areas are provided to the BRMC and senior management on a regular basis, as deemed appropriate. The Group, through various committees, determines the risk reporting requirements that best suit the business.

This includes the following:

i. risk exposures and profile against risk limits and risk strategy

ii. large risk events and subsequent remedial action plans

iii. market developments such as macro-economic, credit, industry, country risks, emerging risk concentrations and stress tests related to these developments.

Stress testing is an integral part of our risk management process, and includes both sensitivity analysis and scenario analysis. Stress testing is conducted at least once annually. This related to regulatory and internal stress test over the whole portfolio and gamut of risk types. On top of this additional stress tests are carried out in response to microeconomic and macroeconomic conditions or portfolio developments. Every stress test is documented and results are discussed at the relevant risk committees.

This element alerts senior management to our potential vulnerability to exceptional but plausible adverse events. As such, stress testing enables us to assess capital adequacy and identify potentially risky portfolio segments as well as inherent systematic risks. This then allows us to develop the right contingency plans, exit strategies and mitigating actions beforehand.

The capital planning process according to our Internal Capital Adequacy Assessment Process (“ICAAP”) seeks to align our expected business trajectory to our Risk Appetite. This is done by comparing the projected demand for capital to the projected supply of capital in stress scenarios.

6 OVERVIEW OF RISK-WEIGHTED ASSETS

The following table sets out the RWA and the corresponding minimum capital requirements by risk types.

		RWA[1] HK$'M		Minimum capital requirements[2] HK$'M
		As at 31 December 2017	As at 30 September 2017	As at 31 December 2017
1	Credit risk for non-securitization exposures	192,851	191,511	16,230
2	*Of which STC approach*	25,893	26,610	2,072
3	*Of which IRB approach*	166,958	164,901	14,158
4	Counterparty credit risk	977	918	80
5a	*Of which CEM*	614	586	51
11	Settlement Risk	1	–	–
16	Market risk	597	740	48
17	*Of which STM approach*	597	740	48
19	Operational risk	15,375	15,025	1,230
21	*Of which STO approach*	15,375	15,025	1,230
23	Amounts below the thresholds for deduction (subject to 250% RW)	114	114	9
24a	Deduction to RWA	24	23	2
24b	*Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital*	11	12	1
24c	*Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital*	13	11	1
25	Total	209,891	208,285	17,595

(1) RWA figures are before application of scaling factor (i.e., 1.06) for exposures measured under the IRB approach.
(2) Minimum capital requirements correspond to 8% of the RWA figures after application of scaling factor (i.e., 1.06) for exposures measured under the IRB approach.

7 CREDIT RISK

7.1 Qualitative Disclosures

7.1.1 General Qualitative Disclosures

Credit risk arises from borrowers or counterparties failing to meet their debt or contractual obligations. It includes both the risk of lending as well as the pre-settlement and settlement risk of foreign exchange, derivatives and debt securities.

DBS Group Holdings Ltd's ("DBSH") Core Credit Risk Policies established for Consumer Banking/Wealth Management and Institutional Banking (herein referred to as CCRPs) set forth the principles by which the Group conducts its credit risk management and control activities.

These policies, supplemented by a number of operational policies and standards, ensure consistency in identifying, assessing, underwriting, measuring, reporting and controlling credit risk across the Group, and provide guidance in the formulation of business-specific and/or location-specific credit risk policies and standards.

In managing its risk profile, the Group has in place:

- The Target Market and Risk Acceptance Criteria ("TMRAC") that serve to support the Group's portfolio strategy planning and ensure sound, well-defined and consistent credit underwriting standards across business units of the Group.

- Target Market ("TM") represents the business and industry segments in which the Group focuses its marketing efforts and is aligned to its business strategies.

- Risk Acceptance Criteria ("RAC") specifies the guidelines for the acceptance of risks associated with the extension of credit facilities.

- The Delegation of Authority ("DOA") Standard sets out the level of credit authority required for approval of credit extension to a counterparty group and depends on counterparty group type, risk rating and total credit facility limits extended on global basis

RMG-Credit Risk unit, as part of the RMG, is the second line of defence responsible for the development and maintenance of credit risk management and internal control frameworks. It provides independent review and challenge to the first line of defence (e.g. Business Units) who are ultimately responsible for the identification, assessment and management of risk on an end-to-end basis and in conformity with approved risk appetite and policies.

Various functions under RMG-Credit Risk unit reports to the Hong Kong Senior Risk Executive:

- Credit risk managers approve and control credit risk and portfolio quality and ensure compliance with all applicable credit policies, and procedures.

- Credit control units act as a monitoring function to perform independent checks on completeness of documentation to be executed, and compliance of conditions precedent / credit conditions prior to the activation of credit facilities / disbursement / accommodation of credit excess and ad-hoc facilities.

The Group's ultimate credit authority is vested with the Group's Board of Directors.

Please refer to Section 5 on the risk management committees established to discuss the various risk types.

7 CREDIT RISK (continued)

7.1 Qualitative Disclosures (continued)

7.1.1 General Qualitative Disclosures (continued)

RMG-Credit Risk unit also partners the Legal and Compliance unit to ensure all risk-taking activities abide by all regulations, while Internal Audit unit serves as a third line of defence to provide an independent assessment and assurance on the reliability, adequacy and effectiveness of our system of internal controls, risk management procedures, governance framework and processes.

The Group constantly invests in systems to support risk monitoring and reporting for our Institutional Banking and Consumer Banking/Wealth Management businesses. The end-to-end credit process is continually reviewed and improved through various front-to-back initiatives involving the business units, operations, RMG and other key stakeholders.

7.1.2 Qualitative Disclosures related to CRM techniques

DBSH's Core Credit Risk Policy provides detailed policy requirements and references on:

- Eligible collaterals
- Collateral valuation and valuation method
- Appointment of valuers / appraisers
- Loan-to-valuation / margin calls

Core processes for collateral evaluation include:

- Frequency of valuation for the various asset classes
- In the case of classified credits, the minimum discount to be applied to the Net Book Value / Fair Market Value

Where possible, the Group takes collateral as a secondary recourse to the borrower. This includes, but not limited to, cash, marketable securities, real estate, trade receivables, inventory and equipment, and other physical and/or financial collateral. The Group may also take fixed and floating charges on the assets of borrowers.

Policies are in place to determine the eligibility of collateral for credit risk mitigation. These include requiring specific collateral to meet minimum operational requirements in order to be considered as effective risk mitigants. The Group's collateral is generally diversified and periodic valuations of collateral are required.

For derivatives, repurchase agreements (repo) and other repo-style transactions with financial market counterparties, collateral arrangements are typically covered under market-standard documentation, such as International Swaps & Derivatives Association (ISDA) Agreements and Master Repurchase Agreements. The collateral received is marked-to-market on a frequency the Group and the counterparties mutually agreed upon, governed by internal guidelines with respect to the collateral eligibility. In the event of a default, the credit risk exposure is reduced by master-netting arrangements where the Group is allowed to offset what the Group owes a counterparty against what is due from that counterparty in a netting-eligible jurisdiction.

In times of difficulty, the Group will review the customer's specific situation and circumstances to assist them in restructuring their repayment liabilities.

7 CREDIT RISK (continued)

7.1 Qualitative Disclosures (continued)

7.1.3 Qualitative Disclosures for IRBA Models

Nature of exposures within IRB approach

Retail exposures

Retail exposures comprise residential mortgages, qualifying revolving retail exposures, small business retail exposures and other retail exposures to individuals. These exposures are categorised into asset classes under the Retail IRB approach.

Retail portfolios are categorised into asset classes under the Retail IRB approach, namely residential mortgages, qualifying revolving retail exposures, small business retail exposures and other retail exposures to individuals.

Within each asset class, exposures are managed on a portfolio basis. Each account is assigned to a risk pool, taking into consideration factors such as borrower characteristics and account behaviour. Loss estimates are based on historical default and realised losses within a defined period. Business-specific credit risk policies and procedures including underwriting criteria, scoring models, approving authorities, frequency of asset quality and business strategy reviews; as well as systems, processes and techniques to monitor portfolio performance against benchmarks are in place. Risk models are being used for associated retail exposures to update risk level of each loan on a monthly basis, reflecting the broad usage of risk models in portfolio quality reviews in accordance with Basel Capital Accord principles.

Wholesale exposures

Wholesale exposures comprise sovereign, bank, corporate, corporate small business (which are assessed under Foundation IRB approach) and specialised lending (which is assessed under the supervisory slotting criteria approach).

Sovereign exposures are risk rated using internal risk rating models and guidelines in line with Foundation IRB portfolios.

Bank exposures are assessed using a bank rating model covering various credit risk factors such as capital levels and liquidity, asset quality, earnings, management and market sensitivity. The risk ratings derived are benchmarked against external credit risk ratings to ensure that the internal rating systems are well aligned and appropriately calibrated.

Corporate credits are assessed using approved models and reviewed by credit risk managers taking into consideration of relevant credit risk factors. Credit factors considered in the rating process include the obligor's financial standing and non-financial factors such as management quality, industry outlook and market position. The Counterparty Risk Rating assigned to smaller business borrowers is primarily based on the borrower's financial position and strength, which are assessed via the use of validated quantitative tool. This is supplemented by account behaviour factors such as facility utilisation.

Credit ratings under the Foundation IRB portfolios are reviewed on an annual basis at a minimum unless credit conditions require more frequent assessment. The Counterparty Risk Rating process is reinforced by the Facility Risk Rating Framework which considers other exposure risk mitigations, such as collateral, third party guarantees and transfer risks.

A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place

7 CREDIT RISK (continued)

7.1 Qualitative Disclosures (continued)

7.1.3 Qualitative Disclosures for IRBA Models (continued)

Wholesale exposures (continued)

– Subjective default: Obligor is unlikely to pay its credit obligations in full, without recourse by the Bank to actions such as realising security (if held).

– Technical default: Obligor is past due more than 90 days on any credit obligation to the Bank.

Other exposures mainly comprise premises, equipment and other fixed assets and notes and coins, which are assessed under specific risk-weight approach.

Structure and control mechanisms for internal rating systems

The Bank adopts various rating systems for the different asset classes under Internal Ratings Based Approach ("IRBA"). There is a robust governance process for the development and approval of a credit risk model. Credit risk models developed are validated by an independent risk unit in the DBSH to ensure they are fit for purpose. The models are placed through a rigorous review process prior to endorsement by Hong Kong Credit Risk Committee of the Bank and Group Credit Risk Model Committee of DBSH. The models have also been approved by Risk Executive Committee and Board Risk Management Committee of the Bank and Risk Executive Committee and Board Risk Management Committee of DBSH before use.

