Scotiabank (Hong Kong) Limited

Pillar 3 Annual Disclosures

October 31, 2018

Table OVA: Overview of risk management

The primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with strategies and risk appetite of Scotiabank (Hong Kong) Limited ("SBHKL"), and that there is an appropriate balance between risk and reward in order to maximize shareholder value. The Company's Risk Management Framework (the Framework) articulates the foundation for achieving these goals. The Framework also describes how it interacts with the Parent Bank, The Bank of Nova Scotia's ('BNS") Enterprise-Wide Risk Management Framework.

Risk Management Framework

The risk management framework consists of five key elements:

- Risk Governance
- Risk Appetite
- Risk Management Tools
- Risk Identification and Assessment
- Risk Culture

This Framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the global and local markets in which the Company operates, including regulatory standards (i.e. specifically the Hong Kong's Monetary Authority (HKMA) Supervisory Policy Manual IC-1 Risk Management Framework) and industry best practices.

RISK GOVERNANCE

Effective risk management begins with effective risk governance.

The Company has a well-established risk governance structure to identify, measure, manage and control risks. The Company operates under the oversight of an active and engaged Board of Directors, who is supported by an experienced HK Management Committee (HKMC). Decision-making in SBHKL is highly centralized through a number of risk management committees.

The Company's risk management framework is predicated on the three-lines-of-defence model. Within this model,

- the First Line of Defence (typically comprised of the business lines and most corporate functions) incur and own the risks,
- the Second Line of Defence (typically comprised of control functions such as Global Risk Management – Asia, HK Compliance, HK AML/ATF and APAC Finance) provides independent oversight and objective challenge to the First Line of Defence, as well as monitoring and control of risk, and
- the Third Line of Defence (Internal Audit) provides independent assurance over the design and operation of the SBHKL's internal control, risk management and governance processes throughout the first and second lines of defence.

In this risk governance structure, employees in every area of SBHKL are responsible for risk management.

The Board of Directors - The Board of Directors provides oversight, either directly or through its committees, to satisfy that decision making is aligned with SBHKL's strategies and risk appetite. The Board receives regular updates on the key risks of the Company – including a quarterly comprehensive summary of the Company's risk profile and performance of the portfolio against defined limits – and approves key risk policies, limits and the Risk Appetite Framework (RAF).

HK Management - The Managing Director (MD) of the Company is responsible for risk management, under the oversight of the Board. The MD is supported by the HKMC which comprises of senior business/product leaders (collectively "HK Management") who assist them to discharge their risk management responsibilities.

Risk Management – GRM Asia, part of Global Risk Management (GRM), comprises of Trade Floor Risk Management (TFRM) Asia, Enterprise Risk Asia and Credit Risk Asia functions that report to the Chief Risk Officer (CRO) Asia. The department is responsible for the design and application of the SBHKL's risk management framework and is independent of SBHKL. Various GRM teams; Market Risk, Credit Risk, Operational Risk and Enterprise Risk, support and provide advice and counsel, as required, on all aspects of risk management to the Asia risk functions housed geographically in Singapore and Hong Kong, in support of SBHKL. There also exists an Operational Risk Oversight (ORO) Asia function situated within Global Banking and Markets (GBM) to strengthen the first line of defence.

RISK APPETITE

Effective risk management requires clear articulation of the Company individual risk appetite and how each the risk profile will be managed in relation to its respective risk appetite.

The Company's Risk Appetite Framework (RAF) articulates the amount and types of risk which are willing to take in order to meet its strategic objectives. The RAF consists of the identification of risk capacity, a risk appetite statement and respective risk appetite measures. Together, the application of these components helps to ensure the Company stays within appropriate risk boundaries, achieves an optimal balance between risk and return, and assist in nurturing a healthy risk culture.

Risk Appetite Statement

The Company's Risk Appetite Statement (RAS) can be summarized as follows:

1. SBHKL favours businesses that generate sustainable, consistent and predictable earnings.
2. SBHKL expects to take certain risks in order to generate earnings, but a framework of controls and limits is in place to ensure risk-taking activities are in line with its strategic objectives, risk culture and risk appetite.
3. SBHKL limits its risk-taking activities to those that are well understood and where there is sufficient expertise, resources and infrastructure to effectively measure and manage the risk and balance with reward.
4. Capital considerations and efficient use of funding are part of material risk decisions.
5. SBHKL has low appetite for reputational, legal, regulatory or taxation risk and no appetite for breaches of the BNS Code of Conduct.
6. All employees of the SBHKL are responsible for understanding the limits and any other boundaries that apply to their activities.

Risk Appetite Measures

Risk appetite measures provide clear risk limits, which are critical in implementing effective risk management. For major risks, the key risk appetite measures are supported by management level limit structures and controls.

