

Standard Chartered Bank
(Hong Kong) Limited

Supplementary Notes to
Condensed Consolidated Interim
Financial Statements (unaudited)

For period ended
30 June 2017

Standard Chartered Bank (Hong Kong) Limited
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Supplementary Notes to Condensed Consolidated Interim Financial Statement (unaudited)

These notes are supplementary to and should be read in conjunction with the 2017 Condensed Consolidated Interim Financial Statement (unaudited) (“consolidated financial statement”). The consolidated financial statement and this supplementary notes to condensed consolidated interim financial statement (unaudited) taken together comply with the Banking (Disclosure) Rules (“Rules”) under section 60A of the Banking Ordinance.

1 Key capital ratios disclosures

(a) Basis of consolidation and preparation

The consolidated capital ratios were calculated in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The basis of consolidation for accounting purposes is in accordance with Hong Kong Financial Reporting Standards. The principal subsidiaries of the Bank for accounting purposes are Standard Chartered APR Limited, Standard Chartered Leasing Group Limited, Standard Chartered Securities (Hong Kong) Limited and Standard Chartered Trade Support (HK) Limited.

The basis and scope of consolidation for the calculation of capital ratios for regulatory purposes is different from the basis and scope of consolidation for accounting purposes.

Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the Banking (Capital) rules. Subsidiaries not included in consolidation for regulatory purposes are non-financial companies and the securities companies that are authorized and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorized institutions under the Banking (Capital) Rules and the Banking Ordinance.

The Bank’s shareholdings in these subsidiaries are deducted from its capital base subject to the thresholds and transitional arrangements as determined in accordance with Part 3 and Schedule 4H of the Banking (Capital) Rules.

The Bank operates subsidiaries in a number of countries and territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the banking group.

1 Key capital ratios disclosures (continued)

(a) Basis of consolidation and preparation (continued)

Directly held subsidiaries not included in the consolidation for regulatory purposes are set out below:

| Name of company | Principal Activity | At 30 June 2017 | |
|---|--|------------------------|------------------------|
| | | Total assets HK\$'M | Total equity HK\$'M |
| Standard Chartered Securities (Hong Kong) Limited | Equity capital markets, corporate finance and institutional brokerage | 520 | 345 |
| SC Learning Limited | Provision of learning solutions in the banking and finance industry | 38 | (19) |
| Standard Chartered Global Business Services Company Limited (Formerly known as SCOPE International (China) Company Limited) | Development and sales of software, data processing and information technology services | 424 | 247 |
| Standard Chartered Investment Services Limited | Investment management | – | – |
| Standard Chartered Trust (HK) Limited | Trustee services | 7 | 7 |
| Standard Chartered Nominees (Western Samoa) Limited | Nominees Services | – | – |
| Horsford Nominees Limited | Nominees Services | – | – |
| Standard Chartered Global Trading Investment Limited | Nominees Services | – | – |
| | | 989 | 580 |

The Bank's shareholdings in the above directly held subsidiaries are deducted from CET1 capital in accordance with the Banking (Capital) Rules. There is no relevant capital shortfall in any of the Bank's subsidiaries which are not included as part of the consolidation group for regulatory purposes.

The Bank uses the advanced internal ratings based ("IRB") approach for both the measurement of credit risk capital and the management of credit risk for the majority of its portfolios. The Bank also uses the standardised (credit risk) approach for certain insignificant portfolios exempted from IRB. The Bank adopts the IRB (securitization) approach to calculate its credit risk for securitization exposures.

For market risk, the Bank uses an internal models approach for two guaranteed funds and the standardized (market risk) approach for other exposures. In addition, the Bank adopts the standardized (operational risk) approach for operational risk.

The Bank applies the Internal Capital Adequacy Assessment Process ("ICAAP") to assess its capital demand on a current, planned and stressed basis. The assessment covers the major risks faced by the Bank, in addition to credit, market and operational risks that are covered under the minimum capital requirements. The ICAAP has been approved by the Asset and Liability Management Committee ("ALCO") and the Board of Directors ("the Board").

1 Key capital ratios disclosures (continued)

(b) Capital adequacy ratio and capital base

| | <i>Consolidated At June 17</i> |
|--|------------------------------------|
| Common equity tier 1 (CET1) capital ratio | 13.0% |
| Tier 1 capital ratio | 14.0% |
| Total capital ratio | 17.2% |
| Leverage ratio | 5.3% |
| | <i>HK\$'M</i> |
| Capital base | |
| CET1 capital | 51,592 |
| Additional Tier 1 ("AT1") capital | 3,878 |
| | <hr/> |
| Total Tier 1 capital | 55,470 |
| Tier 2 capital | 12,619 |
| | <hr/> |
| Total capital base | 68,089 |
| | <hr/> <hr/> |
| Total Risk-weighted amount | 395,544 |
| Capital buffers | |
| Capital conservation buffer ratio | 1.3% |
| Countercyclical capital buffer ratio | 0.9% |
| Higher loss absorbency ratio | 0.8% |
| | <hr/> |
| Total capital buffers | 3.0% |
| | <hr/> <hr/> |
| Leverage ratio exposure | 1,053,200 |