To ensure the adequacy and robustness of these rating systems on a continual basis, the Bank conducts regular performance monitoring on these rating systems and reports the results to the Hong Kong Credit Risk Committee; the main findings of the monitoring outcome is also reported to the Board Risk Management Committee of the Bank. In addition, an independent risk unit conducts formal validation annually for each of the rating systems. The validation processes are also subject to an independent review by Internal Audit. This process ensures that any material deterioration in the rating system performance is highlighted for management's attention.

Use of internal estimates

The internal credit risk ratings produced by credit rating models are used to calculate the IRB approach capital requirements. In addition, the ratings from the credit models are used as the basis to support the underwriting of credit, monitoring the performance of the portfolios, reporting, stress testing, risk rating migration and to facilitate the calculation for risk based pricing.

Definitions of variables

The group-wide credit risk rating framework incorporates Probability of Default ("PD") of a counterparty and loss severity expressed in terms of Exposure-at-Default ("EAD") and Loss Given Default ("LGD").

PD expressed as a percentage, measures the probability that a borrower will default within one year.

LGD expressed as a percentage, is an estimate of the severity of the loss that the Bank will experience per unit of exposure in the event that the borrower defaults.

EAD is the expected amount of the exposure upon the default of the borrower, which is the sum of the on-balance sheet amounts and/or credit equivalent of the off-balance sheet amounts multiplied by a credit conversion factor determined in accordance with the Banking (Capital) Rules.

7 CREDIT RISK (continued)

7.1 Qualitative Disclosures (continued)

7.1.3 Qualitative Disclosures for IRBA Models (continued)

Methods and data for estimation and validation of the PD, LGD and EAD

For retail exposures, facilities / borrowers with homogenous nature of facility utilisation, payment history, delinquency trend and other transaction characteristics are segmented into homogenous risk pools. PD is estimated by each risk pool based on long run average of historical internal default experience with appropriate adjustment to reflect adverse economic condition to ensure conservatism for capital calculation. The LGD is estimated by dividing the loss by EAD. Loss represents the written-off or specific provision amounts plus collection costs at the end of LGD workout period after netting off recoveries. The LGD is calibrated to reflect adverse economic condition to ensure conservatism for capital calculation. For retail non-revolving exposures, EAD estimation is based on the sum of current outstanding. For retail revolving exposures, EAD estimation is referring to projected further draw down prior to defaults based on historical experience.

For wholesale exposures (including corporate, corporate small business, bank and sovereign exposures), PD generated by models and/or rating templates for individual counterparty is reviewed by credit risk managers. An Adjusted Counterparty Risk Rating ("ACRR") is assigned by taking the counterparty's PD and mapping it to the Bank's internal ACRR scale. The Bank applies the LGD determined by reference to the supervisory LGD estimates provided by the HKMA based on the nature of the collateral for its Foundation IRB portfolios and subordination. These supervisory LGD estimates are used in the computation of risk-weights and regulatory capital calculations for the portfolios. EAD estimation is subject to parameters set by the HKMA.

ACRR is estimated using a 11-grade scale expanded into 19 risk ratings to provide greater rating granularity that corresponds more closely to the Standard & Poor's ("S&P") rating scale. 14 of which are non-default ratings representing varying degrees of strength of financial condition, and 5 are default ratings. These scales are used group-wide for all distinct borrowers.

For specialised lending exposure, rating is assigned based on the borrower and transaction characteristics. The Bank uses supervisory slotting criteria approach in rating its regulatory specialised lending exposure by adopting the specialised lending rating templates. For income-producing real estate specialised lending exposure, the Bank adopts a credit scoring framework to enable a granular assessment of credit risk for the real estate financing activities aligning with the context of Hong Kong real estate market and the DBSH's real estate lending policies.

Model validation process enables the Bank to reaffirm the continuing appropriateness of the models. The model validation process involves quantitative and qualitative assessment of the model that includes assessment of a model's discriminatory power, calibration, ratings stability and model design. To ensure the models are reliable, an independent validation is conducted by Risk Management Group and an independent review on the validation process is carried out by Internal Audit.

The credit risk ratings for the wholesale exposures have been mapped to likely corresponding external rating equivalents. A description of the risk rating is provided in the following table to give a qualitative explanation of the risk benchmark.

7 CREDIT RISK (continued)

7.1 Qualitative Disclosures (continued)

7.1.3 Qualitative Disclosures for IRBA Models (continued)

DBS PD Grade (ACRR)	Description of Risk Ratings	Internal Classification	S&P's Likely Ratings
1	Taking into account the impact of relevant economic, social or geopolitical conditions, capacity to meet its financial commitment is exceptional	Exceptional	AAA
2	Taking into account the impact of the relevant economic, social or geopolitical conditions, capacity to meet its financial commitment is excellent	Excellent	AA+, AA, AA-
3	More susceptible to adverse economic, social, geopolitical conditions and other circumstances, capacity to meet its financial commitment is strong	Strong	A+, A, A-
4A/4B	Adequate protection against adverse economic, social or geopolitical conditions or changing circumstances. More likely to lead to a weakened capacity of the obligor to meet its financial commitment	Good	BBB+/BBB
5	Relatively worse off than an obligor rated "4B" but exhibits adequate protection parameters	Satisfactory	BBB-
6A/6B	Satisfactory capacity to meet its financial commitment but capacity may become inadequate due to adverse business, financial, economic, social or geopolitical conditions and changing circumstances	Acceptable	BB+/BB
7A/7B	Marginal capacity to meet its financial commitment but capacity may become inadequate or uncertain due to adverse business, financial, economic, social or geopolitical conditions and changing circumstances	Marginal	BB-
8A	Sub-marginal capacity to meet its financial commitment. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment	Sub-Marginal	B+
8B/8C	Low capacity to meet its financial commitment. Adverse business, financial, or economic condition will likely impair the obligor's capacity or willingness to meet its financial commitment	Special Caution	B/B-
9	Vulnerable to non-payment and is dependent upon favourable business, financial, and economic conditions for the obligor to meet its financial commitment. Likely to have little capacity to meet its financial commitment under adverse conditions	Sub-Performing	CCC - C
10 and Above	An obligor rated "10" and above is in default (as defined under Basel Capital Accord)	Default	D

7 CREDIT RISK (continued)

7.1 Qualitative Disclosures (continued)

7.1.4 Additional Disclosures related to the Credit Quality of Assets

HKMA's Loan Classification System requires credit portfolios to be categorised into one of the following five categories, according to the Group's assessment of a borrower's ability to repay a credit facility from its normal sources of income.

Pass:	This refers to loans where borrowers are current in meeting commitments and full repayment of interest and principal is not in doubt.
Special Mention:	This refers to loans where borrowers are experiencing difficulties which may threaten the lender's position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.
Substandard:	This refers to loans where borrowers are displaying a definable weakness that is likely to jeopardise repayment. The Group is relying heavily on available security. This would include loans where some loss of principal or interest is possible after taking account of the net realisable value of the security, and rescheduled loans where concessions have been made to a borrower on interest or principal such as to render the loan "non-commercial" to the Group.
Doubtful:	This refers to loans where collection in full is improbable and the Group expects to sustain a loss of principal and/or interest after taking account of the net realisable value of the security.
Loss:	This refers to loans which are considered uncollectible after exhausting all collection efforts such as realisation of collateral, institution of legal proceedings, etc.

For retail borrower, the categorisation into NPA is consistent with the above except that the NPA is managed and reported at credit facility level.

Credit facilities are classified as restructured assets when the Group grant non-commercial concessions to a borrower because it is in a worse financial position or is unable to meet the original repayment schedule. A restructured credit facility is classified into the appropriate non-performing grade based on the assessment of the borrower's financial condition and its ability to repay according to the restructured terms.

Such credit facilities are not returned to the performing status until there are reasonable grounds to conclude that the borrower will be able to service all future principal and interest payments on the credit facility in accordance with the restructured terms.

7 CREDIT RISK (continued)

7.1 Qualitative Disclosures (continued)

7.1.4 Additional Disclosures related to the Credit Quality of Assets (continued)

International Harmonisation of Credit Quality Categorisation – Supervisory vs Regulatory vs Accounting

Currently, different terminology and criteria exists for the categorisation of quality of credit exposures under different regime and for various purpose:

1. Supervisory classification mainly for reporting / monitoring purpose – "Non-Performing"

There are variations in how individual regulators classify exposures / obligors as Non-Performing, mainly in terms of criteria, terminology (e.g. classified, criticized etc.) and granularity (e.g., sub-category for Performing and further classification of Non-Performing based on recovery prospect etc.).

2. Prudential / Regulatory definition for capital adequacy purpose – "Default"

Under Basel, a default is considered to have occurred when an obligor is considered Unlikely to Pay (UTP) (with list of such indicators specified in the Basel Accord) its credit obligations in full without recourse to actions such as realizing collateral (if held), or the obligor is more than 90 Days Past Due (90DPD) on any material obligation. It should be noted that the Basel UTP and 90DPD criteria are aligned to the DBSH's definition of Subjective and Technical Default respectively.

3. Accounting definition for valuation / provisioning purpose – "Credit-Impaired"

Under IFRS 9, a financial asset is considered credit-impaired when one or more events (with list of such events specified in the IFRS 9 standard) that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. All such financial instruments are classified as Stage 3 and requires individual assessment of provisions under the principle of IFRS 9. This is aligned to DBSH's definition. In other words exposures which are classified as Default under Basel purpose are considered to be Credit-Impaired for IFRS 9 purpose.

7.2 Quantitative Disclosures

7.2.1 Credit Quality of Assets

As at 31 December 2017	Gross carrying amount of			
HK$ millions	Defaulted exposures	Non-defaulted exposures	Allowances/ Impairments	Net values
Loans	**2,820**	**355,750**	**(1,666)**	**356,904**
Debt securities	**–**	**25,679**	**–**	**25,679**
Off-balance sheet exposures	**–**	**14,594**	**–**	**14,594**
Total	**2,820**	**396,023**	**(1,666)**	**397,177**

7 CREDIT RISK (continued)

7.2 Quantitative Disclosures (continued)

7.2.1 Credit Quality of Assets (continued)

Loans included balances with banks, loans and advances to customers, balances with central banks, and related accrued interest receivables.

Debt securities included non-trading government securities and treasury bills, banks and corporate securities, and related accrued interest receivables.

Off-balance sheet exposures included direct credit substitutes, transaction-related contingencies, trade-related contingencies and irrecoverable loans commitment.