Other components of the Company's key risk appetite measures include measures that:

- Set risk capacity and appetite in relation to regulatory constraints
- Use stress testing to provide forward-looking metrics
- Minimize earnings volatility
- Limit exposure to operational events that can have an impact on earnings, including regulatory fines
- Ensure reputational risk is top of mind and strategy is being executed within operating parameters

RISK MANAGEMENT TOOLS

Effective risk management includes tools that are guided by the Company's Risk Appetite Framework and integrated with its strategies and business planning processes.

The Company's risk management framework is supported by a variety of risk management tools that are used together to manage its enterprise risks. Risk management tools are regularly reviewed and updated to ensure consistency with its risk-taking activities, and relevance to its business and financial strategies.

Policies & Limits

Policies

The Company develops and implements its key risk policies in consultation with the Board of Directors. Such policies (which include appetites and frameworks) are also subject to the requirements and guidelines of the Hong Kong Monetary Authority. In addition to local policies, SBHKL also adopts the BNS's key risk policies. Policy development and implementation reflect best governance practices which the Company strives to adhere to at all times.

The Company's policies apply to specific types of risk or to the activities that are used to measure and control risk exposure. They are based on recommendations from risk management, internal audit, business lines, and HK Management. Industry best practices and regulatory requirements are also factored into these policies. The Company's policies are guided by its risk appetite, and its limits and controls are set within the parameters which it can operate. Key risk policies are supported by manuals, procedures and guidelines.

Limits

Limits control risk-taking activities within the appetite and tolerances established by the Board and HK Management. Limits also establish accountability for key tasks in the risk-taking process and establish the level or conditions under which transactions may be approved or executed.

Risk Measurement

Models

The use of quantitative risk methodologies and models is balanced by a strong governance framework and includes the application of sound and experienced judgment. The development, independent review, and approval of models are subject to formalized policies such as BNS Model Risk Management Policy, as adopted by SBHKL; and oversight of BNS committees such as BNS Model Review Committee (for market risk, counterparty credit risk, and liquidity risk models). The Company uses models for a range of purposes including:

- Valuing transactions,
- Measuring risk exposures,
- Determining credit risk ratings and parameters.

Monitoring and Reporting

The Company continuously monitors their risk exposures to ensure business activities are operating within approved limits or guidelines, their respective business strategies and risk appetite. Breaches, if any, of these limits or guidelines are reported to the Board depending on the limit or guideline.

Risk Reports aggregate measures of risk across products and businesses, and are used to ensure compliance with risk policies, limits, and guidelines. They also provide a clear statement of the amounts, types, and sensitivities of the various risks in the portfolio. Management and the Board use this information to understand its risk profiles and the performance of the portfolios. A comprehensive summary of each entity's risk profile and performance of the portfolio is presented quarterly to the Board.

Forward-Looking Exercises

Stress Testing

Stress testing programs allow the Company to estimate the potential impact on its income and capital as a result of significant changes in market conditions, credit environment, liquidity demands, or other risk factors. Each program is developed with input from a broad base of stakeholders, and results are integrated into management decision making processes for capital, funding, market risk limits, and credit risk appetite. The stress testing programs are designed to capture a number of stress scenarios with differing severities and time horizons.

RISK IDENTIFICATION AND ASSESSMENT

Effective risk management requires a comprehensive process to identify risks and assess their materiality.

Principal Risk Types

The Company's principal risk types are reviewed regularly to ensure they adequately reflect its risk profile. The principal risks can be categorized into two main categories:

Financial Risks:

Credit, Market, Liquidity

These are risks that the Company understands well and takes on in order to generate sustainable and predictable earnings. Financial risks are generally quantifiable using widely accepted methodologies and are relatively predictable. The Company has higher risk appetites for financial risks which are considered to be a fundamental part of doing business; but only when they are well understood, within established limits, and meet the desired risk and return profile.

Non-Financial Risks:

Operational, IT & Cybersecurity, Compliance, ML & TF, Environmental, Reputational, Strategic

These are risks that are inherent in the Company's businesses and must be managed to reduce potential losses. In comparison to financial risks, non-financial risks are less predictable and more difficult to define and measure. If not managed properly, these risks can lead to significant financial losses. The Company has low risk appetite for non-financial risks and reduce these risks through internal controls and procedures, and continued investments to enhance these internal controls and procedures.

RISK CULTURE

Effective risk management requires a strong, robust, and pervasive risk management culture where every SBHKL's employee is a risk manager and is responsible for managing risks.

The Company's risk culture is influenced by numerous factors including the interdependent relationship amongst its risk governance structure, risk appetite, strategy, organizational culture, and risk management tools.