2 Reconciliation between accounting and regulatory balance sheets

A. Consolidated balance sheet as in published financial statements and under regulatory scope of consolidation

| | <i>Consolidated balance sheet as in published financial statements At 30 June 2017 HK\$'M</i> | <i>Under regulatory scope of consolidation At 30 June 2017 HK\$'M</i> |
|--|---|---|
| Assets | | |
| Cash and balances with banks, central banks and other financial institutions | 8,154 | 8,148 |
| Placements with banks and other financial institutions | 175,987 | 175,936 |
| Hong Kong SAR Government certificates of indebtedness | 41,081 | 41,081 |
| Trading assets | 12,546 | 12,546 |
| Financial assets designated at fair value | 355 | 355 |
| Investment securities | 194,038 | 194,038 |
| Advances to customers | 476,242 | 476,242 |
| Amounts due from immediate holding company | 35,389 | 35,254 |
| Amounts due from fellow subsidiaries | 20,984 | 20,911 |
| Amounts due from subsidiaries of the Bank | – | 34 |
| Investment in subsidiaries of the Bank | – | 394 |
| Interests in associates | 10,389 | 4,316 |
| Property, plant and equipment | 42,910 | 42,692 |
| Goodwill and intangible assets | 1,237 | 1,237 |
| Current tax assets | 11 | 11 |
| Deferred tax assets | 426 | 402 |
| Other assets | 19,973 | 18,881 |
| | 1,039,722 | 1,032,478 |
| Liabilities | | |
| Hong Kong SAR currency notes in circulation | 41,081 | 41,081 |
| Deposits and balances of banks and other financial institutions | 27,544 | 27,544 |
| Deposits from customers | 804,277 | 804,277 |
| Trading liabilities | 6,817 | 6,817 |
| Financial liabilities designated at fair value | 10,073 | 10,073 |
| Debt securities in issue | 2,234 | 2,234 |
| Amounts due to immediate holding company | 43,740 | 43,740 |
| Amounts due to fellow subsidiaries | 2,851 | 2,851 |
| Amounts due to subsidiaries of the Bank | – | 373 |
| Current tax liabilities | 642 | 640 |
| Deferred tax liabilities | 397 | 397 |
| Other liabilities | 24,211 | 23,872 |
| Subordinated liabilities | 6,097 | 6,097 |
| | 969,964 | 969,996 |
| Equity | | |
| Share capital | 20,256 | 20,256 |
| Reserves | 49,502 | 42,226 |
| | 69,758 | 62,482 |
| | 1,039,722 | 1,032,478 |

2 Reconciliation between accounting and regulatory balance sheets (continued)

B. Balance sheet under the regulatory scope of consolidation including components in the “Transition Disclosures Template” with cross references

| | At 30 June 2017 | | | Cross reference to Definition of Capital Components |
|---|--|--|--------|---|
| | Consolidated balance sheet as in published financial statements HK\$'M | Under regulatory scope of consolidation HK\$'M | | |
| | | HK\$'M | HK\$'M | |
| Assets | | | | |
| Cash and balances with banks, central banks and other financial institutions | 8,154 | 8,148 | | |
| Placements with banks and other financial institutions | 175,987 | 175,936 | | |
| Hong Kong SAR Government certificates of indebtedness | 41,081 | 41,081 | | |
| Trading assets | 12,546 | 12,546 | | |
| Financial assets designated at fair value | 355 | 355 | | |
| Investment securities | 194,038 | 194,038 | | |
| Advances to customers | 476,242 | 476,242 | | |
| Amounts due from immediate holding company | 35,389 | 35,254 | | |
| Amounts due from fellow subsidiaries | 20,984 | 20,911 | | |
| Amounts due from subsidiaries of the Bank | – | 34 | | |
| – of which: significant capital investments in financial sector entities that are outside the scope of regulatory consolidation | | | | – (1) |
| Investment in subsidiaries of the Bank | – | 394 | | |
| – of which: significant capital investments in financial sector entities that are outside the scope of regulatory consolidation | | | 281 | (2) |
| Interests in associates | 10,389 | 4,316 | | |
| – of which: significant capital investments in financial sector entities that are outside the scope of regulatory consolidation | | | 4,316 | (3) |
| Property, plant and equipment | 42,910 | 42,692 | | |
| Goodwill and intangible assets | 1,237 | 1,237 | | |
| – of which: goodwill | | | 729 | (4) |
| – of which: intangible assets | | | 508 | (5) |
| Current tax assets | 11 | 11 | | |
| Deferred tax assets | 426 | 402 | | |
| – of which: deferred tax liabilities relating to intangible assets | | | (53) | (6) |
| – of which: other deferred tax assets | | | 455 | (7) |
| Other assets | 19,973 | 18,881 | | |
| | 1,039,722 | 1,032,478 | | |