7.2.2 Changes in Stock of Defaulted Loans and Debt Securities

	HK$ millions
As at 1 July 2017	**3,659**
Loans and debt securities that have defaulted since the last reporting period	**595**
Returned to non-defaulted status	**(68)**
Amounts written off	**(227)**
Other changes (note)	**(1,139)**
As at 31 December 2017	**2,820**

Note: Other changes mainly related to settlement and repayments from customers.

7 CREDIT RISK (continued)

7.2 Quantitative Disclosures (continued)

7.2.3 Additional Quantitative Disclosures related to Credit Quality of Assets

7.2.3.1 Credit risk exposure by geographical areas, industry and residual maturity

Geographical area **HK$ millions**	**As at** **31 December 2017**
– Hong Kong	**161,899**
– Singapore	**194,841**
– Others	**42,103**
Total	**398,843**

Industry **HK$ millions**	**As at** **31 December 2017**
– Banks	**214,322**
– Official sector	**14,550**
– Non-bank private sector	
o Property development	**5,609**
o Property investment	**20,346**
o Financial concerns	**5,432**
o Stockbrokers	**830**
o Wholesale and retail trade	**13,596**
o Manufacturing	**12,122**
o Transport & transport equipment	**10,580**
o Recreational activities	**291**
o Information technology	**1,946**
o Trade finance	**41,006**
o Individuals	**48,783**
o Others	**9,430**
Total	**398,843**

Residual maturity **HK$ millions**	**As at** **31 December 2017**
– Up to and including one year	**234,856**
– Over one year and up to including two years	**84,161**
– Over two years	**79,826**
Total	**398,843**

7 CREDIT RISK (continued)

7.2 Quantitative Disclosures (continued)

7.2.3 Additional Quantitative Disclosures related to Credit Quality of Assets (continued)

7.2.3.2 Impaired exposures and related allowances and write-offs by geographical area and industries

Geographical area
HK$ millions

	31 December 2017				
	Hong Kong	**China**	**Singapore**	**Others**	**Total**
Gross outstanding	**2,166**	**387**	**100**	**167**	**2,820**
Of which:					
Exposures subject to individual impairment allowance	***1,844***	***387***	***100***	***115***	***2,446***
Exposures subject to collective impairment allowance (note)	***322***	***–***	***–***	***52***	***374***
Less: Impairment	**(662)**	**(247)**	**(4)**	**(82)**	**(995)**
	1,504	**140**	**96**	**85**	**1,825**

Impaired exposures subject to collective impairment allowance are mainly related to information technology and individuals.

Please refer to note 38 Financial Risk Management of DBS Bank (Hong Kong) Limited's financial statements for breakdown by industries subject to individual impairment allowance.

7.2.3.3 Aging analysis of accounting past due exposures

Please refer to section 14 overdue and rescheduled assets for details.

7.2.3.4 Breakdown of restructured exposures

Restructured exposures **HK$ millions**	**As at** **31 December 2017**
– Impaired	**757**
– Not impaired	**–**
Total	**757**

7 CREDIT RISK (continued)

7.2 Quantitative Disclosures (continued)

7.2.4 Overview of Recognized Credit Risk Mitigation

		As at 31 December 2017				
	HK$ millions	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	284,010	72,894	65,638	7,256	–
2	Debt securities	25,679	–	–	–	–
3	**Total**	309,689	72,894	65,638	7,256	–
4	Of which defaulted	697	1,128	898	230	–

7.2.5 Credit Risk Exposures and Effects of Recognized Credit Risk Mitigation – STC approach

		As at 31 December 2017					
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	On-balance sheet amount HK$'M	Off-balance sheet amount HK$'M	On-balance sheet amount HK$'M	Off-balance sheet amount HK$'M	RWA HK$'M	RWA density (%)
1	Sovereign exposures	–	–	2	–	–	–
2	PSE exposures	–	–	159	–	32	20
2a	Of which: domestic PSEs	–	–	159	–	32	20
2b	Of which: foreign PSEs	–	–	–	–	–	–
3	Multilateral development bank exposures	1,962	36	1,962	7	–	–
4	Bank exposures	60	–	60	–	60	100
5	Securities firm exposures	835	3,089	789	–	789	100
6	Corporate exposures	15,963	13,459	13,592	459	14,051	100
7	CIS exposures	–	–	–	–	–	–
8	Cash items	–	–	–	–	–	–
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	–	–	–	–	–	–
10	Regulatory retail exposures	3,401	3,122	2,771	1	2,079	75
11	Residential mortgage loans	964	–	964	–	338	35
12	Other exposures which are not past due exposures	12,697	12,975	7,978	50	8,028	100
13	Past due exposures	361	–	361	–	516	143
14	Significant exposures to commercial entities	–	–	–	–	–	–
15	**Total**	36,243	32,681	28,638	517	25,893	89

The risk-weighted amounts in the above table do not take into account the credit assessment ratings assigned by the External Credit Assessment Institutions.

7 CREDIT RISK (continued)

7.2 Quantitative Disclosures (continued)

7.2.6 Credit Risk Exposures by Asset Classes and by Risk Weights – STC approach

	In HK$ millions	As at 31 December 2017										
	Risk Weight / Exposure class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	2	–	–	–	–	–	–	–	–	–	2
2	PSE exposures	–	–	159	–	–	–	–	–	–	–	159
2a	Of which: domestic PSEs	–	–	159	–	–	–	–	–	–	–	159
2b	Of which: foreign PSEs	–	–	–	–	–	–	–	–	–	–	–
3	Multilateral development bank exposures	1,969	–	–	–	–	–	–	–	–	–	1,969
4	Bank exposures	–	–	–	–	–	–	60	–	–	–	60
5	Securities firm exposures	–	–	–	–	–	–	789	–	–	–	789
6	Corporate exposures	–	–	–	–	–	–	14,051	–	–	–	14,051
7	CIS exposures	–	–	–	–	–	–	–	–	–	–	–
8	Cash items	–	–	–	–	–	–	–	–	–	–	–
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	–	–	–	–	–	–	–	–	–	–	–
10	Regulatory retail exposures	–	–	–	–	–	2,772	–	–	–	–	2,772
11	Residential mortgage loans	–	–	–	963	–	–	1	–	–	–	964
12	Other exposures which are not past due exposures	–	–	–	–	–	–	8,028	–	–	–	8,028
13	Past due exposures	–	–	1	–	–	–	47	313	–	–	361
14	Significant exposures to commercial entities	–	–	–	–	–	–	–	–	–	–	–
15	**Total**	1,971	–	160	963	–	2,772	22,976	313	–	–	29,155

7 CREDIT RISK (continued)

7.2 Quantitative Disclosures (continued)

7.2.7 Credit Risk Exposures by Portfolio and PD ranges – for IRB approach

7.2.7.1 Foundation IRB Approach

	As at 31 December 2017											
	a	b	c	d	e	f	g	h	i	j	k	l
PD scale (%)	Original on-balance sheet gross exposure HK$'M	Off-balance sheet exposures pre-CCF HK$'M	Average CCF (%)	EAD post CRM and post-CCF HK$'M	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (Years)	RWA HK$'M	RWA density (%)	EL HK$'M	Provisions HK$'M
Sovereign exposures												
0.00 to <0.15	17,644	–	–	19,572	0.01	8	45	2.5	2,086	11	60	
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–	–	
0.50 to <0.75	–	–	–	–	–	–	–	–	–	–	–	
0.75 to <2.50	–	–	–	–	–	–	–	–	–	–	–	
2.50 to <10.00	–	–	–	–	–	–	–	–	–	–	–	
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	
Sub-total	**17,644**	**–**	**–**	**19,572**	**0.01**	**8**	**45**	**2.5**	**2,086**	**11**	**60**	**19**
Bank exposures												
0.00 to <0.15	213,689	481	67	214,094	0.04	67	45	2.5	52,477	25	42	
0.15 to <0.25	1,612	–	–	1,616	0.24	9	45	2.5	1,007	62	2	
0.25 to <0.50	269	3	50	270	0.38	9	45	2.5	216	80	–	
0.50 to <0.75	25	–	–	25	0.61	5	45	2.5	20	83	–	
0.75 to <2.50	527	–	–	527	1.59	12	45	2.5	690	131	4	
2.50 to <10.00	–	–	–	–	–	–	–	–	–	–	–	
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	
Sub-total	**216,122**	**484**	**67**	**216,532**	**0.05**	**102**	**45**	**2.5**	**54,410**	**25**	**48**	**493**
Corporate exposures – small-and-medium sized corporates												
0.00 to <0.15	–	–	–	–	–	–	–	–	–	–	–	
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–	–	
0.50 to <0.75	–	1	–	–	–	1	–	–	–	–	–	
0.75 to <2.50	28	13	1	25	2.23	6	34	2.5	18	71	–	
2.50 to <10.00	37	5	–	28	6.55	9	41	2.5	32	113	1	
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	
Sub-total	**65**	**19**	**1**	**53**	**4.54**	**16**	**38**	**2.5**	**50**	**93**	**1**	**–**
Corporate exposures – other												
0.00 to <0.15	280	581	6	313	0.05	5	44	2.5	60	19	–	
0.15 to <0.25	2,617	7,435	8	3,505	0.22	21	42	2.5	1,494	43	3	
0.25 to <0.50	2,646	2,491	8	2,618	0.35	69	39	2.5	1,315	50	3	
0.50 to <0.75	2,406	4,992	6	3,418	0.56	335	42	2.5	2,330	68	8	
0.75 to <2.50	24,461	30,425	5	26,992	1.67	2,435	38	2.5	24,138	89	170	
2.50 to <10.00	28,065	12,645	3	25,325	4.74	2,477	37	2.5	30,496	120	447	
10.00 to <100.00	2,530	362	2	1,964	12.15	247	37	2.5	3,351	171	89	
100.00 (Default)	2,565	1	35	2,337	100.00	272	41	2.5	5,258	225	925	
Sub-total	**65,570**	**58,932**	**5**	**66,472**	**6.41**	**5,861**	**38**	**2.5**	**68,442**	**103**	**1,645**	**1,605**
Total (all portfolios)	**299,401**	**59,435**	**5**	**302,629**	**1.45**	**5,987**	**44**	**2.5**	**124,988**	**41**	**1,754**	**2,117**