SBHKL's risk culture is supported through the following foundational elements:

1. Tone from the Top – Clear and consistent communication from Management on risk behavior expectations and the importance of the SBHKL's values.
2. Accountability – All SBHKL's employees are accountable for risk management in accordance with the Three Lines of Defence model.
3. Incentives – Performance and compensation structures encourage desired behaviors and reinforce the SBHKL's risk culture.
4. Effective Challenge – SBHKL's employees are encouraged to have a critical attitude – transparency and open dialogue is promoted.

Other elements that influence and support the SBHKL's risk culture:

- BNS Code of Conduct: describes the standard of behavior to which all employees must attest on an annual basis.
- Values: Integrity – Act With Honour; Respect – Value Every Voice; Accountability – Make It Happen; Passion – Be Your Best
- Communication: SBHKL actively communicates risk appetite, and how it relates to its employees, to promote a sound risk culture.
  - Reputation is everything,
  - Information is key,
  - Success depends on you,
  - Know your boundaries.
- Compensation: programs are structured to discourage behaviors that are not aligned with the Company's values or BNS Code of Conduct, and ensure that such behaviors will not be rewarded.

- Training: risk culture is continually reinforced by providing effective and informative mandatory and non-mandatory training modules for all employees on a variety of risk management topics.
- Decision-making on risk issues is highly centralized: The flow of information and transactions to senior committees keeps Management well informed of the risks faced by the SBHKL, and ensures that transactions and risks are aligned with its risk appetite.
- Senior Management Mandates: Management has risk management responsibilities within their mandates.

In addition, the Company is expected to adopt a holistic and effective framework for fostering a sound risk culture, in accordance with the HKMA's Bank Culture Reform Notice.

Template OV1: Overview of Risk Weighted Assets

The table below provides an overview of capital requirements in terms of a detailed breakdowns of RWAs for various risks.

		(a)	(b)	(c)
		RWA		Minimum capital
		October 31, 2018 HKD'000	July 31, 2018 HKD'000	October 31, 2018 HKD'000
1	Credit risk for non-securitization exposures	12,503,116	11,190,900	1,000,249
2	Of which STC approach	12,503,116	11,190,900	1,000,249
2a	Of which BSC approach	-	-	-
3	Of which IRB approach	-	-	-
4	Counterparty credit risk	-	-	-
5	Of which SA-CCR	-	-	-
5a	Of which CEM	-	-	-
6	Of which IMM(CCR) approach	-	-	-
7	Equity exposures in banking book under the market-based approach	-	-	-
8	CIS exposures – LTA	-	-	-
9	CIS exposures – MBA	-	-	-
10	CIS exposures – FBA	-	-	-
11	Settlement risk	-	-	-
12	Securitization exposures in banking book[1]	-	-	-
13	Of which IRB(S) approach – ratings-based method	-	-	-
14	Of which IRB(S) approach – supervisory formula method	-	-	-
15	Of which STC(S) approach	-	-	-
16	Market risk	-	-	-
17	Of which STM approach	-	-	-
18	Of which IMM approach	-	-	-
19	Operational risk	507,350	542,875	40,588
20	Of which BIA approach	507,350	542,875	40,588
21	Of which STO approach	-	-	-
21a	Of which ASA approach	-	-	-
22	Of which AMA approach	N/A	N/A	N/A
23	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-
24	Capital floor adjustment	-	-	-
24a	Deduction to RWA	-	-	-
24b	Of which portion of regulatory reserve for general banking risks and collective	-	-	-
24c	Of which portion of cumulative fair value gains arising from the revaluation of	-	-	-
25	Total	13,010,466	11,733,775	1,040,837

Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

The table below provides information on assets and liabilities to enable users to identify the differences between the scope of accounting consolidation and the scope of regulatory consolidation, with a breakdown into regulatory risk categories of every item of the assets and liabilities reported in financial statements based on the scope of accounting consolidation.

	(a) & (b)	(c)	(d)	(e)	(f)	(g)
		Carrying values of items:				
HKD'000	Carrying values as reported in published financial statements / Carrying values under scope of regulatory consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Assets						
Cash and balances with banks	2,352,505	2,352,505	-	-	-	-
Loans and advances	11,992,169	11,992,169	-	-	-	-
Trade bills	84,572	84,572	-	-	-	-
Investment securities measured at fair value through other comprehensive income	2,023,460	2,023,460	-	-	-	-
Current tax assets	336	336	-	-	-	-
Deferred tax assets	377	-	-	-	-	377
Other assets	26,603	26,603	-	-	-	-
Total assets	**16,480,022**	**16,479,645**	**-**	**-**	**-**	**377**
			-			
Liabilities						
Deposits and balances from banks	11,027,492	-	-	-	-	11,027,492
Other liabilities	28,417	-	-	-	-	28,417
Total liabilities	**11,055,909**	**-**	**-**	**-**	**-**	**11,055,909**

Carrying values as reported in published financial statements and scope of regulatory consolidation are exactly the same, as the Company does not have any subsidiary.