2 Reconciliation between accounting and regulatory balance sheets (continued)

B. Balance sheet under the regulatory scope of consolidation including components in the “Transition Disclosures Template” with cross references (continued)

| | At 30 June 2017 | | | Cross reference to Definition of Capital Components |
|---|--|--|-------|---|
| | Consolidated balance sheet as in published financial statements HK\$'M | Under regulatory scope of consolidation HK\$'M | | |
| Liabilities | | | | |
| Hong Kong SAR currency notes in circulation | 41,081 | 41,081 | | |
| Deposits and balances of banks and other financial institutions | 27,544 | 27,544 | | |
| Deposit from customers | 804,277 | 804,277 | | |
| Trading liabilities | 6,817 | 6,817 | | |
| – of which: gains or losses due to changes in own credit risk | | | – | (8) |
| Financial liabilities designated at fair value | 10,073 | 10,073 | | |
| – of which: gains or losses due to changes in own credit risk | | | 136 | (9) |
| Debt securities in issue | 2,234 | 2,234 | | |
| Amounts due to immediate holding company | 43,740 | 43,740 | | |
| – of which: subordinated liabilities eligible for inclusion in regulatory capital | | | 6,245 | (10) |
| Amounts due to fellow subsidiaries | 2,851 | 2,851 | | |
| Amounts due to subsidiaries of the Bank | – | 373 | | |
| Current tax liabilities | 642 | 640 | | |
| Deferred tax liabilities | 397 | 397 | | |
| Other liabilities | 24,211 | 23,872 | | |
| Subordinated liabilities | 6,097 | 6,097 | | |
| – of which: subordinated liabilities eligible for inclusion in regulatory capital (subject to phase out arrangements) | | | 3,939 | (11) |
| | 969,964 | 969,996 | | |

2 Reconciliation between accounting and regulatory balance sheets (continued)

B. Balance sheet under the regulatory scope of consolidation including components in the “Transition Disclosures Template” with cross references (continued)

| | At 30 June 2017 | | | Cross reference to Definition of Capital Components |
|---|--|--|--------|---|
| | Consolidated balance sheet as in published financial statements HK\$'M | Under regulatory scope of consolidation HK\$'M | | |
| Equity | | | | |
| Share capital | 20,256 | 20,256 | | |
| – of which: directly issued qualifying CET1 capital instruments | | | 16,378 | (12) |
| – of which: qualifying AT1 capital instruments | | | 3,878 | (13) |
| Reserves | 49,502 | 42,226 | | |
| – of which: Cumulative cash flow hedge reserves that relate to the hedging of financial instruments that are not fair valued on the balance sheet | | | (94) | (14) |
| – of which: Cumulative cash flow hedge reserves that relate to the hedging of financial instruments that are fair valued on the balance sheet | | | – | (15) |
| – of which: Available-for-sale investment reserve | | | (127) | (16) |
| – of which: Property revaluation reserve | | | – | (17) |
| – of which: Exchange reserve | | | (3) | (18) |
| – of which: Share option equity reserve | | | 218 | (19) |
| – of which: Own credit adjustment reserve | | | (136) | (20) |
| – of which: Retained earnings | | | 42,368 | (21) |
| – of which: cumulative fair value gains arising from the revaluation of land and buildings (audited) | | | 439 | (22) |
| – of which: Regulatory reserve for general banking risks | | | 4,871 | (23) |
| | 69,758 | 62,482 | | |
| | 1,039,722 | 1,032,478 | | |

3 Detailed breakdown of capital components – Transition disclosures template

| | | At 30 June 2017 | | |
|-----|---|---|--------|--|
| | | Amounts subject to pre-Basel III treatment* | | Cross-referenced to Note 2B |
| | | HK\$'M | HK\$'M | |
| | CET1 capital: instruments and reserves | | | |
| 1 | Directly issued qualifying CET1 capital instruments plus any related share premium | 16,378 | | (12) |
| 2 | Retained earnings | 42,368 | | (21) |
| 3 | Disclosed reserves | | | (14)+(15)+(16)+(17)+(18)+(19)+ (142)+20 |
| | | (142) | | |
| 4 | Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies) | N/A | | |
| | Public sector capital injections grandfathered until 1 January 2018 | N/A | | |
| 5 | Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group) | - | | |
| 6 | CET1 capital before regulatory deductions | 58,604 | | |
| | CET1 capital: regulatory deductions | | | |
| 7 | Valuation adjustments | 293 | | |
| 8 | Goodwill (net of associated deferred tax liability) | 729 | | (4) |
| 9 | Other intangible assets (net of associated deferred tax liability) | 455 | - | (5)+(6) |
| 10 | Deferred tax assets net of deferred tax liabilities | 455 | | (7) |
| 11 | Cash flow hedge reserve | (94) | | (14) |
| 12 | Excess of total EL amount over total eligible provisions under the IRB approach | - | - | |
| 13 | Gain-on-sale arising from securitization transactions | - | | |
| 14 | Gains and losses due to changes in own credit risk on fair valued liabilities | (136) | - | (8)+(9) |
| 15 | Defined benefit pension fund net assets (net of associated deferred tax liabilities) | - | - | |
| 16 | Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet) | - | - | |
| 17 | Reciprocal cross-holdings in CET1 capital instruments | - | - | |
| 18 | Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | - | - | |
| 19 | Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | - | - | (2)+(3)-(24)-(25)-(26) |
| 20 | Mortgage servicing rights (amount above 10% threshold) | N/A | | |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) | N/A | | |
| 22 | Amount exceeding the 15% threshold | N/A | | |
| 23 | - of which: significant investments in the common stock of financial sector entities | N/A | | |
| 24 | - of which: mortgage servicing rights | N/A | | |
| 25 | - of which: deferred tax assets arising from temporary differences | N/A | | |
| 26 | National specific regulatory adjustments applied to CET1 capital | 5,310 | | |
| 26a | Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) | 439 | | (17)+(22) |
| 26b | Regulatory reserve for general banking risks | 4,871 | | (23) |
| 26c | Securitization exposures specified in a notice given by the Monetary Authority | - | | |
| 26d | Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings | - | | |
| 26e | Capital shortfall of regulated non-bank subsidiaries | - | - | |
| 26f | Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base) | - | - | |
| 27 | Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions | - | | |
| 28 | Total regulatory deductions to CET1 capital | 7,012 | | |
| 29 | CET1 capital | 51,592 | | |
| | AT1 capital: instruments | | | |
| 30 | Qualifying AT1 capital instruments plus any related share premium | 3,878 | | (13) |
| 31 | - of which: classified as equity under applicable accounting standards | - | | |
| 32 | - of which: classified as liabilities under applicable accounting standards | - | | |
| 33 | Capital instruments subject to phase out arrangements from AT1 capital | - | | |
| 34 | AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group) | - | | |
| 35 | - of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements | - | | |
| 36 | AT1 capital before regulatory deductions | 3,878 | | |
| | AT1 capital: regulatory deductions | | | |

