

Regulatory Disclosures

30 September 2018



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1. Key prudential ratios and overview of RWA

KM1: Key prudential ratios

	(a)	(b)	(c)	(d)	(e)	
	At 30 September 2018	At 30 June 2018	At 31 March 2018	At 31 December 2017	At 30 September 2017	
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	
Regulatory capital						
1	Common Equity Tier 1 (CET1)	178,953	176,702	174,287	170,012	171,171
2	Tier 1	202,430	176,702	174,287	170,012	171,171
3	Total capital	236,646	213,839	210,552	209,828	210,279
RWA						
4	Total RWA	1,032,355	1,063,065	1,087,903	1,029,152	997,573
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	17.33%	16.62%	16.02%	16.52%	17.16%
6	Tier 1 ratio (%)	19.61%	16.62%	16.02%	16.52%	17.16%
7	Total capital ratio (%)	22.92%	20.12%	19.35%	20.39%	21.08%
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	1.875%	1.875%	1.875%	1.250%	1.250%
9	Countercyclical capital buffer requirement (%)	1.394%	1.403%	1.361%	0.934%	0.936%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	1.125%	1.125%	1.125%	0.750%	0.750%
11	Total AI-specific CET1 buffer requirements (%)	4.394%	4.403%	4.361%	2.934%	2.936%
12	CET1 available after meeting the AI's minimum capital requirements (%)	12.83%	10.62%	10.02%	10.52%	11.16%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	2,631,057	2,558,199	2,637,364	2,461,068	2,390,838
14	LR (%)	7.69%	6.91%	6.61%	6.91%	7.16%
Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)						
Applicable to category 1 institution only:						
15	Total high quality liquid assets (HQLA)	572,746	565,790	514,025	493,698	435,351
16	Total net cash outflows	405,984	394,533	383,880	371,435	360,117
17	LCR (%)	141.44%	146.39%	134.33%	135.64%	121.12%
Applicable to category 2 institution only:						
17a	LMR (%)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Net Stable Funding Ratio (NSFR)/Core Funding Ratio (CFR)						
Applicable to category 1 institution only:						
18	Total available stable funding	1,522,120	1,484,704	1,483,608	-	-
19	Total required stable funding	1,245,220	1,249,500	1,246,981	-	-
20	NSFR (%)	122.24%	118.82%	118.98%	-	-
Applicable to category 2A institution only:						
20a	CFR (%)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

1. Key prudential ratios and overview of RWA (continued)

OV1: Overview of RWA

		(a)	(b)	(c)	
		RWA			Minimum capital requirements
		At 30 September 2018	At 30 June 2018	At 30 September 2018	
		HK\$m	HK\$m	HK\$m	
1	Credit risk for non-securitization exposures	888,054	920,911	74,882	
2	Of which STC approach	88,456	89,681	7,076	
2a	Of which BSC approach	-	-	-	
3	Of which foundation IRB approach	799,598	831,230	67,806	
4	Of which supervisory slotting criteria approach	-	-	-	
5	Of which advanced IRB approach	-	-	-	
6	Counterparty default risk and default fund contributions	13,446	12,766	1,133	
7	Of which SA-CCR	Not applicable	Not applicable	Not applicable	
7a	Of which CEM	13,021	12,312	1,099	
8	Of which IMM(CCR) approach	-	-	-	
9	Of which others	425	454	34	
10	CVA risk	7,353	7,171	588	
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-	
12	Collective investment scheme ("CIS") exposures – LTA	Not applicable	Not applicable	Not applicable	
13	CIS exposures – MBA	Not applicable	Not applicable	Not applicable	
14	CIS exposures – FBA	Not applicable	Not applicable	Not applicable	
14a	CIS exposures – combination of approaches	Not applicable	Not applicable	Not applicable	
15	Settlement risk	-	3	-	
16	Securitization exposures in banking book	-	-	-	
17	Of which SEC-IRBA	-	-	-	
18	Of which SEC-ERBA	-	-	-	
19	Of which SEC-SA	-	-	-	
19a	Of which SEC-FBA	-	-	-	
20	Market risk	14,576	14,669	1,166	
21	Of which STM approach	3,695	2,891	296	
22	Of which IMM approach	10,881	11,778	870	
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	Not applicable	Not applicable	Not applicable	
24	Operational risk	83,942	81,300	6,716	
25	Amounts below the thresholds for deduction (subject to 250% RW)	4,554	3,945	364	
26	Capital floor adjustment	-	-	-	
26a	Deduction to RWA	28,262	28,228	2,261	
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	313	271	25	
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	27,949	27,957	2,236	
27	Total	983,663	1,012,537	82,588	

In this table, RWAs for credit risk calculated under the IRB approach are before the application of the 1.06 scaling factor. Minimum capital requirement represents the amount of capital required to be held for that risk based on its RWAs after any applicable scaling factor multiplied by 8%.