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

The table below provides information on the main sources of differences between the carrying values in financial statements and the exposure amounts used for the calculation of regulatory capital in respect of the assets and liabilities based on the scope of regulatory reporting.

		(a)	(b)	(c)	(d)	(e)
			Items subject to:			
		Total	credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	**16,479,645**	**16,479,645**	**-**	**-**	**-**
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	16,479,645	16,479,645	-	-	-
4	Off-balance sheet amounts	5,936,755	2,169,462	-	-	-
5	*Difference due to consideration of provisions*	-	1,938			
N	**Exposure amounts considered for regulatory purposes**	**22,416,400**	**18,651,045**	**-**	**-**	**-**

Table LIA: Explanation of differences between accounting and regulatory exposure amounts

The difference between accounting values and amounts considered for regulatory purposes is attributable to the difference in the reporting treatment for expected credit loss provision for accounting and regulatory reporting purposes. The on-balance sheet exposure represents the carrying value after netting stage 1 expected credit loss provision, whereas for regulatory reporting, the exposure amount reported represents the carrying value before deduction of stage 1 expected credit loss provision. For regulatory reporting purpose, the off-balance sheet exposures are derived by applying the CCF to the notional amount of the contracts. The notional amount of the contracts is the amount of an off-balance sheet item adopted for financial reporting.

System and controls to ensure that the valuation estimates are prudent and reliable

Fair value estimates are generally subjective in nature, and are made at a specific point in time based on the characteristics of the financial instruments and relevant market information. The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 - Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2 - Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

The Company has controls and processes in place to ensure that the valuation of financial instruments is appropriately determined. GRM is responsible for the design and application of the Company's risk management framework. Where possible, valuations are based on quoted prices or observable inputs obtained from active markets. GRM oversees a monthly Independent Price Verification (IPV) process in order to assess the reliability and accuracy of prices and inputs used in the determination of fair value. The valuation policies relating to the IP process require that all pricing or rate sources used be external to the Company. On a periodic basis, an independent assessment of pricing or rate sources is also performed by GRM to determine market presence or market representative levels. Where quoted prices are not readily available, such as for transactions in inactive or illiquid markets, internal models that maximize the use of observable inputs are used to estimate fair value.

Table CRA – General Information about credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Company. Credit risk arises in the Company's direct lending operations, and in its funding, and investment where counterparties have repayment or other obligations to the Company. Credit Risk includes settlement risk, suitability risk and wrong way risk.

The Company adopts BNS Credit Risk Policy and credit risk management program that detail, among other things, the credit risk rating systems and associated parameter estimates, the delegation of authority for granting credit, the calculation of the allowance for credit losses, and the authorization of write-offs.

The Company's overarching risk management framework is predicated on the Three-Lines-of-Defence model as follows:
• Business lines represent the first line of defence by being accountable for risk. Business lines own the risks arising from their activities and are responsible for managing these risks while achieving their financial objectives.
• A strong, centralized and independent risk unit (including BNS GRM) is the second line of defence, and complements risk management in the business lines.
• Independent and objective audit functions (both internal and external) are the third line of defence.

The Company is firmly committed to the management and diversification of risk, productivity and customer service. SBHKL recognises that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volume of financial products, facilitated by rapid advances in technology and communications.

The Board of Directors reviews and approves SBHKL's Credit Risk Appetite and Credit Policy Handbook annually. Senior management will ensure that, in all material respects, such policies conform to the credit risk policies and credit risk management strategies of BNS and the applicable laws, regulatory requirements, accounting standards and sound practices in the jurisdictions where SBHKL operates and are consistent with SBHKL's Risk Appetite Framework. Each customer will have authorized credit limits that encompass defined credit risks. Such credit limits are monitored and reviewed annually, or more frequently as circumstances warrant.

A comprehensive and reliable reporting process is in place to ensure the effective monitoring of credit risk. Detailed positions and exposures of the Company's activities by industry, counterparty, product and country are reported regularly to senior management. The Company's Board of Directors receives similar information at the regular Board meetings. The Back Office provides the reporting required for both internal and statutory purposes and monitor compliance with regulatory requirements as well as policy and limits. Exception reporting as to breaches of limits and their terms and conditions, is provided to senior management and to the relevant department of BNS GRM and Board of Directors as appropriate.