3 Detailed breakdown of capital components – Transition disclosures template (continued)

| | | At 30 June 2017 | | |
|-----|--|---|--------|-----------------------------|
| | | Amounts subject to pre-Basel III treatment* | | Cross-referenced to Note 2B |
| | | HK\$'M | HK\$'M | |
| 37 | Investments in own AT1 capital instruments | - | - | |
| 38 | Reciprocal cross-holdings in AT1 capital instruments | - | - | |
| 39 | Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | - | - | |
| 40 | Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | - | - | |
| 41 | National specific regulatory adjustments applied to AT1 capital | - | | |
| 41a | Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 1 capital | - | | (27) |
| i | - of which: Excess of total EL amount over total eligible provisions under the IRB approach | - | | |
| ii | - of which: Capital shortfall of regulated non-bank subsidiaries | - | | |
| iii | - of which: Investments in own CET1 capital instruments | - | | |
| iv | - of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities | - | | |
| v | - of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base) | - | | |
| vi | - of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | - | | |
| vii | - of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | - | | (24) |
| 42 | Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions | - | | |
| 43 | Total regulatory deductions to AT1 capital | - | | |
| 44 | AT1 capital | 3,878 | | |
| 45 | Tier 1 capital (Tier 1 = CET1 + AT1) | 55,470 | | |
| | Tier 2 capital: instruments and provisions | | | |
| 46 | Qualifying Tier 2 capital instruments plus any related share premium | 6,245 | | (10) |
| 47 | Capital instruments subject to phase out arrangements from Tier 2 capital | 3,939 | | (11) |
| 48 | Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group) | - | | |
| 49 | - of which: capital instruments issued by subsidiaries subject to phase out arrangements | - | | |
| 50 | Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital | 2,237 | | (28)+(29) |
| 51 | Tier 2 capital before regulatory deductions | 12,421 | | |
| | Tier 2 capital: regulatory deductions | | | |
| 52 | Investments in own Tier 2 capital instruments | - | - | |
| 53 | Reciprocal cross-holdings in Tier 2 capital instruments | - | - | |
| 54 | Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) | - | - | |
| 55 | Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | - | - | (1) |
| 56 | National specific regulatory adjustments applied to Tier 2 capital | (198) | | |
| 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 | (198) | | [(17)+(22)] x45% |
| 56b | Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital | - | | (27) |
| i | - of which: Excess of total EL amount over total eligible provisions under the IRB approach | - | | |
| ii | - of which: Capital shortfall of regulated non-bank subsidiaries | - | | |
| iii | - of which: Investments in own CET1 capital instruments | - | | |
| iv | - of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities | - | | |
| v | - of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base) | - | | |
| vi | - of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | - | | |

3 Detailed breakdown of capital components – Transition disclosures template (continued)

| | | At 30 June 2017 | | |
|-----|--|-----------------|--|-----------------------------|
| | | HK\$'M | Amounts subject to pre-Base I treatment* | Cross-referenced to Note 2B |
| vii | – of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | – | | (25) |
| 57 | Total regulatory deductions to Tier 2 capital | (198) | | |
| 58 | Tier 2 capital | 12,619 | | |
| 59 | Total capital (Total capital = Tier 1 + Tier 2) | 68,089 | | |
| 59a | Deduction items under Basel III which during transitional period remain subject to risk-weighting, based on pre-Base I treatment | | | |
| i | – of which: Mortgage servicing rights | – | | |
| ii | – of which: Defined benefit pension fund net assets | – | | |
| iii | – of which: Investments in own CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments | – | | |
| iv | – of which: Capital investment in a connected company which is a commercial entity | – | | |
| v | – of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | – | | |
| vi | – of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | – | | |
| 60 | Total risk weighted assets | 395,544 | | |
| | Capital ratios (as a percentage of risk weighted assets) | | | |
| 61 | CET1 capital ratio | 13.04% | | |
| 62 | Tier 1 capital ratio | 14.02% | | |
| 63 | Total capital ratio | 17.21% | | |
| 64 | Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3A, or s.3B, as the case requires, of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements) | 7.39% | | |
| 65 | – of which: capital conservation buffer requirement | 1.25% | | |
| 66 | – of which: Bank specific countercyclical buffer requirement | 0.89% | | |
| 67 | – of which: G-SIB or D-SIB buffer requirement | 0.75% | | |
| 68 | CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3A, or s.3B, as the case requires, of the BCR | 8.02% | | |
| | National minima (if different from Basel 3 minimum) | | | |
| 69 | National CET1 minimum ratio | N/A | | |
| 70 | National Tier 1 minimum ratio | N/A | | |
| 71 | National Total capital minimum ratio | N/A | | |
| | 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 | 21 | | |
| 73 | Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | 4,597 | | (26) |
| 74 | Mortgage servicing rights (net of related tax liability) | N/A | | |
| 75 | Deferred tax assets arising from temporary differences (net of related tax liability) | N/A | | |
| | 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) | 750 | | |
| 77 | Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach | 453 | | (28) |
| 78 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap) | 2,615 | | |
| 79 | Cap for inclusion of provisions in Tier 2 under the IRB approach | 1,784 | | (29) |
| | Capital instruments subject to phase-out arrangements | | | |
| 80 | Current cap on CET1 capital instruments subject to phase out arrangements | N/A | | |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | N/A | | |
| 82 | Current cap on AT1 capital instruments subject to phase out arrangements | – | | |
| 83 | Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities) | – | | |
| 84 | Current cap on Tier 2 capital instruments subject to phase out arrangements | 3,939 | | (11) |
| 85 | Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities) | 2,158 | | |

