

O-BANK CO., LTD.
HONG KONG BRANCH
(FORMERLY KNOWN AS INDUSTRIAL BANK OF TAIWAN CO., LTD.)

Basel III Pillar 3 Disclosures
For the Financial Year Ended 31 December 2018

Introduction

O-Bank Co., Ltd (herein referred to as “O-Bank” or the “Bank”) is formerly known as Industrial Bank of Taiwan was established in 1999. O-Bank, which is incorporated and registered in Taiwan and is the first industrial bank established in Taiwan. O-Bank was granted the license to carry on banking business in Hong Kong and established its foreign branch, O-Bank Co., Ltd (Hong Kong Branch) (herein referred to as the “Branch”) in Hong Kong in 2009.

With the transformation of the domestic industrial structure and the wave of digital financial technology, Industrial Bank of Taiwan officially reorganized into O-Bank Co., Ltd in January 2017, becoming the first digital channel in Taiwan.

It is the policy of O-Bank to maintain high standard of risk governance and internal control processes and procedures regarding risk management. The Pillar 3 Disclosures document (herein referred to as the “Disclosures”) sets out the control standards and procedures that exist in relation to this area.

Liquidity

LIQA – Liquidity Risk Management

a. Governance of liquidity risk management

The management of liquidity risk within O-Bank is undertaken within a formal governance structure. The Board is ultimately responsible for the liquidity risk, which includes establishing the liquidity risk tolerance, the liquidity risk appetite and strategy, and ensuring that it is clearly articulated and communicated to all levels of management.

The Asset and Liability Management Committee (ALCO) is chaired by the Chief Executive Officer. Its members include Chief Strategy Officer, Chief Finance Markets Officer, Chief Corporate Banking Officer, Chief Retail Banking Officer, Chief Operating Officer and Chief Risk Officer. ALCO is responsible for reviewing liquidity management policies/liquidity risk management and limits to be proposed to the Board, and ensuring that these policies and limits are cascaded to the business unit and properly monitored by Treasury and Risk departments/Risk management department.

The Treasury department has the overall responsibility for the daily management of the Bank's funding and liquidity positions, and liquidity limits within the Board's approved limits.

Risk management department (including the Branch) is responsible for planning, measuring, and monitoring and mitigating liquidity risk. Risk management department should report to ALCO and the Board periodically and whenever/wherever necessary, so that they are aware of the situation of the Hong Kong liquidity risk exposure.

Operation department of the Branch is responsible for submitting all regulatory liquidity risk management returns to the HKMA in accordance to HKMA regulations.

O-Bank has established various liquidity risk monitoring targets (e.g. LMR and CNMM). These various target limits are established in consideration of regulatory requirements, funding needs and the overall business strategies of the Bank.

The Branch has adopted the liquidity maintenance ratio (LMR) requirement in accordance with Banking (Liquidity) Rules starting 1 January 2015 onwards and complies with the minimum requirement of 25% as stipulated by the Hong Kong Monetary Authority (HKMA). On daily basis, the Branch's Finance team calculates the liquidity maintenance ratio, in accordance with the Banking Ordinance, and reports to Treasury department and Risk management department. The Branch also performs cash flow projections and stress testing to identify liquidity risk exposures and possible impact on monthly basis.

b. Funding strategy

Treasury department plans its cash flow and monitors closely every business transaction to ensure that available funds are sufficient to meet business requirements at all times.

In terms of day-to-day liquidity management, Treasury department ensures sufficient funding to meet its intraday payments and all settlement obligations on a timely basis.