7 CREDIT RISK (continued)

7.2 Quantitative Disclosures (continued)

7.2.7 Credit Risk Exposures by Portfolio and PD ranges – for IRB approach (continued)

7.2.7.2 Retail IRB Approach

	As at 31 December 2017											
	a	b	c	d	e	f	g	h	i	j	k	l
PD scale (%)	Original on-balance sheet gross exposure HK$'M	Off-balance sheet exposures pre-CCF HK$'M	Average CCF (%)	EAD post CRM and post-CCF HK$'M	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (Years)	RWA HK$'M	RWA density (%)	EL HK$'M	Provisions HK$'M
Residential mortgages exposures												
0.00 to <0.15	4,254	–	–	4,254	0.12	850	13		875	21	1	
0.15 to <0.25	15,283	–	–	15,283	0.22	8,715	13		2,292	15	4	
0.25 to <0.50	–	–	–	–	–	–	–		–	–	–	
0.50 to <0.75	3,190	–	–	3,190	0.63	861	13		478	15	3	
0.75 to <2.50	19	–	–	19	1.80	7	32		11	58	–	
2.50 to <10.00	454	–	–	454	9.84	220	13		273	60	6	
10.00 to <100.00	9	–	–	9	33.97	8	13		7	77	–	
100.00 (Default)	9	–	–	9	100.00	11	32		37	395	–	
Sub-total	**23,218**	**–**	**–**	**23,218**	**0.50**	**10,672**	**13**		**3,973**	**17**	**14**	**36**
Qualifying revolving retail exposures												
0.00 to <0.15	1,501	33,787	69	24,804	0.14	288,357	99		1,952	8	34	
0.15 to <0.25	2,161	11,401	67	9,840	0.21	133,722	96		1,038	11	20	
0.25 to <0.50	–	203	155	314	0.49	1,143	75		52	17	1	
0.50 to <0.75	–	–	–	–	–	–	–		–	–	–	
0.75 to <2.50	4,147	19,580	69	17,706	1.63	221,738	98		9,562	54	282	
2.50 to <10.00	620	690	93	1,261	4.67	17,618	104		1,494	118	60	
10.00 to <100.00	1,471	323	60	1,664	15.03	16,784	97		3,635	218	242	
100.00 (Default)	48	–	–	48	100.00	1,683	106		332	685	25	
Sub-total	**9,948**	**65,984**	**69**	**55,637**	**1.26**	**681,045**	**98**		**18,065**	**32**	**664**	**189**
Small business retail exposures												
0.00 to <0.15	–	–	–	–	–	–	–		–	–	–	
0.15 to <0.25	–	–	–	–	–	–	–		–	–	–	
0.25 to <0.50	5	–	–	5	0.29	5	6		–	8	–	
0.50 to <0.75	–	–	–	–	–	–	–		–	–	–	
0.75 to <2.50	–	–	–	–	–	–	–		–	–	–	
2.50 to <10.00	–	–	–	–	–	–	–		–	–	–	
10.00 to <100.00	–	–	–	–	–	–	–		–	–	–	
100.00 (Default)	–	–	–	–	–	–	–		–	–	–	
Sub-total	**5**	**–**	**–**	**5**	**0.29**	**5**	**6**		**–**	**8**	**–**	**–**
Other retail exposures to individuals												
0.00 to <0.15	–	–	–	–	–	–	–		–	–	–	
0.15 to <0.25	–	–	–	–	–	–	–		–	–	–	
0.25 to <0.50	4,299	–	–	4,299	0.29	1,078	6		356	8	1	
0.50 to <0.75	–	–	–	–	–	–	–		–	–	–	
0.75 to <2.50	842	–	–	842	1.44	5,068	63		682	81	9	
2.50 to <10.00	1,185	–	–	1,185	4.79	7,683	102		1,784	151	57	
10.00 to <100.00	2,539	–	–	2,539	20.25	10,010	107		5,910	233	544	
100.00 (Default)	39	–	–	39	100.00	271	112		289	747	20	
Sub-total	**8,904**	**–**	**–**	**8,904**	**7.12**	**24,110**	**54**		**9,021**	**101**	**631**	**102**
Total (all portfolios)	**42,075**	**65,984**	**69**	**87,764**	**1.66**	**715,832**	**71**		**31,059**	**35**	**1,309**	**327**

7 CREDIT RISK (continued)

7.2 Quantitative Disclosures (continued)

7.2.8 Effects on RWA of Recognized Credit Derivative Contracts used as Recognized Credit Risk Mitigation – for IRB approach

As at 31 December 2017, the Bank does not have any exposures having credit derivatives as credit risk mitigation.

		As at 31 December 2017	
		Pre-credit derivatives RWA HK$'M	Actual RWA HK$'M
1	Corporate – Specialized lending under supervisory slotting criteria approach (project finance) ("PF")	–	–
2	Corporate – Specialized lending under supervisory slotting criteria approach (object finance) ("OF")	–	–
3	Corporate – Specialized lending under supervisory slotting criteria approach (commodities finance) ("CF")	–	–
4	Corporate – Specialized lending under supervisory slotting criteria approach (income-producing real estate) ("IPRE")	7,214	7,214
5	Corporate – Specialized lending (high-volatility commercial real estate) ("HVCRE")	–	–
6	Corporate – Small-and-medium sized corporates	50	50
7	Corporate – Other corporates	68,442	68,442
8	Sovereigns	2,032	2,032
9	Sovereign foreign public sector entities	54	54
10	Multilateral development banks	–	–
11	Bank exposures – Banks	54,410	54,410
12	Bank exposures – Securities firms	–	–
13	Bank exposures – Public sector entities (excluding sovereign foreign public sector entities)	–	–
14	Retail – Small business retail exposures	–	–
15	Retail – Residential mortgages to individuals	3,619	3,619
16	Retail – Residential mortgages to property-holding shell companies	354	354
17	Retail – Qualifying revolving retail exposures (QRRE)	18,065	18,065
18	Retail – Other retail exposures to individuals	9,021	9,021
19	Equity – Equity exposures under market-based approach (simple risk-weight method)	–	–
20	Equity – Equity exposures under market-based approach (internal models method)	–	–
21	Equity – Equity exposures under PD/LGD approach (publicly traded equity exposures held for long-term investment)	–	–
22	Equity – Equity exposures under PD/LGD approach (privately owned equity exposures held for long-term investment)	–	–
23	Equity – Equity exposures under PD/LGD approach (other publicly traded equity exposures)	–	–
24	Equity – Equity exposures under PD/LGD approach (other equity exposures)	–	–
25	Equity – Equity exposures associated with equity investments in funds (CIS exposures)	–	–
26	Other – Cash items	–	–
27	Other – Other items	3,697	3,697
28	**Total (under the IRB calculation approaches)**	166,958	166,958

7 CREDIT RISK (continued)

7.2 Quantitative Disclosures (continued)

7.2.9 RWA Flow Statements of Credit Risk Exposures under IRB Approach

The following table sets out the key drivers of RWA movements over the quarter.

	RWA HK$'M
As at 30 September 2017	164,901
Asset size	686
Asset quality	349
Model update	911
Foreign exchange movements	111
As at 31 December 2017	166,958

RWA for credit risk exposures under IRB approach increased mainly due to organic growth and model updates for bank exposures.

7.2.10 Specialized Lending Under Supervisory Slotting Criteria Approach – for IRB approach

Specialized lending under supervisory slotting criteria approach – other than HVCRE

		As at 31 December 2017									
					EAD amount						
Supervisory Rating Grade	Remaining Maturity	On-balance sheet exposure amount HK$'M	Off-balance sheet exposure amount HK$'M	SRW %	PF HK$'M	OF HK$'M	CF HK$'M	IPRE HK$'M	Total HK$'M	RWA HK$'M	Expected loss amount HK$'M
Strong^	Less than 2.5 years	15	–	50	–	–	–	15	15	8	–
Strong	Equal to or more than 2.5 years	266	3	70	–	–	–	265	265	186	1
Good^	Less than 2.5 years	2,795	715	70	–	–	–	3,331	3,331	2,331	13
Good	Equal to or more than 2.5 years	3,777	1,226	90	–	–	–	4,298	4,298	3,868	34
Satisfactory		402	285	115	–	–	–	590	590	678	17
Weak		57	–	250	–	–	–	57	57	143	5
Default		–	–	0	–	–	–	–	–	–	–
Total		7,312	2,229		–	–	–	8,556	8,556	7,214	70

^ Use of preferential risk-weights.

7 CREDIT RISK (continued)

7.2 Quantitative Disclosures (continued)

7.2.11 Back-Testing of PD per portfolio – for IRB approach

7.2.11.1 Foundation IRB Approach

As at 31 December 2017								
a	b	c	d	e	f		g	h	i
					Number of obligors				
Foundation IRB	PD Range (%)	External rating equivalent (S&P likely ratings)	Weighted average PD (%)	Arithmetic average PD by obligors (%)	Beginning of the year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate (%)
Sovereign exposures									
	0.00 to <0.15	AAA to BBB+	0.01	0.02	9	8	–	–	–
	0.15 to <0.25	BBB+ to BBB	–	–	–	–	–	–	–
	0.25 to <0.50	BBB to BBB-	–	–	–	–	–	–	–
	0.50 to <0.75	BB+	–	–	–	–	–	–	–
	0.75 to <2.50	BB to BB-	–	–	–	–	–	–	–
	2.50 to <10.00	B+ to B	–	–	–	–	–	–	–
	10.00 to <100.00	B- to C	–	–	–	–	–	–	–
Bank exposures									
	0.00 to <0.15	AAA to BBB+	0.03	0.04	48	67	–	–	–
	0.15 to <0.25	BBB+ to BBB	0.22	0.22	19	9	–	–	–
	0.25 to <0.50	BBB to BBB-	0.34	0.36	20	9	–	–	–
	0.50 to <0.75	BB+	0.56	0.56	5	5	–	–	–
	0.75 to <2.50	BB to BB-	1.29	1.51	21	12	–	–	–
	2.50 to <10.00	B+ to B	3.01	3.01	5	–	–	–	–
	10.00 to <100.00	B- to C	–	–	–	–	–	–	–
Corporate exposures – small-and-medium sized corporates									
	0.00 to <0.15	AAA to BBB+	–	–	–	–	–	–	–
	0.15 to <0.25	BBB+ to BBB	–	–	–	–	–	–	–
	0.25 to <0.50	BBB to BBB-	–	–	–	–	–	–	–
	0.50 to <0.75	BB+	–	–	–	1	–	–	–
	0.75 to <2.50	BB to BB-	1.69	1.46	10	6	–	–	–
	2.50 to <10.00	B+ to B	5.37	5.82	19	9	1	–	3.02
	10.00 to <100.00	B- to C	–	–	–	–	–	–	–
Corporate exposures – other									
	0.00 to <0.15	AAA to BBB+	0.05	0.05	5	5	–	–	–
	0.15 to <0.25	BBB+ to BBB	0.22	0.22	17	21	–	–	–
	0.25 to <0.50	BBB to BBB-	0.38	0.36	112	69	–	–	–
	0.50 to <0.75	BB+	0.56	0.56	278	335	–	–	0.07
	0.75 to <2.50	BB to BB-	1.84	1.71	2,473	2,435	9	–	0.58
	2.50 to <10.00	B+ to B	5.02	5.06	2,635	2,478	52	–	2.60
	10.00 to <100.00	B- to C	12.18	12.20	313	518	15	–	6.70