* This refers to the position under the Banking (Capital) Rules in force on 31 December 2012.

3 Detailed breakdown of capital components – Transition disclosures template (continued)

Notes to the detailed breakdown of capital components – Transition disclosures template:

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

| | At 30 June 2017 | |
|---|---------------------------|---------------------------|
| | Hong Kong basis HK\$'M | Basel III basis HK\$'M |
| 9 Other intangible assets (net of associated deferred tax liability) | 455 | 455 |

Explanation

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.

| | At 30 June 2017 | |
|---|---------------------------|---------------------------|
| | Hong Kong basis HK\$'M | Basel III basis HK\$'M |
| 10 Deferred tax assets net of deferred tax liabilities | 455 | 59 |

Explanation

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.

3 Detailed breakdown of capital components – Transition disclosures template (continued)

| | <i>At 30 June 2017</i> | |
|---|------------------------|------------------|
| | <i>Hong Kong</i> | <i>Basel III</i> |
| | <i>basis</i> | <i>basis</i> |
| | <i>HK\$'M</i> | <i>HK\$'M</i> |
| 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) | – | – |

Explanation

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.

| | <i>At 30 June 2017</i> | |
|---|------------------------|------------------|
| | <i>Hong Kong</i> | <i>Basel III</i> |
| | <i>basis</i> | <i>basis</i> |
| | <i>HK\$'M</i> | <i>HK\$'M</i> |
| 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) | – | – |

Explanation

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.

3 Detailed breakdown of capital components – Transition disclosures template (continued)

| | <i>At 30 June 2017</i> | |
|--|------------------------|------------------|
| | <i>Hong Kong</i> | <i>Basel III</i> |
| | <i>basis</i> | <i>basis</i> |
| | <i>HK\$'M</i> | <i>HK\$'M</i> |
| 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) | – | – |

Explanation

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.

| | <i>At 30 June 2017</i> | |
|---|------------------------|------------------|
| | <i>Hong Kong</i> | <i>Basel III</i> |
| | <i>basis</i> | <i>basis</i> |
| | <i>HK\$'M</i> | <i>HK\$'M</i> |
| 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) | – | – |

Explanation

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.

Note:

Cross-references (1) to (23) are referenced to Note 2 ‘Reconciliation between accounting and regulatory balance sheets’.

Cross-references (24) to (29) are referenced within Note 3 ‘Detailed breakdown of capital components – Transition disclosures template’.

4 Countercyclical capital buffer (CCyB) ratio standard disclosure template

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

At 30 June 2017

| Jurisdiction (J) | Applicable JCCyB ratio in effect | Total RWA used in computation of CCyB ratio of AI HK\$'M | Jurisdiction (J) | Applicable JCCyB ratio in effect | Total RWA used in computation of CCyB ratio of AI HK\$'M |
|--|--|--|----------------------|--|--|
| | | | | | |
| Hong Kong | 1.250% | 203,507 | Mauritius | – | 397 |
| China | – | 16,536 | Mexico | – | 1 |
| Argentina | – | 10 | Mongolia | – | 3 |
| Australia | – | 1,507 | Netherland | – | 640 |
| Bahamas | – | 2 | New Zealand | – | 70 |
| Bahrain | – | 1,666 | Nigeria | – | 122 |
| Bangladesh | – | 1 | Norway | 1.500% | 7 |
| Belgium | – | 50 | Oman | – | 540 |
| Bermuda | – | 202 | Peru | – | 2 |
| Brunei | – | 4 | Philippines | – | 31 |
| Canada | – | 190 | Poland | – | 141 |
| Cayman Island | – | 933 | Qatar | – | 4,760 |
| Chinese Taipei | – | 971 | Samoa | – | 42 |
| Cyprus | – | 1 | Saudi Arabia | – | 2 |
| Finland | – | 4 | Scycheles | – | 47 |
| France | – | 430 | Singapore | – | 8,281 |
| Germany | – | 86 | South Africa | – | 512 |
| Guernsey | – | 467 | South Korea | – | 2,813 |
| Honduras | – | 2 | Spain | – | 1,594 |
| Hungary | – | 335 | Sri Lanka | – | 3 |
| India | – | 2,480 | Sweden | 2.000% | 366 |
| Indonesia | – | 1,344 | Switzerland | – | 322 |
| Iraq | – | 4 | Tanzania | – | 408 |
| Ireland | – | 2,316 | Thailand | – | 374 |
| Israel | – | 1 | Turkey | – | 1,795 |
| Italy | – | 4 | Uganda | – | 201 |
| Japan | – | 107 | United Arab Emirates | – | 5,861 |
| Jersey | – | 349 | United Kingdom | – | 3,390 |
| Luxembourg | – | 2,449 | United States | – | 5,007 |
| Macau | – | 273 | Vietnam | – | 2,970 |
| Malaysia | – | 4,421 | West Indies UK | – | 4,771 |
| Marshall islands | – | 101 | | | |
| Total RWA used in computation of CCyB ratio of AI | | | | | 286,226 |
| CCyB ratio of AI | | | | | 0.891% |
| CCyB amount of AI | | | | | 2,551 |