The process of managing liquidity risk includes:

- Maintaining sufficient amounts as unencumbered high quality liquidity buffer - a protection against any unforeseen interruptions to cash flow;

- Managing short-term and long-term cash flows via maturity mismatch report and various indicators;
- Monitoring depositor concentration at Bank level to avoid undue reliance on large fund providers;
- Diversifying funding sources to ensure proper funding mix;

Forward looking liquidity mechanism is in place to promote efficient and effective cash flow management while avoiding excessive concentration of funding. Derivatives instruments such as interest rate swaps and cross currency swaps are used to manage and hedge market risk exposures against fluctuation in interest rates and foreign exchange.

c. Liquidity risk mitigation techniques

O-Bank's strategy is to mitigate liquidity risk through the prudent implementation of various risk mitigation techniques such as:

- Holding high-quality liquid assets:

O-bank maintains a sufficient high-quality liquefiable assets portfolio. The portfolio mainly includes cash, government bonds and other high-quality liquefiable assets, denominated in multiple currencies and with different maturities. The size of the portfolio is determined by the size of the stress outflows and in full compliance with regulatory guidelines, ensuring that the Group is able to meet its obligations as they fall due even in the event of a sudden and potentially protracted increase in net cash outflows.

- Diversification of funding sources:

Through implementing strategies to diversify funding sources across entities and on different maturities.

- Increase Market access:

The Group has lines of credit in place that it can access to meet liquidity needs.

d. Liquidity stress testing

The liquidity stress tests in considerations of actual and potential factors assess the outflows of funding under a range of scenarios. Based on these needs, the Bank will determine the size of the liquidity buffer that is required to meet anticipated outflows when a stress occurs. If the result of stress tests reaches the alert limit, ALCO will discuss the action plan to prepare in advance.

e. Contingency funding plan

O-Bank maintains a contingency funding plan that details how liquidity stress events of varying severity would be managed. As the precise nature of any stress event cannot be predicted, the plan is designed to provide a menu of options that could be used as appropriate at the time. The plan is part of the liquidity risk policy approved by the board of directors. ALCO monitors early warning indicators for potential liquidity risk and would activate the contingency funding plan as and when appropriate.

Additional quantitative disclosures

f. Liquidity gap

	HKD in thousand					
	Less than 8 days	8 - 30 days	31 - 90 days	91 - 180 days	181 - 360 days	Over 1 years
Assets	4,322,833	4,486,784	2,483,067	1,170,041	545,410	5,441,333
Liabilities	3,988,272	5,707,016	6,028,767	889,143	528,261	1,184,296
Off Balance Sheet Commitments	6,486	21,311	55,595	83,392	166,785	560,372
Liquidity Gap	328,075	-1,241,543	-3,601,295	197,506	-149,636	3,696,665

O-bank monitors and measures its liquidity positions by using liquidity gaps for various buckets and in particular monitoring intraday positions. In the above table, cash inflows and outflows are bucketed based on contractual maturities, in which exposures with no maturity are slotted into over 1 year bucket. The liquidity gaps is managed by Treasury department and monitored by Risk management department.

g. Concentration limits on collateral pools and sources of funding

O-bank only accepts high quality liquidity assets (i.e. Level 1 assets) as collateral for lending with certain haircuts to ensure their credit quality and eliminate default risk.

O-bank does not impose hard limits on funding composition and concentrations, given the nature of funding mix in the Taiwan banking system and the Taiwanese banks in Hong Kong. They are the Bank's main counterparties of interbank lending and borrowing. However, soft limits are imposed on interbank borrowing line usage cap, deposit concentrations, and daily wholesale funding maturity concentration. These soft limits are cautiously managed by the Treasury department. Key measures are monthly reported prudently to ALCO.

h. Liquidity exposures and funding needs at the level of the Branch, taking into account legal, regulatory and operational limitations on the transferability of liquidity

Funding needs of O-bank's foreign branch (now the Hong Kong Branch only), are determined and managed at the branch level. To ensure that O-bank supports the liquidity position of the Branch efficiently in times of stress events, it sets limits on lines of funding available to the Branch based on the budget, statutory requirements, and liquidity needs. These limits are reviewed on an annual basis and approved by ALCO.