Template CR1: Credit quality of exposures

The table below provides an overview of the credit quality of on- and off-balance sheet exposures as at October 31, 2018:

		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
HKD'000		Defaulted exposures	Non-defaulted exposures		
1	Loans	-	11,992,169	-	11,992,169
2	Debt securities	-	2,023,460	-	2,023,460
3	Off-balance sheet exposures	-	3,689,560	-	3,689,560
4	***Total***	**-**	**17,705,189**		**17,705,189**

Template CR2: Changes in defaulted loans and debt securities

The table below provides information on the changes in defaulted loans and debt securities, including any changes in the amount of defaulted exposures, movements between non-defaulted and defaulted exposures, and reductions in the defaulted exposures due to write-offs as at October 31, 2018:

HKD'000		(a) Amount
1	**Defaulted loans and debt securities at end of the previous reporting period**	-
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	-
6	**Defaulted loans and debt securities at end of the current reporting period**	-

Table CRB: Additional disclosure related to credit quality of exposures – Qualitative disclosures

The Company considers a financial instrument to be impaired as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

• significant financial difficulty of the borrower;
• default or delinquency in interest or principal payments;
• high probability of the borrower entering a phase of bankruptcy or a financial reorganization;
• measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Company considers that an Entity is considered Default / Credit-Impaired when either of the criteria below is met:
• The Entity is "unlikely to pay" its credit obligations in full, without recourse to actions such as realizing security (this excludes securities borrowing and lending as well as other facilities that are regularly marked to market and subject to margin calls); or
• The Entity is more than 90 days past due on any material credit obligation.
Restructured exposures include exposures where the Company has renegotiated the original terms of an exposure by granting a concession to the borrower (concessions). These concessions include interest rate adjustments, deferral or extension of principal or interest payments and forgiveness of a portion of principal or interest. Once the terms of the exposure have been renegotiated and agreed upon with the borrower the exposure is considered a restructured exposure.

To determine the amount of impairment, the Company will look at the amount and timing of expected cash flows (or recoveries), and calculates the Principal Provision and Time Value Provision required until the loan is fully repaid. Provisions are made up of the following two components:
• The Principal Provision is based on analysis of the borrower's ability to repay the outstanding financial asset or the Company's ability to realize on security supporting the financial asset. It reflects how much the Company expects to lose on the financial asset given expected payments and the selling or legal costs associated with the recovery.
• The Time Value Provision is required under accounting rules and measures the discount value of future recovery payment(s), i.e. the difference between the amounts we expect to recover at some future date versus the value of this same amount at today's date.

There was no exposure which was past due for more than 90 days but was impaired.

There was no impaired, accounting past due and restructured exposures as at October 31, 2018.

Template CRB: Additional disclosure related to credit quality of exposures – Quantitative disclosures

The tables below illustrates the breakdown of credit risk exposures by geographical aresa, industry, and residual maturity as at October 31, 2018:

(1) Breakdown of credit risk exposures by geographical areas

HKD'000	Amount
Hong Kong	12,599,979
Asia Pacific excluding Hong Kong	5,105,210
Total	**17,705,189**

(2) Breakdown of credit risk exposures by industry

HKD'000	Amount
Government	2,253,460
Electricity & gas	3,909,417
Telecommunications	3,035,626
Manufacturing	2,118,312
Others	6,388,374
Total	**17,705,189**

(3) Breakdown of credit risk exposures by residual maturity

HKD'000	Amount
Up to 3 months	9,433,609
Over 3 months - 1 year	1,822,010
Over 1 year - 5 years	6,449,570
Total	**17,705,189**

Table CRC: Qualitative disclosures related to credit risk mitigation

The Company has established policies on managing and recognizing credit risk mitigation for all types of credit exposure under the standardized (credit risk) approach. The Company applies prudent assessments of eligibility and quality of collateral. The Company also applies safe custodian of collateral, regular revaluation and close monitoring.

On-balance sheet and off-balance sheet recognized netting is not adopted by the Company.

Regulatory capital calculation only recognized collateral and recognized guarantees, as laid down under the Banking (Capital) Rules, are considered as recognized credit risk mitigations and the company adheres to the criteria as stipulated in the Banking (Capital) Rules when assessing the eligibility.

Recognized collateral include both financial and physical collateral. Financial collateral include cash deposit and shares, whilst physical includes commercial real estate, vehicles and equipment. The exposure amount after mitigation is determined by applying the standard supervisory haircut laid down in the Banking (Capital) Rules as an adjustment discount to the current collateral value. A recognized guarantor is any sovereign entity, a public sector entity, a corporate or a bank with a lower risk weight than the borrower.

Collateral values are accurately identified at the outset and throughout the tenure of an obligation by using standard evaluation methodologies. Collateral value is conservatively estimated and valuation estimates are conducted at a frequency that is appropriate to the frequency by which the market value fluctuates, using the collateral type and the entity risk profile. In addition, when it is not cost effective to monitor highly volatile collateral, appropriate discounts are applied to compensate. The frequency of collateral valuations is also increased when early warning signals of an entity's deteriorating financial condition are identified.