5 Leverage Ratio

Leverage Ratio Common Disclosure Template

Leverage ratio
framework
At 30 June 2017
HK\$'M

| | | |
|---|--|-----------|
| On-balance sheet exposures | | |
| 1 | On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 938,654 |
| 2 | Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts) | (7,148) |
| 3 | Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2) | 931,506 |
| Derivative exposures | | |
| 4 | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | 1,517 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions | 11,411 |
| 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 | 1,690 |
| 10 | Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts) | (1,589) |
| 11 | Total derivative exposures (sum of lines 4 to 10) | 13,029 |
| Securities financing transaction exposures | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 41,323 |
| 13 | Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts) | – |
| 14 | CCR exposure for SFT assets | 260 |
| 15 | Agent transaction exposures | – |
| 16 | Total securities financing transaction exposures (sum of lines 12 to 15) | 41,583 |
| Other off-balance sheet exposures | | |
| 17 | Off-balance sheet exposure at gross notional amount | 425,146 |
| 18 | Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts) | (358,064) |
| 19 | Off-balance sheet items (sum of lines 17 and 18) | 67,082 |
| Capital and total exposures | | |
| 20 | Tier 1 capital | 55,470 |
| 21 | Total exposures (sum of lines 3, 11, 16 and 19) | 1,053,200 |
| Leverage ratio | | |
| 22 | Basel III leverage ratio | 5.27% |

5 Leverage Ratio (continued)

Leverage Ratio Summary Comparison Table

| | | <i>Leverage ratio framework At 30 June 2017 HK\$'M</i> |
|---|--|--|
| 1 | Total consolidated assets as per published financial statements | 1,039,722 |
| 2 | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | (7,248) |
| 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 | (1,951) |
| 5 | Adjustment for securities financing transactions (i.e. repos and similar secured lending) | 3,253 |
| 6 | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 67,082 |
| 7 | Other adjustments | (47,658) |
| 8 | Leverage ratio exposure | 1,053,200 |