7 CREDIT RISK (continued)

7.2 Quantitative Disclosures (continued)

7.2.11 Back-Testing of PD per portfolio – for IRB approach (continued)

7.2.11.2 Retail IRB Approach

As at 31 December 2017								
a	b	c	d	e	f		g	h	i
					Number of obligors				
Retail IRB	PD Range (%)	External rating equivalent (S&P likely ratings)	Weighted average PD (%)	Arithmetic average PD by obligors (%)	Beginning of the year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate (%)
Residential mortgages exposures									
	0.00 to <0.15		0.12	0.12	930	1,078	–	–	0.15
	0.15 to <0.25		0.22	0.22	9,635	9,126	2	–	0.02
	0.25 to <0.50		–	–	–	–	–	–	–
	0.50 to <0.75		0.63	0.63	1,729	1,080	1	–	0.03
	0.75 to <2.50		1.80	1.80	3	7	–	–	–
	2.50 to <10.00		9.84	9.84	225	224	–	–	0.41
	10.00 to <100.00		33.97	33.97	9	8	2	–	19.65
Qualifying revolving retail exposures									
	0.00 to <0.15		0.14	0.14	308,415	288,357	272	–	0.10
	0.15 to <0.25		0.21	0.21	141,845	133,722	182	9	0.17
	0.25 to <0.50		–	–	–	1,143	–	–	0.21
	0.50 to <0.75		0.52	0.52	3,874	–	7	–	0.23
	0.75 to <2.50		1.64	1.69	212,132	221,738	872	1	0.54
	2.50 to <10.00		4.71	5.15	13,112	17,618	171	27	1.20
	10.00 to <100.00		15.14	15.61	14,766	16,784	996	–	7.79
Small business retail exposures									
	0.00 to <0.15		–	–	–	–	–	–	–
	0.15 to <0.25		–	–	–	–	–	–	–
	0.25 to <0.50		0.29	0.29	7	5	–	–	–
	0.50 to <0.75		–	–	–	–	–	–	–
	0.75 to <2.50		–	–	–	–	–	–	–
	2.50 to <10.00		–	–	–	–	–	–	–
	10.00 to <100.00		–	–	–	–	–	–	–
Other retail exposures to individuals									
	0.00 to <0.15		–	–	–	–	–	–	–
	0.15 to <0.25		–	–	–	–	–	–	–
	0.25 to <0.50		0.29	0.29	1,471	1,357	3	–	0.08
	0.50 to <0.75		–	–	–	–	–	–	0.34
	0.75 to <2.50		1.70	1.62	5,541	5,302	26	3	0.54
	2.50 to <10.00		4.81	4.84	9,091	7,960	179	20	2.21
	10.00 to <100.00		20.44	20.33	12,816	10,029	629	11	6.53

The back-testing result covers 100% of RWA under IRB rating models. The actual default rate is measured by using the number of obligors or number of accounts defaulted, depending on the exposure class of the annual reporting period.

Please refer to Note 7.1.3 “Qualitative Disclosures for IRBA Models” for key rating models used for exposures reported under IRB Approach.

8 COUNTERPARTY CREDIT RISK ("CCR")

8.1 Qualitative Disclosures related to CCR

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

Pre-settlement credit risk for traded products arising from a counterparty potentially defaulting on its obligations is quantified by evaluation of the market price, plus potential future exposure.

Issuer default risk that may also arise from derivatives, notes and securities are generally measured based on jump-to-default computations.

DBSH's CCRP and related standards set out the Group's overarching requirements for guarantees and Traded Products.

Credit limits and exposures to counterparties are subject to the Group's overarching credit risk management framework. Counterparties are assessed individually using an internal rating model and assigned credit risk ratings. After the credit exposures are assessed, credit limits are proposed by the business unit, and are approved by the credit risk function after an independent credit assessment.

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

Furthermore, the Group enters into master netting/collateral arrangements with counterparties where it is appropriate and feasible to mitigate counterparty risk.

DBSH's CCRP and associated guide provide the definition and management of specific wrong-way risk (SWWR). SWWR arises when the credit exposure of a counterparty (from the traded product transaction) directly correlates with the probability of default of the counterparty. An example of SWWR is when a counterparty buys or sells its own equity share.

If there is a 3-notch downgrade in the Bank's credit ratings, the impact on the Bank's collateral obligations under derivative contracts is minimal.

8 COUNTERPARTY CREDIT RISK ("CCR") (continued)

8.2 Quantitative Disclosures

8.2.1 Analysis of Counterparty Default Risk Exposures (Other than those to CCPs) by Approaches

		As at 31 December 2017					
		Replacement cost (RC) HK$'M	PFE HK$'M	Effective EPE HK$'M	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM HK$'M	RWA HK$'M
1	CEM (for derivative contracts)	443	1,122		N/A	1,565	614
2	IMM (CCR) approach			–	–	–	–
3	Simple Approach (for SFTs)					–	–
4	Comprehensive Approach (for SFTs)					–	–
5	VaR (for SFTs)					–	–
6	**Total**						614

8.2.2 CVA Capital Charge

		As at 31 December 2017	
		EAD post CRM HK$'M	RWA HK$'M
	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	1,496	363
4	Total	1,496	363

8 COUNTERPARTY CREDIT RISK ("CCR") (continued)

8.2 Quantitative Disclosures (continued)

8.2.3 Counterparty Default Risk Exposures (Other than those to CCPs) by Asset Classes and by Risk Weights – for STC approach

		As at 31 December 2017										
	Exposure class / Risk Weight	0% HK$'M	10% HK$'M	20% HK$'M	35% HK$'M	50% HK$'M	75% HK$'M	100% HK$'M	150% HK$'M	250% HK$'M	Others HK$'M	Total default risk exposure after CRM HK$'M
1	Sovereign exposures	–	–	–	–	–	–	–	–	–	–	–
2	PSE exposures	–	–	–	–	–	–	–	–	–	–	–
2a	Of which: domestic PSEs	–	–	–	–	–	–	–	–	–	–	–
2b	Of which: foreign PSEs	–	–	–	–	–	–	–	–	–	–	–
3	Multilateral development bank exposures	–	–	–	–	–	–	–	–	–	–	–
4	Bank exposures	–	–	–	–	–	–	–	–	–	–	–
5	Securities firm exposures	–	–	–	–	–	–	–	–	–	–	–
6	Corporate exposures	–	–	–	–	–	–	15	–	–	–	15
7	CIS exposures	–	–	–	–	–	–	–	–	–	–	–
8	Regulatory retail exposures	–	–	–	–	–	–	–	–	–	–	–
9	Residential mortgage loans	–	–	–	–	–	–	–	–	–	–	–
10	Other exposures which are not past due exposures	–	–	–	–	–	–	156	–	–	–	156
11	Significant exposures to commercial entities	–	–	–	–	–	–	–	–	–	–	–
12	**Total**	–	–	–	–	–	–	171	–	–	–	171

8 COUNTERPARTY CREDIT RISK (“CCR”) (continued)

8.2 Quantitative Disclosures (continued)

8.2.4 Counterparty Default Risk Exposures (Other than those to CCPs) by portfolio and PD range – for IRB approach

8.2.4.1 Foundation IRB Approach

The following table sets out the parameters used to calculate the Bank’s CCR capital requirements for IRB approach models. For each of the regulatory portfolio disclosed in the template, 100% of the RWAs are covered by the Internal rating models. Please refer to Note 7.1.3 “Qualitative Disclosures for IRBA Models” for key rating models used for exposures reported under IRB Approach.

	As at 31 December 2017						
	a	b	c	d	e	f	g
PD scale (%)	EAD post-CRM HK$’M	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (Years)	RWA HK$’M	RWA density (%)
Bank							
0.00 to <0.15	975	0.05	16	45	2.5	243	25
0.15 to <0.25	–	0.24	1	45	2.5	–	64
0.25 to <0.50	–	–	–	–	–	–	–
0.50 to <0.75	–	–	–	–	–	–	–
0.75 to <2.50	–	–	–	–	–	–	–
2.50 to <10.00	–	–	–	–	–	–	–
10.00 to <100.00	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–
Sub-total	**975**	**0.05**	**17**	**45**	**2.5**	**243**	**25**
Corporate exposures – small-and-medium sized corporates							
0.00 to <0.15	–	–	–	–	–	–	–
0.15 to <0.25	–	–	–	–	–	–	–
0.25 to <0.50	–	–	–	–	–	–	–
0.50 to <0.75	–	–	–	–	–	–	–
0.75 to <2.50	–	–	–	–	–	–	–
2.50 to <10.00	–	–	–	–	–	–	–
10.00 to <100.00	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–
Sub-total	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Corporate exposures – other							
0.00 to <0.15	–	–	–	–	–	–	–
0.15 to <0.25	181	0.22	4	41	2.5	76	42
0.25 to <0.50	102	0.30	6	42	2.5	51	50
0.50 to <0.75	8	0.56	7	42	2.5	5	68
0.75 to <2.50	89	1.23	38	15	2.5	31	34
2.50 to <10.00	6	5.73	57	38	2.5	7	129
10.00 to <100.00	1	12.15	7	36	2.5	1	166
100.00 (Default)	–	100.00	4	38	2.5	–	466
Sub-total	**387**	**0.60**	**123**	**35**	**2.5**	**171**	**44**
Total (all portfolios)	**1,362**	**0.20**	**140**	**42**	**2.5**	**414**	**30**

8 COUNTERPARTY CREDIT RISK ("CCR") (continued)

8.2 Quantitative Disclosures (continued)

8.2.5 Composition of Collateral for Counterparty Default Risk Exposures (including those for Contracts or Transactions Cleared through CCPs)

	As at 31 December 2017					
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received HK$'M	Fair value of posted collateral HK$'M
	Segregated HK$'M	Unsegregated HK$'M	Segregated HK$'M	Unsegregated HK$'M		
Cash – domestic currency	–	5	–	–	–	–
Cash – other currencies	–	67	–	200	–	–
Total	–	72	–	200	–	–

There is no outstanding securities financing transaction which creates exposures to counterparty credit risk as at 31 December 2017.

