

Regulatory Disclosures

30 September 2018



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KM1: Key prudential ratios

		At 30 September 2018	At 30 June 2018	At 31 March 2018	At 31 December 2017	At 30 September 2017
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Regulatory capital (amount)						
1	Common Equity Tier 1 (CET1)	35,419,927	34,722,552	34,165,305	33,571,462	33,227,202
2	Tier 1	44,734,817	44,037,442	43,480,195	42,886,352	42,542,092
3	Total capital	49,323,691	48,759,491	48,184,932	47,596,126	47,085,171
RWA (amount)						
4	Total RWA	252,454,668	270,247,232	274,118,114	266,464,621	257,207,840
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	14.03%	12.85%	12.46%	12.60%	12.92%
6	Tier 1 ratio (%)	17.72%	16.30%	15.86%	16.09%	16.54%
7	Total capital ratio (%)	19.54%	18.04%	17.58%	17.86%	18.31%
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	1.875%	1.875%	1.875%	1.25%	1.25%
9	Countercyclical capital buffer requirement (%)	0.99%	0.98%	0.94%	0.61%	0.63%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	-	-	-	-	-
11	Total AI-specific CET1 buffer requirements (%)	2.865%	2.855%	2.815%	1.86%	1.88%
12	CET1 available after meeting the AI's minimum capital requirements (%)	9.53%	8.35%	7.96%	8.10%	8.42%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	445,898,969	459,130,193	460,951,668	463,397,438	436,074,082
14	LR (%)	10.03%	9.59%	9.43%	9.25%	9.76%
Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)						
Applicable to category 1 institution only:						
15	Total high quality liquid assets (HQLA)	65,222,232	66,439,108	64,282,506	56,989,037	53,097,960
16	Total net cash outflows	41,968,143	49,016,908	45,569,882	36,037,902	32,181,633
17	LCR (%)	158.07%	136.13%	142.76%	159.33%	168.97%
Applicable to category 2 institution only:						
17a	LMR (%)	N/A	N/A	N/A	N/A	N/A
Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)						
Applicable to category 1 institution only:						
18	Total available stable funding	263,204,451	258,185,785	260,239,902	N/A	N/A
19	Total required stable funding	230,832,203	228,502,078	228,084,632	N/A	N/A
20	NSFR (%)	114.02%	112.99%	114.10%	N/A	N/A
Applicable to category 2A institution only:						
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

OV1: Overview of RWA

		RWA		Minimum capital requirements
		At 30 September 2018	At 30 June 2018	At 30 September 2018
		HK\$'000	HK\$'000	HK\$'000
1	Credit risk for non-securitization exposures	227,196,028	244,972,508	19,137,863
2	Of which STC approach	26,741,676	28,854,512	2,139,334
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	199,840,769	215,656,727	16,946,497
4	Of which supervisory slotting criteria approach	613,583	461,269	52,032
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	641,456	475,912	54,249
7	Of which SA-CCR	N/A	N/A	N/A
7a	Of which CEM	637,199	406,055	53,888
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	4,257	69,857	361
10	CVA risk	348,800	214,513	27,904
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA	N/A	N/A	N/A
13	CIS exposures - MBA	N/A	N/A	N/A
14	CIS exposures - FBA	N/A	N/A	N/A
14a	CIS exposures - combination of approaches	N/A	N/A	N/A
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	345,717	559,515	27,657
17	Of which SEC - IRBA	-	-	-
18	Of which SEC - ERBA	-	-	-
19	Of which SEC - SA	345,717	559,515	27,657
19a	Of which SEC - FBA	-	-	-
20	Market risk	1,378,163	934,638	110,253
21	Of which STM approach	192,825	185,725	15,426
22	Of which IMM approach	1,185,338	748,913	94,827
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	N/A	N/A	N/A
24	Operational risk	14,275,975	13,890,213	1,142,078
25	Amounts below the thresholds for deduction (subject to 250% RW)	15,250	15,250	1,220
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	3,810,641	3,809,463	304,851
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	179,499	171,525	14,360
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	3,631,142	3,637,938	290,491
27	Total	240,390,748	257,253,086	20,196,373

N/A: Not applicable until the respective policy frameworks take effect

LR2: Leverage ratio

		At 30 September 2018	At 30 June 2018
		HK\$'000	HK\$'000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	426,214,754	431,566,864
2	Less: Asset amounts deducted in determining Tier 1 capital	(9,556,481)	(9,557,351)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	416,658,273	422,009,513
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	611,294	459,253
5	Add-on amounts for PFE associated with all derivative contracts	601,582	398,675
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	(4,851)	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	Total exposures arising from derivative contracts	1,208,025	857,928
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	3,450,896	7,670,387
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	21,712	83,258
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	3,472,608	7,753,645
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	109,318,247	117,379,149
18	Less: Adjustments for conversion to credit equivalent amounts	(81,654,158)	(85,768,117)
19	Off-balance sheet items	27,664,089	31,611,032
Capital and total exposures			
20	Tier 1 capital	44,734,817	44,037,442
20a	Total exposures before adjustments for specific and collective provisions	449,002,995	462,232,118
20b	Adjustments for specific and collective provisions	(3,104,026)	(3,101,925)
21	Total exposures after adjustments for specific and collective provisions	445,898,969	459,130,193
Leverage ratio			
22	Leverage ratio	10.03%	9.59%