6 Liquidity Coverage Ratio

Liquidity Coverage Ratio Current Period

| Number of data points used in calculating the average value of the Liquidity Coverage Ratio (LCR) and related components set out in this Template for the quarter ending on 31 Mar 2016, 30 Jun 2016, 31 Mar 2017 and 30 Jun 2017 are 3, 3, 73 and 71. | | Q2 2017 Currency: (HK\$'M) | | Q1 2017 Currency: (HK\$'M) | | Q2 2016 Currency: (HK\$'M) | | Q1 2016 Currency: (HK\$'M) | |
|--|---|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|
| | | UNWEIGHTED AMOUNT (Average Value) | WEIGHTED AMOUNT (Average Value) | UNWEIGHTED AMOUNT (Average Value) | WEIGHTED AMOUNT (Average Value) | UNWEIGHTED AMOUNT (Average Value) | WEIGHTED AMOUNT (Average Value) | UNWEIGHTED AMOUNT (Average Value) | WEIGHTED AMOUNT (Average Value) |
| Basis of disclosure: Consolidated | | | | | | | | | |
| A. HIGH QUALITY LIQUID ASSETS | | | | | | | | | |
| 1 | Total high quality liquid assets (HQLA) | | 175,318 | | 184,656 | | 187,902 | | 216,860 |
| B. CASH OUTFLOWS | | | | | | | | | |
| 2 | Retail deposits and small business funding, of which: | 403,822 | 32,507 | 390,514 | 31,354 | 360,983 | 28,671 | 351,790 | 28,032 |
| 3 | Stable retail deposits and stable small business funding | 105,936 | 5,297 | 102,372 | 5,119 | 95,676 | 4,784 | 95,037 | 4,752 |
| 4 | Less stable retail deposits and less stable small business funding | 246,310 | 24,631 | 236,563 | 23,656 | 212,428 | 21,243 | 208,846 | 20,885 |
| 5 | Retail term deposits and small business term funding | 51,576 | 2,579 | 51,579 | 2,579 | 52,879 | 2,644 | 47,907 | 2,395 |
| 6 | Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which: | 380,592 | 170,511 | 373,329 | 171,279 | 365,340 | 166,711 | 384,088 | 171,862 |
| 7 | Operational deposits | 174,646 | 43,336 | 156,886 | 38,903 | 145,750 | 36,304 | 148,924 | 36,914 |
| 8 | Unsecured wholesale funding (other than small business funding) not covered in Row 7 | 205,863 | 127,092 | 216,425 | 132,358 | 219,590 | 130,407 | 235,164 | 134,948 |
| 9 | Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period | 83 | 83 | 18 | 18 | - | - | - | - |
| 10 | Secured funding transactions (including securities swap transactions) | | 0 | | 0 | | 0 | | 0 |
| 11 | Additional requirements, of which: | 164,848 | 16,307 | 163,290 | 16,208 | 154,713 | 14,685 | 144,473 | 13,916 |
| 12 | Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements | 5,070 | 5,069 | 4,497 | 4,498 | 8,652 | 5,235 | 7,544 | 4,856 |
| 13 | Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions | 286 | 286 | 139 | 139 | 305 | 305 | 155 | 155 |
| 14 | Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities) | 159,492 | 10,952 | 158,654 | 11,571 | 145,757 | 9,145 | 136,773 | 8,905 |
| 15 | Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows | 21,954 | 21,954 | 24,502 | 24,502 | 17,133 | 17,133 | 17,122 | 17,122 |
| 16 | Other contingent funding obligations (whether contractual or non-contractual) | 239,110 | 1,343 | 228,908 | 1,069 | 222,870 | 977 | 233,712 | 903 |
| 17 | TOTAL CASH OUTFLOWS | | 242,622 | | 244,412 | | 228,177 | | 231,835 |
| C. CASH INFLOWS | | | | | | | | | |
| 18 | Secured lending transactions (including securities swap transactions) | 20,553 | 1,998 | 19,183 | 1,932 | 27,816 | 661 | 32,495 | 152 |
| 19 | Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions | 168,370 | 95,197 | 159,315 | 90,493 | 152,917 | 82,023 | 152,432 | 81,653 |
| 20 | Other cash inflows | 17,904 | 13,656 | 14,947 | 10,426 | 11,113 | 8,941 | 13,999 | 10,467 |
| 21 | TOTAL CASH INFLOWS | 206,826 | 110,851 | 193,445 | 102,852 | 191,845 | 91,625 | 198,926 | 92,271 |
| D. LIQUIDITY COVERAGE RATIO | | | | | | | | | |
| 22 | TOTAL HQLA | | ADJUSTED VALUE 175,318 | | ADJUSTED VALUE 184,656 | | ADJUSTED VALUE 187,902 | | ADJUSTED VALUE 216,860 |
| 23 | TOTAL NET CASH OUTFLOWS | | 131,771 | | 141,560 | | 136,551 | | 139,563 |
| 24 | LCR (%) | | 133.8% | | 131.0% | | 137.8% | | 156.2% |

6 Liquidity Coverage Ratio (continued)

Key Drivers

Liquidity Coverage Ratio (LCR) measures the short-term resilience of the Bank's liquidity risk profile, and is sensitive to balance sheet movement and composition. In the first half of the 2017, the Bank has maintained a strong liquidity position and well above the regulatory requirement of 80%. The average LCR decreased from 137.8% for the quarter ending 30 June 2016 to 133.8% for the quarter ending 30 June 2017 mainly as a result of lower average HQLA holdings.

Composition of High Quality Liquid Asset ("HQLA")

The Bank holds significant levels of high quality unencumbered liquid assets that can be liquefied, repo-ed or used as collateral in the event of a liquidity stress.

The liquid assets consist predominately of Level 1 assets, including mainly cash and central bank reserves, Hong Kong exchange fund bills and notes, US treasuries and other marketable debt securities issued or guaranteed by other central banks and governments. In addition, the Bank also holds level 2 assets such as high quality covered bonds, corporate bonds and bonds issued by public sector entities.

Concentration of Funding Sources

Our assets are primarily funded by customer deposits, largely made up of low cost and stable current and savings accounts. This forms a stable base for the Bank's funding requirement. In addition, wholesale funding is widely diversified by client type and maturity which helps managing liquidity mismatches as required.

The Asset and Liability Management Committee ("ALCO") monitors trends in the balance sheet and ensures that any concerns that might impact the stability of deposits are addressed in an effective and timely manner. ALCO also reviews balance sheet plans to ensure that projected asset growth is matched by growth in customer deposits.

Derivatives Exposure

The use of derivatives for hedging and sale to customers as risk management products is an important part of the Bank's business activities. These instruments are also used to manage the Bank's own exposures to market risk. The principal derivative instruments used by the Bank are foreign exchange related and interest rate related contracts. Derivative positions are mark-to-market on a daily basis.

6 Liquidity Coverage Ratio (continued)

Currency Mismatch on LCR

Customer assets are as far as possible funded in the same currency. Where mismatches arise, they are controlled by limits on the amount of foreign currency that can be swapped to local currency and vice versa. Such limits are therefore a means of controlling reliance on foreign exchange markets, which minimizes the risk that obligations could not be met in the required currency in the event that access to foreign exchange markets becomes restricted.

Majority of the Bank's customer deposits are denominated in HKD, USD and CNY. The Bank holds higher USD and other foreign currency denominated HQLA due to its significant market depth and ease of conversion in the event of liquidity stress. This is in line with the Alternative Liquidity Approach option prescribed by HKMA. During this period, the Bank maintained an amount of HKD-denominated level 1 assets well above the regulatory requirement of 20% of its HKD-denominated total net cash outflows.