9 MARKET RISK

9.1 Qualitative Disclosure

Please refer to note 38 Financial Risk Management of DBS Bank (Hong Kong) Limited's financial statements for details.

9.2 Quantitative Disclosure

9.2.1 Market Risk under Standardized Approach

In HK$ millions		As at 31 December 2017 RWA[1]
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	394
2	Equity exposures (general and specific risk)	–
3	Foreign exchange (including gold) exposures	201
4	Commodity exposures	–
	Option exposures	
5	Simplified approach	–
6	Delta-plus approach	2
7	Other approach	–
8	Securitization exposures	–
9	**Total**	597

(1) The RWA is derived by multiplying the capital requirements by 12.5.

10 OPERATIONAL RISK

Please refer to note 38 Financial Risk Management of DBS Bank (Hong Kong) Limited's financial statements for details.

11 INTEREST RATE RISK IN THE BANKING BOOK

Please refer to note 38 Financial Risk Management of DBS Bank (Hong Kong) Limited's financial statements for details.

12 INTERNATIONAL CLAIMS

Analysis of the Bank's international claims by location and by type of counterparty is as follows:

			Non-bank private sector		
HK$ millions	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
As at 31 December 2017					
Developed countries	12,028	5,396	110	1,268	18,802
Offshore centres, of which	194,187	15	261	34,714	229,177
– Singapore	193,733	5	–	781	194,519
– Hong Kong	449	9	261	30,222	30,941
– Others	5	1	–	3,711	3,717
Developing Europe	–	–	–	82	82
Developing Latin America and Caribbean	17	–	–	49	66
Developing Africa and Middle East	70	–	–	47	117
Developing Asia-Pacific	10,024	312	–	7,369	17,705
International organisations	–	1,961	–	–	1,961
	216,326	7,684	371	43,529	267,910

12 INTERNATIONAL CLAIMS (continued)

HK$ millions	Banks	Official sector	Non-bank private sector: Non-bank financial institutions	Non-bank private sector: Non-financial private sector	Total
As at 31 December 2016					
Developed countries	11,412	4,850	60	2,492	18,814
Offshore centres, of which	148,578	27	230	30,829	179,664
– Singapore	148,379	7	7	2,330	150,723
– Hong Kong	183	20	223	25,091	25,517
– Others	16	–	–	3,408	3,424
Developing Europe	–	–	–	190	190
Developing Latin America and Caribbean	24	–	–	484	508
Developing Africa and Middle East	7	–	–	398	405
Developing Asia-Pacific	9,159	382	71	8,234	17,846
International organisations	–	1,546	–	–	1,546
	169,180	6,805	361	42,627	218,973

The above analysis is disclosed on a net basis after taking into account the effect of any recognised risk transfer.

REGULATORY DISCLOSURES

13 LOANS AND ADVANCES TO CUSTOMERS

The Group employs a range of policies and practices to mitigate credit risk, one of which is the taking of collateral. The collateral includes cash, marketable securities, properties, trade receivables, inventory, equipment and other physical and financial collateral.

13.1 Loans and advances to customers by loan usage

The analysis of the Bank's gross advances to customers by loan usage and the corresponding balances covered by collateral are as follows:

HK$ millions	**As at 31 December 2017** Outstanding balance	Balance covered by collateral	As at 31 December 2016 Outstanding balance	Balance covered by collateral
Gross loans and advances for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**3,953**	**3,621**	3,296	3,221
– Property investment	**19,740**	**18,716**	21,827	21,001
– Financial concerns	**5,425**	**5,060**	3,524	3,248
– Stockbrokers	**830**	**54**	661	64
– Wholesale and retail trade	**13,014**	**9,999**	15,179	11,533
– Manufacturing	**10,522**	**7,371**	11,083	7,684
– Transport and transport equipment	**10,580**	**9,854**	10,598	9,850
– Recreational activities	**214**	**189**	178	156
– Information technology	**663**	**240**	538	146
– Others	**5,487**	**3,969**	4,972	3,477
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	**166**	**166**	220	220
– Loans for the purchase of other residential properties	**21,599**	**21,599**	21,828	21,828
– Credit card advances	**8,211**	**–**	8,516	–
– Others	**18,240**	**10,190**	12,898	5,925
	118,644	**91,028**	115,318	88,353
Trade finance (including trade bills)	**28,692**	**11,026**	26,425	11,765
Gross loans and advances for use outside Hong Kong	**7,493**	**2,496**	6,012	1,477
	154,829	**104,550**	147,755	101,595

13 LOANS AND ADVANCES TO CUSTOMERS (continued)

13.1 Loans and advances to customers by loan usage (continued)

Analysis of impaired advances, individual and collective impairment allowances for the individual loan usage category which accounted for 10% or more of the Bank's advances to customers:

In HK$ millions	Impaired advances to customers	Individual impairment allowances	Collective impairment allowances
As at 31 December 2017			
Property investment	**195**	**8**	**89**
Loans for the purchase of other residential properties	**8**	**–**	**–**
Trade finance	**760**	**197**	**149**
Wholesale and retail trade	**654**	**393**	**88**
As at 31 December 2016			
Property investment	253	15	90
Loans for the purchase of other residential properties	23	–	–
Trade finance	866	198	144
Wholesale and retail trade	836	390	85

13.2 Loans and advances to customers by geographical area

Please refer to note 38 Financial Risk Management of DBS Bank (Hong Kong) Limited's financial statements for details.

14 OVERDUE AND RESCHEDULED ASSETS

14.1 Overdue loans and advances to customers

The overdue loans and advances of the Bank are analysed as follows:

In HK$ millions	As at 31 December 2017	% of gross loans and advances to customers	As at 31 December 2016	% of gross loans and advances to customers
Six months or less but over three months	**202**	**0.13**	678	0.46
One year or less but over six months	**249**	**0.16**	687	0.47
Over one year	**1,387**	**0.90**	1,465	0.99
	1,838	**1.19**	2,830	1.92
Individual impairment allowances made in respect of the above overdue loans and advances	**743**		1,121	
Current market value of collateral held against the covered portion of the above overdue loans and advances	**1,379**		1,990	
Covered portion of the above overdue loans and advances	**925**		1,256	
Uncovered portion of the above overdue loans and advances	**913**		1,574	

14.2 Rescheduled advances

The rescheduled loans and advances of the Bank (net of those which have been overdue for over three months and reported in item (a) above) are analysed as follows:

In HK$ millions	As at 31 December 2017	% of gross loans and advances to customers	As at 31 December 2016	% of gross loans and advances to customers
Rescheduled loans and advances	**451**	**0.29**	466	0.32

14 OVERDUE AND RESCHEDULED ASSETS (continued)

14.3 Repossessed assets

As at 31 December 2017, repossessed assets of the Bank amounted to HK$146 million (31 December 2016: HK$209 million).

14.4 Overdue other assets

The overdue other assets of the Bank are analysed as follows:

In HK$ millions	**As at 31 December 2017**	As at 31 December 2016
Six months or less but over three months	**–**	8
One year or less but over six months	**1**	409
Over one year	**242**	22
	243	439

15 MAINLAND ACTIVITIES

The table below summarises the non-bank Mainland China exposure of the Bank (excluding its Macau Branch), categorised by types of counterparties:

As at 31 December 2017

In HK$ millions Types of Counterparties	**On-balance sheet exposure**	**Off-balance sheet exposure**	**Total**
(a) Central government, central government-owned entities and their subsidiaries and joint ventures (“JVs”)	**1,165**	**445**	**1,610**
(b) Local governments, local government-owned entities and their subsidiaries and JVs	**580**	**45**	**625**
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	**4,876**	**1,313**	**6,189**
(d) Other entities of central government not reported in part (a) above	**–**	**1**	**1**
(e) Other entities of local governments not reported in part (b) above	**74**	**52**	**126**
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**5,843**	**1,609**	**7,452**
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**6,403**	**3,243**	**9,646**
Total	**18,941**	**6,708**	**25,649**
Total assets after provision	**394,121**		
On-balance sheet exposures as percentage of total assets	**4.81%**		

15 MAINLAND ACTIVITIES (continued)

As at 31 December 2016

In HK$ millions Types of Counterparties	On-balance sheet exposure	Off-balance sheet exposure	Total
(a) Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	2,159	389	2,548
(b) Local governments, local government-owned entities and their subsidiaries and JVs	497	25	522
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	3,950	1,326	5,276
(d) Other entities of central government not reported in part (a) above	–	1	1
(e) Other entities of local governments not reported in part (b) above	62	58	120
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	4,219	1,325	5,544
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	4,919	2,174	7,093
Total	15,806	5,298	21,104
Total assets after provision	346,046		
On-balance sheet exposures as percentage of total assets	4.57%		

16 CURRENCY CONCENTRATIONS

The table below summarises the Group's assets and liabilities at carrying amounts, categorised by currency:

In HK$ millions	USD	CNY	CAD	AUD	Others	Total
As at 31 December 2017						
Hong Kong dollar equivalents						
Spot assets	**167,292**	**11,201**	**423**	**4,992**	**10,749**	**194,657**
Spot liabilities	**(131,611)**	**(10,682)**	**(2,471)**	**(12,140)**	**(15,588)**	**(172,492)**
Forward purchases	**38,028**	**7,316**	**2,799**	**7,629**	**10,536**	**66,308**
Forward sales	**(73,151)**	**(7,787)**	**(705)**	**(417)**	**(5,679)**	**(87,739)**
Net options position	**–**	**–**	**–**	**(1)**	**1**	**–**
Net long / (short) non-structural position	**558**	**48**	**46**	**63**	**19**	**734**
Net structural position	**–**	**29**	**–**	**–**	**(46)**	**(17)**
As at 31 December 2016						
Hong Kong dollar equivalents						
Spot assets	136,421	4,152	410	4,307	8,276	153,566
Spot liabilities	(103,596)	(8,185)	(1,905)	(8,242)	(11,398)	(133,326)
Forward purchases	55,722	27,609	1,571	4,609	5,863	95,374
Forward sales	(86,379)	(23,572)	(82)	(635)	(2,754)	(113,422)
Net options position	(1)	2	–	(1)	–	–
Net long / (short) non-structural position	2,167	6	(6)	38	(13)	2,192
Net structural position	–	28	–	–	(28)	–

Structural foreign exchange positions arising from capital investments outside Hong Kong, mainly in Chinese Renminbi and Macau Pataca.

The net options position is calculated based on the delta-weighted position as set out in the prudential return "Foreign Currency Position" issued by the HKMA.