The major type of credit risk mitigation used by the Company is corporate guarantee (e.g. lending to a financing subsidiary with full guarantee from its parent company with sound financial strength). Given the guarantors are engaged in diversified industry/sector/business, credit risk concentrations under this form of credit risk mitigation is considered minimal.

Template CR3: Overview of recognized credit risk mitigation

The table below discloses the extent of credit risk exposures covered by different types of recognized CRM as at October 31, 2018:

		(a)	(b1)	(b)	(d)	(f)
HKD'000		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	7,343,466	4,648,703	-	4,648,703	-
2	Debt securities	2,023,460	-	-	-	-
3	**Total**	9,366,926	4,648,703	-	4,648,703	-
4	Of which defaulted	-	-	-	-	-

Table CRD: Qualitative disclosures on use of ECAI ratings under STC approach

The Company uses the following external credit assessment institutions ("ECAIs") to calculate its capital adequacy requirements for all exposures under the standardized (credit risk) approach prescribed in the Banking (Capital) Rules:|

- Fitch Ratings;
- Moody's Investors Service, Inc; and
- Standard & Poor's Ratings Services.

For exposures without an ECAI issue specific rating, the risk weight of the corresponding ECAI issuer rating will be applied to calculate its capital adequacy requirements according to the Banking (Capital) Rules.

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

The table below illustrates the effect of any recognized CRM (including recognized collateral under both comprehensive and simple approaches) on the calculation of capital requirements, and RWA density provides a synthetic metric on riskiness of each portfolio as at October 31, 2018:

		(a)	(b)	(c)	(d)	(e)	(f)
HKD'000		**Exposures pre-CCF and pre-CRM**		**Exposures post-CCF and post-CRM**		**RWA and RWA density**	
	Exposure classes	On-balance sheet amount	Off-balancesheet amount	On-balance sheet amount	Off-balancesheet amount	RWA	RWAdensity
1	Sovereign exposures	2,023,464	-	2,023,464	-	305,028	15%
2	PSE exposures	-	240,000	-	120,000	24,000	20%
2a	Of which: domestic PSEs	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	2,437,681	-	2,437,681	-	487,536	20%
5	Securities firm exposures	-	-	-	-	-	-
6	Corporate exposures	12,074,003	5,696,755	12,074,003	2,049,462	11,683,518	83%
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	-	-	-	-	-	-
11	Residential mortgage loans	-	-	-	-	-	-
12	Other exposures which are not past due exposures	3,034	-	3,034	-	3,034	100%
13	Past due exposures	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	**Total**	16,538,182	5,936,755	16,538,182	2,169,462	12,503,116	67%

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

The below table presents a breakdown of credit risk exposures by asset classes and by risk weights (corresponding to the classification of exposures according to the STC approach used) as at October 31, 2018:

HKD'000

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
	Exposure class / Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	498,325	-	1,525,139	-	-	-	-	-	-	-	2,023,464
2	PSE exposures	-	-	120,000	-	-	-	-	-	-	-	120,000
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	2,437,681	-	-	-	-	-	-	-	2,437,681
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	2,160,014	-	11,963,451	-	-	-	14,123,465
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	-	-	-	-	-	-	-	-	-	-	-
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
12	Other exposures which are not past due exposures	-	-	-	-	-	-	3,034	-	-	-	3,034
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	Total	498,325	-	4,082,820	-	2,160,014	-	11,966,485	-	-	-	18,707,644

Template CRE, CR6, CR7, CR8, CR9, CR10 - Credit Risk for Non-securitization Exposures Disclosures for IRB Approach

Not applicable as Scotiabank (Hong Kong) Limited adopts standardized approach.

Template CCRA, CCR1, CCR2, CCR3, CCR4, CCR5, CCR6, CCR7, CCR8 - Counterparty Credit Risk Disclosures

Not applicable as Scotiabank (Hong Kong) Limited did not have exposure that was subject to counterparty credit risk capital charge.

Template SECA, SEC1, SEC2, SEC3, SEC4 - Securitization Exposures Disclosures

Not applicable as Scotiabank (Hong Kong) Limited did not have securitization exposures.

Template MRA, MRB, MR1, MR2, MR3, MR4 - Market Risk Disclosures

Not applicable as Scotiabank (Hong Kong) Limited is exempted from maintaining capital against market risk by the HKMA under S.22(1) of the Banking (Capital) Rules.