LIQ1: Liquidity Coverage Ratio – for category 1 institution

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 ended 30 September 2018: 76 data points		For the quarter ended 30 June 2018: 73 data points	
Basis of disclosure: consolidated		UNWEIGHTED VALUE (Average)	WEIGHTED VALUE (Average)	UNWEIGHTED VALUE (Average)	WEIGHTED VALUE (Average)
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
A. HQLA					
1	Total HQLA		65,222,232		66,439,108
B. CASH OUTFLOWS					
2	Retail deposits and small business funding, of which:	132,459,597	8,696,475	128,096,822	8,541,012
3	Stable retail deposits and stable small business funding	23,222,778	696,683	23,088,896	692,667
4	Less stable retail deposits and less stable small business funding	45,013,473	4,501,347	46,072,513	4,607,251
4a	Retail term deposits and small business term funding	64,223,346	3,498,445	58,935,413	3,241,094
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	106,130,389	56,752,089	117,088,613	62,192,782
6	Operational deposits	34,730,196	8,513,317	34,888,149	8,558,667
7	Unsecured wholesale funding (other than small business funding) not covered in Row 6	70,931,929	47,770,508	82,032,790	53,466,441
8	Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period	468,264	468,264	167,674	167,674
9	Secured funding transactions (including securities swap transactions)		296,292		390,228
10	Additional requirements, of which:	36,776,091	9,205,400	33,803,969	7,821,650
11	Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements	5,486,586	5,486,586	4,372,239	4,372,239
12	Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions	-	-	-	-
13	Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)	31,289,505	3,718,814	29,431,730	3,449,411
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	2,941,854	2,941,854	2,046,343	2,046,343
15	Other contingent funding obligations (whether contractual or non-contractual)	86,825,299	2,354,494	100,701,642	3,045,947
16	TOTAL CASH OUTFLOWS		80,246,604		84,037,962
C. CASH INFLOWS					
17	Secured lending transactions (including securities swap transactions)	1,169,209	1,169,209	3,088,728	3,088,728
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	50,897,287	31,555,699	38,491,133	23,664,035
19	Other cash inflows	5,715,415	5,553,553	11,117,371	8,268,291
20	TOTAL CASH INFLOWS	57,781,911	38,278,461	52,697,232	35,021,054
D. LIQUIDITY COVERAGE RATIO			ADJUSTED VALUE		ADJUSTED VALUE
21	TOTAL HQLA		65,222,232		66,439,108
22	TOTAL NET CASH OUTFLOWS		41,968,143		49,016,908
23	LCR (%)		158.07%		136.13%

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

Notes:

The weighted amount of HQLA is to be calculated as the amount after applying the haircuts as required under the Banking (Liquidity) Rules.

The unweighted amounts of cash inflows and cash outflows are to be calculated as the principal amounts in the calculation of the LCR as required under the Banking (Liquidity) Rules.

The weighted amounts of cash inflows and cash outflows are to be calculated as the amounts after applying the inflow and outflow rates as required under the Banking (Liquidity) Rules.

The adjusted value of total HQLA and the total net cash outflows have taken into account any applicable ceiling as required under the Banking (Liquidity) Rules.

In the third quarter of 2018, the Group has maintained a healthy liquidity position. The LCR remained stable and there was no material change throughout the period. The average LCR of the third quarter of 2018 was 158.07%. The average HKD level 1 HQLA to HKD net cash outflow ratio in the third quarter of 2018 was 180.31%, well above the regulatory requirement of 20%. The ratios have maintained at stable and healthy levels.

The HQLA consists of cash, balances at central banks and high quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks and non-financial corporate debt securities. In the third quarter of 2018, the majority of the HQLA was composed of Level 1 HQLA.

The net cash outflow was mainly from retail and corporate customer deposit which are the Group's primary source of funds, together with deposit and balance from bank and other financial institution. To ensure stable, sufficient and diversified source of funds, the Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market. Other cash outflow, such as commitment, cash outflow under derivative contract and potential collateral requirement, were minimal to the LCR.

Majority of the Group's customer deposits are denominated in HKD, USD and RMB. As the supply of HKD denominated HQLA in the market is relatively limited, the Group swaps surplus HKD funding into USD and other foreign currencies, part of funding are deployed to investment in HQLA.

CR8: RWA flow statements of credit risk exposures under IRB approach

		HK\$'000
1	RWA as at 30 June 2018	216,117,996
2	Asset size	(11,485,817)
3	Asset quality	(2,640,246)
4	Model updates	-
5	Methodology and policy	-
6	Acquisitions and disposals	-
7	Foreign exchange movements	(1,537,581)
8	Other	-
9	RWA as at 30 September 2018	200,454,352

MR2: RWA flow statements of market risk exposures under IMM approach

Movement in RWA was mainly driven by changes in exposure and risk level during the period.

		VaR	Stressed VaR	IRC	CRC	Other	Total RWA
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	RWA as at 30 June 2018	223,313	525,600	-	-	-	748,913
1a	Regulatory adjustment	(131,963)	(256,587)	-	-	-	(388,550)
1b	RWA as at 30 June 2018 (day-end)	91,350	269,013	-	-	-	360,363
2	Movement in risk levels	45,125	83,837	-	-	-	128,962
3	Model updates/changes	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-
7	Other	-	-	-	-	-	-
7a	RWA as at 30 September 2018 (day-end)	136,475	352,850	-	-	-	489,325
7b	Regulatory adjustment	201,925	494,088	-	-	-	696,013
8	RWA as at 30 September 2018	338,400	846,938	-	-	-	1,185,338