17 LIQUIDITY COVERAGE RATIO

The Bank complies with the minimum requirement of Liquidity Coverage Ratio ("LCR") on a daily basis, in accordance with the Banking (Liquidity) Rules issued by the HKMA. In 2017, the Bank is required to maintain an LCR of not less than 80%, increasing annually in steps of 10% to not less than 100% by January 2019.

	For the quarters ended			
	31 Dec 2017	30 Sep 2017	30 Jun 2017	31 Mar 2017
Average LCR	126.8%	136.4%	135.8%	133.2%

	For the quarters ended			
	31 Dec 2016	30 Sep 2016	30 Jun 2016	31 Mar 2016
Average LCR	128.5%	132.1%	131.1%	136.9%

Liquidity disclosures as required by section 51 and 51A of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures on our website www.dbs.com.hk.

17 LIQUIDITY COVERAGE RATIO (continued)

Table 1: Average LCR for the quarter ended 31 December 2017

Number of data points used in calculating the average value of the Liquidity Coverage Ratio (LCR) and related components set out in this Template for the quarter ending on 31 Dec 2017: (74)		Currency: (HK$'M)	
Basis of disclosure: unconsolidated		**UNWEIGHTED AMOUNT (Average Value)**	**WEIGHTED AMOUNT (Average Value)**
A. HIGH QUALITY LIQUID ASSETS			
1	Total high quality liquid assets (HQLA)		28,693
B. CASH OUTFLOWS			
2	Retail deposits and small business funding, of which:	176,442	13,947
3	*Stable retail deposits and stable small business funding*	12,669	380
4	*Less stable retail deposits and less stable small business funding*	107,557	10,756
5	*Retail term deposits and small business term funding*	56,217	2,811
6	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	132,429	69,301
7	*Operational deposits*	15,198	3,284
8	*Unsecured wholesale funding (other than small business funding) not covered in Row 7*	117,097	65,882
9	*Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period*	135	135
10	Secured funding transactions (including securities swap transactions)		–
11	Additional requirements, of which:	16,366	5,305
12	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	4,076	4,076
13	*Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	–	–
14	*Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	12,290	1,229
15	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	1,398	1,398
16	Other contingent funding obligations (whether contractual or non-contractual)	144,197	432
17	**TOTAL CASH OUTFLOWS**		90,382
C. CASH INFLOWS			
18	Secured lending transactions (including securities swap transactions)	–	–
19	Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	119,859	76,842
20	Other cash inflows	2,237	2,017
21	**TOTAL CASH INFLOWS**	122,095	78,859
D. LIQUIDITY COVERAGE RATIO			**ADJUSTED VALUE**
22	**TOTAL HQLA**		28,693
23	**TOTAL NET CASH OUTFLOWS**		22,630
24	**LCR (%)**		126.8%

17 LIQUIDITY COVERAGE RATIO (continued)

Table 2: Average LCR for the quarter ended 30 September 2017

Number of data points used in calculating the average value of the Liquidity Coverage Ratio (LCR) and related components set out in this Template for the quarter ending on 30 Sep 2017: (77)		Currency: (HK$'M)	
Basis of disclosure: unconsolidated		**UNWEIGHTED AMOUNT (Average Value)**	**WEIGHTED AMOUNT (Average Value)**
A. HIGH QUALITY LIQUID ASSETS			
1	Total high quality liquid assets (HQLA)		28,650
B. CASH OUTFLOWS			
2	Retail deposits and small business funding, of which:	155,583	12,554
3	*Stable retail deposits and stable small business funding*	12,050	583
4	*Less stable retail deposits and less stable small business funding*	95,885	9,589
5	*Retail term deposits and small business term funding*	47,648	2,382
6	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	121,770	63,352
7	*Operational deposits*	15,333	3,376
8	*Unsecured wholesale funding (other than small business funding) not covered in Row 7*	106,197	59,737
9	*Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period*	239	239
10	Secured funding transactions (including securities swap transactions)		–
11	Additional requirements, of which:	16,270	5,130
12	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	3,892	3,892
13	*Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	–	–
14	*Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	12,377	1,237
15	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	2,262	2,262
16	Other contingent funding obligations (whether contractual or non-contractual)	143,800	504
17	**TOTAL CASH OUTFLOWS**		83,803
C. CASH INFLOWS			
18	Secured lending transactions (including securities swap transactions)	–	–
19	Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	105,621	66,549
20	Other cash inflows	1,883	1,626
21	**TOTAL CASH INFLOWS**	107,504	68,174
D. LIQUIDITY COVERAGE RATIO			**ADJUSTED VALUE**
22	**TOTAL HQLA**		28,650
23	**TOTAL NET CASH OUTFLOWS**		21,047
24	**LCR (%)**		136.4%

17 LIQUIDITY COVERAGE RATIO (continued)

Table 3: Average LCR for the quarter ended 30 June 2017

Number of data points used in calculating the average value of the Liquidity Coverage Ratio (LCR) and related components set out in this Template for the quarter ending on 30 Jun 2017: (72)		Currency: (HK$'M)	
Basis of disclosure: unconsolidated		**UNWEIGHTED AMOUNT (Average Value)**	**WEIGHTED AMOUNT (Average Value)**
A. HIGH QUALITY LIQUID ASSETS			
1	Total high quality liquid assets (HQLA)		27,631
B. CASH OUTFLOWS			
2	Retail deposits and small business funding, of which:	147,750	11,803
3	*Stable retail deposits and stable small business funding*	11,854	593
4	*Less stable retail deposits and less stable small business funding*	88,299	8,830
5	*Retail term deposits and small business term funding*	47,597	2,380
6	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	114,990	61,016
7	*Operational deposits*	16,263	3,625
8	*Unsecured wholesale funding (other than small business funding) not covered in Row 7*	98,722	57,386
9	*Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period*	5	5
10	Secured funding transactions (including securities swap transactions)		–
11	Additional requirements, of which:	16,852	5,200
12	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	3,906	3,906
13	*Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	–	–
14	*Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	12,946	1,294
15	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	1,854	1,854
16	Other contingent funding obligations (whether contractual or non-contractual)	149,399	463
17	**TOTAL CASH OUTFLOWS**		80,336
C. CASH INFLOWS			
18	Secured lending transactions (including securities swap transactions)	–	–
19	Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	100,350	63,752
20	Other cash inflows	1,695	1,512
21	**TOTAL CASH INFLOWS**	102,045	65,264
D. LIQUIDITY COVERAGE RATIO			**ADJUSTED VALUE**
22	**TOTAL HQLA**		27,631
23	**TOTAL NET CASH OUTFLOWS**		20,370
24	**LCR (%)**		135.8%

17 LIQUIDITY COVERAGE RATIO (continued)

Table 4: Average LCR for the quarter ended 31 March 2017

Number of data points used in calculating the average value of the Liquidity Coverage Ratio (LCR) and related components set out in this Template for the quarter ending on 31 Mar 2017: (74)		Currency: (HK$'M)	
Basis of disclosure: unconsolidated		**UNWEIGHTED AMOUNT (Average Value)**	**WEIGHTED AMOUNT (Average Value)**
A. HIGH QUALITY LIQUID ASSETS			
1	Total high quality liquid assets (HQLA)		26,714
B. CASH OUTFLOWS			
2	Retail deposits and small business funding, of which:	145,328	11,626
3	*Stable retail deposits and stable small business funding*	11,279	564
4	*Less stable retail deposits and less stable small business funding*	87,197	8,719
5	*Retail term deposits and small business term funding*	46,852	2,343
6	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	112,747	60,635
7	*Operational deposits*	13,969	3,039
8	*Unsecured wholesale funding (other than small business funding) not covered in Row 7*	98,723	57,541
9	*Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period*	55	55
10	Secured funding transactions (including securities swap transactions)		–
11	Additional requirements, of which:	16,393	4,785
12	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	3,496	3,496
13	*Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	–	–
14	*Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	12,897	1,289
15	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	2,211	2,211
16	Other contingent funding obligations (whether contractual or non-contractual)	166,019	412
17	**TOTAL CASH OUTFLOWS**		79,669
C. CASH INFLOWS			
18	Secured lending transactions (including securities swap transactions)	–	–
19	Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	98,041	61,918
20	Other cash inflows	2,563	2,393
21	**TOTAL CASH INFLOWS**	100,604	64,311
D. LIQUIDITY COVERAGE RATIO			**ADJUSTED VALUE**
22	**TOTAL HQLA**		26,714
23	**TOTAL NET CASH OUTFLOWS**		20,072
24	**LCR (%)**		133.2%

17 LIQUIDITY COVERAGE RATIO (continued)

Table 5: Average LCR for the quarter ended 31 December 2016

Number of data points used in calculating the average value of the Liquidity Coverage Ratio (LCR) and related components set out in this Template for the quarter ending on 31 Dec 2016: (74)		Currency: (HK$'M)	
Basis of disclosure: unconsolidated		**UNWEIGHTED AMOUNT (Average Value)**	**WEIGHTED AMOUNT (Average Value)**
A. HIGH QUALITY LIQUID ASSETS			
1	Total high quality liquid assets (HQLA)		24,952
B. CASH OUTFLOWS			
2	Retail deposits and small business funding, of which:	144,460	11,278
3	*Stable retail deposits and stable small business funding*	11,030	552
4	*Less stable retail deposits and less stable small business funding*	81,100	8,110
5	*Retail term deposits and small business term funding*	52,330	2,616
6	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	109,266	57,749
7	*Operational deposits*	14,109	3,076
8	*Unsecured wholesale funding (other than small business funding) not covered in Row 7*	94,751	54,266
9	*Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period*	407	407
10	Secured funding transactions (including securities swap transactions)		–
11	Additional requirements, of which:	16,914	5,455
12	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	4,182	4,182
13	*Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	–	–
14	*Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	12,732	1,273
15	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	2,842	2,842
16	Other contingent funding obligations (whether contractual or non-contractual)	158,279	459
17	**TOTAL CASH OUTFLOWS**		77,784
C. CASH INFLOWS			
18	Secured lending transactions (including securities swap transactions)	–	–
19	Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	103,455	66,888
20	Other cash inflows	2,409	2,280
21	**TOTAL CASH INFLOWS**	105,864	69,168
D. LIQUIDITY COVERAGE RATIO			**ADJUSTED VALUE**
22	**TOTAL HQLA**		24,952
23	**TOTAL NET CASH OUTFLOWS**		19,446
24	**LCR (%)**		128.5%