Key Capital Ratios Disclosures

1 Capital Adequacy Ratio

	October 31, 2018 HKD'000	July 31, 2018 HKD'000
Common Equity Tier 1 Capital	5,423,736	5,391,664
Tier 1 Capital	5,423,736	5,391,664
Total Capital	5,426,211	5,394,776
Total Risk-Weighted Assets	13,010,466	11,733,775
Common Equity Tier 1 Capital Ratio	41.69%	45.95%
Tier 1 Capital Ratio	41.69%	45.95%
Total Capital Ratio	41.71%	45.98%

2 Leverage Ratio

	October 31, 2018 HKD'000	July 31, 2018 HKD'000
Tier 1 Capital	5,423,736	5,391,664
Total Exposure Measure	18,873,259	16,935,053
Leverage Ratio	28.74%	31.84%

Scotiabank (Hong Kong) Limited
Capital disclosures for the year ended October 31, 2018

Capital Disclosures Template (HKD'000)

	CET1 capital: instruments and reserves		Cross reference to Balance sheet
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,796,181	(1)
2	Retained earnings	2,627,773	(2)
3	Disclosed reserves	190	(3)
4	*Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)*	Not applicable	
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	0	
6	**CET1 capital before regulatory deductions**	5,424,144	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	0	
8	Goodwill (net of associated deferred tax liability)	0	
9	Other intangible assets (net of associated deferred tax liability)	0	
10	Deferred tax assets net of deferred tax liabilities	408	(4)
11	Cash flow hedge reserve	0	
12	Excess of total EL amount over total eligible provisions under the IRB approach	0	
13	Gain-on-sale arising from securitization transactions	0	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	0	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	0	
17	Reciprocal cross-holdings in CET1 capital instruments	0	
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)	0	
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)	0	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the common stock of financial sector entities	Not applicable	
24	of which: mortgage servicing rights	Not applicable	
25	of which: deferred tax assets arising from temporary differences	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	0	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	0	
26b	Regulatory reserve for general banking risks	0	
26c	Securitization exposures specified in a notice given by the Monetary Authority	0	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	0	
26e	Capital shortfall of regulated non-bank subsidiaries	0	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	0	
28	**Total regulatory deductions to CET1 capital**	408	
29	**CET1 capital**	5,423,736	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	0	
31	of which: classified as equity under applicable accounting standards	0	

32	of which: classified as liabilities under applicable accounting standards	0	
33	*Capital instruments subject to phase out arrangements from AT1 capital*	0	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	0	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements*	0	
36	**AT1 capital before regulatory deductions**	0	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	0	
38	Reciprocal cross-holdings in AT1 capital instruments	0	
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)	0	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
41	National specific regulatory adjustments applied to AT1 capital	0	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	0	
43	**Total regulatory deductions to AT1 capital**	0	
44	**AT1 capital**	0	
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	5,423,736	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	0	
47	*Capital instruments subject to phase out arrangements from Tier 2 capital*	0	
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)	0	
49	*of which: capital instruments issued by subsidiaries subject to phase out arrangements*	0	
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	2,475	(5)
51	**Tier 2 capital before regulatory deductions**	2,475	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	0	
53	Reciprocal cross-holdings in Tier 2 capital instruments	0	
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)	0	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
56	National specific regulatory adjustments applied to Tier 2 capital	0	
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	0	
57	**Total regulatory deductions to Tier 2 capital**	0	
58	**Tier 2 capital**	2,475	
59	**Total capital (Total capital = Tier 1 + Tier 2)**	5,426,211	
60	**Total risk weighted assets**	13,010,466	
	Capital ratios (as a percentage of risk weighted assets)		
61	CET1 capital ratio	41.69%	
62	Tier 1 capital ratio	41.69%	
63	Total capital ratio	41.71%	
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3B of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	7.93%	
65	*of which: capital conservation buffer requirement*	1.88%	
66	*of which: bank specific countercyclical buffer requirement*	1.55%	
67	*of which: G-SIB or D-SIB buffer requirement*	0.00%	
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.3B of the BCR	33.76%	
	National minima (if different from Basel 3 minimum)		

69	National CET1 minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	
	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	0	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable	
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardized (credit risk) approach (prior to application of cap)	2,475	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	2,475	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	0	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	0	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase out arrangements*	Not applicable	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	
82	*Current cap on AT1 capital instruments subject to phase out arrangements*	0	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	0	
84	*Current cap on Tier 2 capital instruments subject to phase out arrangements*	0	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	0	

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

Elements where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	Description	Hong Kong basis	Basel III basis
9	**Other intangible assets (net of associated deferred tax liability)**	0	0
	<u>Explanation</u> As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights (MSRs) may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
10	**Deferred tax assets net of deferred tax liabilities**	408	367
	<u>Explanation</u> As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.		