2. Leverage ratio

LR2: Leverage ratio

		At 30 September 2018	At 30 June 2018
		(a)	(b)
		HK\$m	HK\$m
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	2,489,775	2,435,839
2	Less: Asset amounts deducted in determining Tier 1 capital	(61,285)	(61,720)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	2,428,490	2,374,119
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)	13,308	11,299
5	Add-on amounts for PFE associated with all derivative contracts	19,831	20,042
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	(486)	(282)
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	32,653	31,059
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	45,929	16,211
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	194	49
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	46,123	16,260
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	631,111	651,615
18	Less: Adjustments for conversion to credit equivalent amounts	(501,458)	(508,939)
19	Off-balance sheet items	129,653	142,676
Capital and total exposures			
20	Tier 1 capital	202,430	176,702
20a	Total exposures before adjustments for specific and collective provisions	2,636,919	2,564,114
20b	Adjustments for specific and collective provisions	(5,862)	(5,915)
21	Total exposures after adjustments for specific and collective provisions	2,631,057	2,558,199
Leverage ratio			
22	Leverage ratio	7.69%	6.91%

3. Liquidity

LIQ1: Liquidity Coverage Ratio – for category 1 institution

Number of data points used in calculating the average value of the LCR and related components set out in this template: (76)		For the quarter ended 30 September 2018	
		(a)	(b)
Basis of disclosure: consolidated		Unweighted value (average)	Weighted value (average)
		HK\$m	HK\$m
A. HQLA			
1	Total HQLA		572,746
B. Cash Outflows			
2	Retail deposits and small business funding, of which:	978,374	61,986
3	<i>Stable retail deposits and stable small business funding</i>	343,198	10,296
4	<i>Less stable retail deposits and less stable small business funding</i>	392,901	39,290
4a	<i>Retail term deposits and small business term funding</i>	242,275	12,400
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	959,707	447,855
6	<i>Operational deposits</i>	322,629	79,324
7	<i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i>	630,403	361,856
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	6,675	6,675
9	Secured funding transactions (including securities swap transactions)		418
10	Additional requirements, of which:	403,729	72,923
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	35,911	35,911
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	-	-
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	367,818	37,012
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	31,464	31,464
15	Other contingent funding obligations (whether contractual or non-contractual)	281,984	4,960
16	Total Cash Outflows		619,606
C. Cash Inflows			
17	Secured lending transactions (including securities swap transactions)	1,717	1,424
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	232,459	163,196
19	Other cash inflows	49,568	49,002
20	Total Cash Inflows	283,744	213,622
D. Liquidity Coverage Ratio			Adjusted value
21	Total HQLA		572,746
22	Total Net Cash Outflows		405,984
23	LCR (%)		141.44%

3. Liquidity (continued)

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.

The Group's average LCR of the first, second and third quarter in 2018 were 134.33%, 146.39% and 141.44% respectively, continuously 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. 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 or by issuing debts in the capital 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.

4. Credit risk for non-securitization exposures

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

		(a)
		HK\$m
1	RWA as at 30 June 2018	831,230
2	Asset size	(20,435)
3	Asset quality	(7,928)
4	Model updates	(58)
5	Methodology and policy	-
6	Acquisitions and disposals	-
7	Foreign exchange movements	(3,211)
8	Other	-
9	RWA as at 30 September 2018	799,598

RWAs of model updates decreased by HK\$58 million in the third quarter were due to redeveloped Hong Kong credit card Application Scorecard and recalibrated PD model.

5. Counterparty credit risk

CCR7: RWA flow statements of default risk exposures under IMM(CCR) approach

The Group did not use IMM(CCR) approach to measure default risk exposures as at 30 September 2018.

6. Market risk

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

		(a)	(b)	(c)	(d)	(e)	(f)
		VaR	Stressed VaR	IRC	CRC	Other	Total RWA
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1	RWA as at 30 June 2018	3,454	8,324	-	-	-	11,778
1a	Regulatory adjustment	(2,390)	(5,597)	-	-	-	(7,987)
1b	RWA as at day-end of 30 June 2018	1,064	2,727	-	-	-	3,791
2	Movement in risk levels*	(46)	(620)	-	-	-	(666)
3	Model updates/changes	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-
7	Other	-	-	-	-	-	-
7a	RWA as at day-end of 30 September 2018	1,018	2,107	-	-	-	3,125
7b	Regulatory adjustment	1,799	5,957	-	-	-	7,756
8	RWA as at 30 September 2018	2,817	8,064	-	-	-	10,881

* Movements as a result of changes in positions and risk levels.