17 LIQUIDITY COVERAGE RATIO (continued)

Table 6: Average LCR for the quarter ended 30 September 2016

Number of data points used in calculating the average value of the Liquidity Coverage Ratio (LCR) and related components set out in this Template for the quarter ending on 30 Sep 2016: (77)		Currency: (HK$'M)	
Basis of disclosure: unconsolidated		**UNWEIGHTED AMOUNT (Average Value)**	**WEIGHTED AMOUNT (Average Value)**
A. HIGH QUALITY LIQUID ASSETS			
1	Total high quality liquid assets (HQLA)		25,358
B. CASH OUTFLOWS			
2	Retail deposits and small business funding, of which:	138,153	10,815
3	*Stable retail deposits and stable small business funding*	10,971	549
4	*Less stable retail deposits and less stable small business funding*	78,148	7,815
5	*Retail term deposits and small business term funding*	49,034	2,452
6	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	96,978	50,168
7	*Operational deposits*	13,931	3,041
8	*Unsecured wholesale funding (other than small business funding) not covered in Row 7*	82,923	47,003
9	*Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period*	123	123
10	Secured funding transactions (including securities swap transactions)		–
11	Additional requirements, of which:	16,311	5,611
12	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	4,423	4,423
13	*Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	–	–
14	*Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	11,889	1,189
15	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	1,659	1,659
16	Other contingent funding obligations (whether contractual or non-contractual)	146,119	440
17	**TOTAL CASH OUTFLOWS**		68,694
C. CASH INFLOWS			
18	Secured lending transactions (including securities swap transactions)	–	–
19	Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	83,757	47,762
20	Other cash inflows	2,617	2,444
21	**TOTAL CASH INFLOWS**	86,373	50,206
D. LIQUIDITY COVERAGE RATIO			**ADJUSTED VALUE**
22	**TOTAL HQLA**		25,358
23	**TOTAL NET CASH OUTFLOWS**		19,317
24	**LCR (%)**		132.1%

17 LIQUIDITY COVERAGE RATIO (continued)

Table 7: Average LCR for the quarter ended 30 June 2016

Number of data points used in calculating the average value of the Liquidity Coverage Ratio (LCR) and related components set out in this Template for the quarter ending on 30 Jun 2016: (74)		Currency: (HK$'M)	
Basis of disclosure: unconsolidated		**UNWEIGHTED AMOUNT (Average Value)**	**WEIGHTED AMOUNT (Average Value)**
A. HIGH QUALITY LIQUID ASSETS			
1	Total high quality liquid assets (HQLA)		23,063
B. CASH OUTFLOWS			
2	Retail deposits and small business funding, of which:	134,232	10,594
3	*Stable retail deposits and stable small business funding*	10,721	536
4	*Less stable retail deposits and less stable small business funding*	77,648	7,765
5	*Retail term deposits and small business term funding*	45,863	2,293
6	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	97,413	49,889
7	*Operational deposits*	13,030	2,824
8	*Unsecured wholesale funding (other than small business funding) not covered in Row 7*	84,147	46,829
9	*Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period*	236	236
10	Secured funding transactions (including securities swap transactions)		1
11	Additional requirements, of which:	15,911	5,669
12	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	4,531	4,531
13	*Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	–	–
14	*Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	11,380	1,138
15	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	2,199	2,199
16	Other contingent funding obligations (whether contractual or non-contractual)	145,708	436
17	**TOTAL CASH OUTFLOWS**		68,788
C. CASH INFLOWS			
18	Secured lending transactions (including securities swap transactions)	–	–
19	Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	84,329	50,144
20	Other cash inflows	4,640	4,471
21	**TOTAL CASH INFLOWS**	88,969	54,615
D. LIQUIDITY COVERAGE RATIO			**ADJUSTED VALUE**
22	**TOTAL HQLA**		23,063
23	**TOTAL NET CASH OUTFLOWS**		17,646
24	**LCR (%)**		131.1%

17 LIQUIDITY COVERAGE RATIO (continued)

Table 8: Average LCR for the quarter ended 31 March 2016

Number of data points used in calculating the average value of the Liquidity Coverage Ratio (LCR) and related components set out in this Template for the quarter ending on 31 Mar 2016: (72)		Currency: (HK$'M)	
Basis of disclosure: unconsolidated		**UNWEIGHTED AMOUNT (Average Value)**	**WEIGHTED AMOUNT (Average Value)**
A. HIGH QUALITY LIQUID ASSETS			
1	Total high quality liquid assets (HQLA)		24,061
B. CASH OUTFLOWS			
2	Retail deposits and small business funding, of which:	130,969	10,354
3	*Stable retail deposits and stable small business funding*	10,550	528
4	*Less stable retail deposits and less stable small business funding*	76,108	7,610
5	*Retail term deposits and small business term funding*	44,311	2,216
6	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	100,179	50,078
7	*Operational deposits*	13,865	3,028
8	*Unsecured wholesale funding (other than small business funding) not covered in Row 7*	86,224	46,960
9	*Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period*	90	90
10	Secured funding transactions (including securities swap transactions)		–
11	Additional requirements, of which:	16,943	6,845
12	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	5,723	5,723
13	*Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	–	–
14	*Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	11,220	1,122
15	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	1,492	1,492
16	Other contingent funding obligations (whether contractual or non-contractual)	147,264	407
17	**TOTAL CASH OUTFLOWS**		69,176
C. CASH INFLOWS			
18	Secured lending transactions (including securities swap transactions)	–	–
19	Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	89,778	54,486
20	Other cash inflows	3,209	3,077
21	**TOTAL CASH INFLOWS**	92,987	57,563
D. LIQUIDITY COVERAGE RATIO			**ADJUSTED VALUE**
22	**TOTAL HQLA**		24,061
23	**TOTAL NET CASH OUTFLOWS**		17,612
24	**LCR (%)**		136.9%

17 LIQUIDITY COVERAGE RATIO (continued)

The Bank has maintained a healthy liquidity position in the second half of 2017, with LCR being well above regulatory requirement. Surplus funds from deposits are deployed to money market lending and HQLA. The deposit growth translates to higher outflows under the rules, while the recognition of inflows from money market lending is partially capped, leading to a slight decrease in average LCR.

(i) Composition of High Quality Liquid Assets ("HQLA")

The Bank holds a pool of high quality unencumbered liquid assets that is readily available to meet cash flow obligations under stress scenarios, as defined in the LCR rules. These liquid assets consist predominantly of Level 1 HQLA, including mainly Hong Kong exchange fund bills and notes, as well as other government debt securities. This is supplemented by bonds issued by public sector entities and highly rated corporate issuers, as well as covered bonds issued by reputable financial institutions.

(ii) Concentration of funding sources

The Bank strives to develop a diversified funding base with access to funding sources across retail and wholesale channels. Customer deposits form a sound funding base and serve as the main source of funding for the Bank. It is complemented by a well-diversified book of wholesale funding, including but not limited to interbank money market borrowing and the issuance of certificates of deposit. For more information on the Bank's funding strategy, please refer to Note 38 in the annual report for the year ended 31 December 2017.

(iii) Derivatives Exposures

The Bank actively manages its over-the-counter ("OTC") and exchange-traded derivative contracts, which comprise mainly of currency, interest rate and bond futures, foreign exchange forwards, interest rate and cross currency swaps, and foreign exchange options. Collateral may be required to be posted to counterparties and/or the exchanges, depending on the daily mark-to-market of these derivative positions. The Bank's largest counterparty for OTC derivatives is the Bank's parent company.

(iv) Currency mismatch

Customer deposit in Hong Kong, largely denominated in HKD, is a major funding source for the Bank. The Bank swaps surplus HKD funding into United States Dollars ("USD") and other foreign currencies to meet customer demand for loans.

The Bank covers its HKD mismatch largely by holding adequate amounts of HKD denominated HQLA and through the management of its HKD net cashflows. The Bank has continued to maintain its ratio of HKD Level 1 HQLA to HKD net cash outflows within 30 days well above the HKMA minimum requirement of 20%.

(v) Centralisation of liquidity management

The Bank seeks to manage its liquidity in a prudent manner to ensure that its liquidity obligations would always be honored under normal and adverse circumstances. The Bank centrally manages its liquidity position and provides funding support to its overseas branch for the lending growth.

Approach to liquidity risk management

The Bank's approach to liquidity risk management is based on the building blocks of governance by risk committees' oversight, policies that define overarching principles and specific risk methodologies, and standards that establish the detailed requirements. Processes and systems are in place to measure, limit and control exposures based on the risk methodologies defined. For more information on the Bank's approach to liquidity risk management, please refer to note 38 Financial Risk Management of DBS Bank (Hong Kong) Limited's financial statements for details.

18 SEGMENTAL INFORMATION

(a) Segmental information by class of business

In HK$ millions 2017	Commercial and consumer banking	Treasury	Others	Total
Total income	**8,532**	**721**	**78**	**9,331**
Profit before allowances for credit losses	**4,077**	**577**	**10**	**4,664**
Profit before income tax	**4,095**	**577**	**26**	**4,698**
Operating assets	**152,362**	**234,251**	**10,206**	**396,819**
2016				
Total income	7,600	763	131	8,494
Profit before allowances for credit losses	3,239	619	83	3,941
Profit before income tax	1,549	619	84	2,252
Operating assets	144,803	195,287	8,874	348,964

Commercial and consumer banking business mainly comprises deposit account services, residential mortgage and other consumer lending, credit card services, corporate lending, trade finance and international banking.

Treasury activities are mainly the provision of foreign exchange services and centralised cash management for deposit taking and lending, trading activities and management of investment securities and the overall funding of the Group.

(b) Segmental information by booking location

Over 90% of the Group's total income, profit before income tax, total assets, total liabilities, contingent liabilities and commitments are booked in Hong Kong.

DBS BANK (HONG KONG) LIMITED AND ITS SUBSIDIARIES

REGULATORY DISCLOSURES

19 ABBREVIATIONS

Abbreviations	Brief Description
AT1	Additional Tier 1
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CEM	Current Exposure Method
CET1	Common Equity Tier 1
CIS	Collective Investment Scheme
CRM	Credit Risk Mitigation
CVA	Credit Valuation Adjustment
D-SIB	Domestic Systemically Important Authorized Institution
EAD	Exposure At Default
EL	Expected Loss
EPE	Expected Positive Exposure
G-SIB	Global Systemically Important Authorized Institution
IMM (CCR)	Internal Models (Counterparty Credit Risk)
IRB	Internal Ratings-Based
LGD	Loss Given Default
NPA	Non-performing assets
PD	Probability of Default
PFE	Potential Future Exposure
PSE	Public Sector Entity
SACCR	Standardised Approach (Counterparty Credit Risk)
SFT	Securities Financing Transaction
SRW	Supervisory Risk Weights
STC	Standardized (Credit Risk)
STM	Standardized (Market Risk)
STO	Standardized (Operational Risk)
VaR	Value-at-risk