18	**Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	0	0
	<u>Explanation</u> For the purpose of determining the total amount of insignificant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
19	**Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	0	0
	<u>Explanation</u> For the purpose of determining the total amount of significant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
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)**	0	0
	<u>Explanation</u> The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in AT1 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 39 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
54	**Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	0	0
	<u>Explanation</u> The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in Tier 2 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 54 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 54 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
Remarks: The amount of the 10% / 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the Banking (Capital) Rules.			

<u>Abbreviations</u>:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

Scotiabank (Hong Kong) Limited
Capital disclosures for the year ended October 31, 2018

Main Features Template

1	Issuer	SCOTIABANK (HONG KONG) LTD
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	HONG KONG
	Regulatory treatment	
4	Transitional Basel III rules[#]	NA
5	Post-transitional Basel III rules[+]	Common Equity Tier 1
6	Eligible at solo*/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HKD2,796MM
9	Par value of instrument	NA
10	Accounting classification	Shareholders' equity
11	Original date of issuance	Since incorporation
12	Perpetual or dated	Perpetual
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Footnote:

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

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

[*] *Include solo-consolidated*

Scotiabank (Hong Kong) Limited
Capital disclosures for the year ended October 31, 2018
Reconciliation of all capital components to unaudited financial statements

		Balance sheet as in published financial statements		Cross reference to capital disclosures template
		HKD'000	HKD'000	
Assets				
Cash and balances with banks (i)			2,352,505	
Loans and advances (i)			11,992,169	
Trade bills (i)			84,573	
Investment securities measured at FVOCI(i)			2,023,460	
Current tax assets			336	
Deferred tax assets			377	
of which:	*arising from collective impairment allowance*	408		(4)
	arising from revaluation of investment securities	(31)		
Other assets			26,602	
Total Assets			16,480,022	
Equity and liabilities				
Deposits and balances from banks			11,027,492	
Other liabilities (i)			28,417	
Total liabilities			11,055,909	
Equity				
Share Capital			2,796,181	(1)
Reserves			2,627,932	
of which:	*Retained earnings*	2,627,773		(2)
	Other comprehensive income on revaluation of investment securities	190		(3)
	Deferred tax arising from revaluation of investment securities	(31)		
Total equity			5,424,113	
Total equity and liabilities			16,480,022	
(i)	Net of stage 1 expected credit loss provision:			
	Cash and balances with banks		279	
	Loans and advances		1,642	
	Trade bills		13	
	Investment securities measured at FVOCI		4	
	Stage 1 expected credit loss provision included in other liabilities		537	
	Total collective impairment allowances		2,475	(5)

Scotiabank (Hong Kong) Limited
Leverage Ratio Disclosures for the year ended October 31, 2018

Leverage Ratio Common Disclosure Template

	Item	Leverage ratio framework HK$ equivalent '000
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	16,481,960
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(408)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	16,481,552
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
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)	-
	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)	-

	Item	Leverage ratio framework HK$ equivalent '000
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	5,936,755
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	(3,542,573)
19	Off-balance sheet items (sum of lines 17 and 18)	2,394,182
Capital and total exposures		
20	Tier 1 capital	5,423,736
20a	Total exposures (sum of lines 3, 11, 16 and 19)	18,875,734
20b	Adjustments for specific and collective provisions	(2,475)
21	Total exposures after adjustments for specific and collective provisions	18,873,259
Leverage ratio		
22	**Basel III leverage ratio**	**28.74%**

Scotiabank (Hong Kong) Limited
Leverage Ratio Disclosures for the year ended October 31, 2018

Summary Comparison Table

	Item	Leverage ratio framework HK$ equivalent '000
1	Total consolidated assets as per published financial statements	16,480,022
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	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	-
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)	2,394,182
7	Other adjustments	(945)
8	**Leverage ratio exposure**	18,873,259

Scotiabank (Hong Kong) Limited
Countercyclical Capital Buffer (CCyB) Ratio for the year ended October 31, 2018

Countercyclical Capital Buffer (CCyB) Ratio Standard Disclosure Template

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

HKD'000

		a	b	c	d
	Jurisdiction (J) (Note 1)	**Applicable JCCyB ratio in effect** (Note 2)	**Total RWA used in computation of CCyB ratio of AI**	**CCyB ratio of AI**	**CCyB amount of AI**
1	Hong Kong	1.88%	9,684,224		
2	Mainland China	0.00%	1,574,221		
3	South Korea	0.00%	59,442		
4	Thailand	0.00%	392,329		
	Total		11,710,216	1.55%	181,579

Note 1. The geographical allocation of the private sector credit exposures are determined according to the geographic location of obligors on an ultimate risk basis, and reference is made to the guidance provided in the HKMA's SPM CA-B-3 Countercyclical Capital Buffer (CCyB) - Geographical Allocation of Private Sector Credit Exposures.

Note 2. For Jurisdiction without announcement on the CCyB rate, 0% is applied according to Banking (Capital) Rules.