Liquidity management

Treasury-Markets is responsible for managing the Bank's liquidity position within the approved liquidity and funding risk limits and thresholds. Oversight under the liquidity and funding framework resides with ALCO, supported by Treasury-Markets. The Bank would ensure it operates within predefined liquidity limits and remain in compliance with Group liquidity policies and practices, as well as local regulatory requirements.

It is the Bank's policy to manage liquidity without presumption of the Bank's parent support. ALCO is responsible for ensuring that the Bank is able to maintain adequate liquidity at all times and be in a position to meet all obligations as they fall due; repay depositors and fulfil all commitments to lend.

7 Overview of risk management and RWA (OVI)

The following table sets out an overview of capital requirements in terms of a detailed breakdowns of RWAs for various risks.

| | (a) | (b) | (c) |
|--|----------------------------------|-----------------------|------------------------------------|
| | Consolidated RWA ¹ | | Minimum capital requirements |
| | At June 17 HK\$'M | At March 17 HK\$'M | At June 17 HK\$'M |
| 1 Credit risk for non-securitization exposures | 299,799 | 293,600 | 25,307 |
| 2 – Of which STC approach | 24,286 | 24,108 | 1,943 |
| 2a – Of which BSC approach | – | – | – |
| 3 – Of which IRB approach | 275,513 | 269,492 | 23,364 |
| 4 Counterparty credit risk | 6,713 | 5,201 | 554 |
| 5 – Of which SA-CCR | – | – | – |
| 5a – Of which CEM | 6,713 | 5,201 | 554 |
| 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 | 2 | 4 | – |
| 12 Securitization exposures in banking book | 1,480 | 1,508 | 126 |
| 13 – Of which IRB(S) approach – ratings-based method | 1,480 | 1,508 | 126 |
| 14 – Of which IRB(S) approach – supervisory formula method | – | – | – |
| 15 – Of which STC(S) approach | – | – | – |
| 16 Market risk | 17,564 | 17,719 | 1,405 |
| 17 – Of which STM approach | 16,913 | 17,069 | 1,353 |
| 18 – Of which IMM approach | 651 | 650 | 52 |
| 19 Operational risk | 42,205 | 42,583 | 3,376 |
| 20 – Of which BIA approach | – | – | – |
| 21 – Of which STO approach | 42,205 | 42,583 | 3,376 |
| 21 – Of which ASA approach | – | – | – |
| 22 – Of which AMA approach | N/A | N/A | N/A |

7 Overview of risk management and RWA (OVI) (continued)

| | (a) | (b) | (c) |
|--|----------------------------------|----------------------------------|------------------------------------|
| | Consolidated RWA ¹ | Consolidated RWA ¹ | Minimum capital requirements |
| | At June 17 HK\$'M | At March 17 HK\$'M | At June 17 HK\$'M |
| 23 Amounts below the thresholds for deduction (subject to 250% RW) | 11,492 | 11,492 | 919 |
| 24 Capital floor adjustment | - | - | - |
| 24a Deduction to RWA | 538 | 528 | 43 |
| 24b – Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital | 297 | 287 | 24 |
| 24c – Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital | 241 | 241 | 19 |
| 25 Total | 378,717 | 371,579 | 31,644 |

¹ RWAs in this table are before the application of the 1.06 scaling factor, where applicable, following a clarification from the HKMA. Comparatives have been restated to align with current period presentation.

8 Credit risk for non-securitization exposures

a. Credit quality of exposures (CR1)

The following table sets out an overview of the credit quality of on- and off-balance sheet exposures.

| At 30 June 2017 | | (a) Gross carrying amounts of Defaulted exposures HK\$'M | (b) Non-defaulted exposures HK\$'M | (c) Allowances/ impairments HK\$'M | (d) Net values HK\$'M |
|-----------------|-----------------------------|--|---|---|-----------------------------|
| 1 | Loans | 3,452 | 650,605 | 1,828 | 652,229 |
| 2 | Debt securities | - | 205,469 | - | 205,469 |
| 3 | Off-balance sheet exposures | 2,191 | 422,955 | - | 425,146 |
| 4 | Total | 5,643 | 1,279,029 | 1,828 | 1,282,844 |

b. Changes in defaulted loans and debt securities (CR2)

The following table sets out an 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.

| | | (a) HK\$'M |
|---|---|---------------|
| 1 | Defaulted loans and debt securities at end of the previous reporting period (31 December 2016) | 4,492 |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 1,003 |
| 3 | Returned to non-defaulted status | (15) |
| 4 | Amounts written off | (397) |
| 5 | Other changes* | (1,631) |
| 6 | Defaulted loans and debt securities at end of the current reporting period (30 June 2017) | 3,452 |

* Other changes included repayment and foreign exchange movement.

c. Overview of recognized credit risk mitigation (CR3)

The following table sets out the extent of credit risk exposures covered by different types of recognized CRM.

| At 30 June 2017 | | (a) Exposures unsecured: carrying amount HK\$'M | (b1) Exposures to be secured HK\$'M | (b) Exposures secured by recognized collateral HK\$'M | (d) Exposures secured by recognized guarantees HK\$'M | (f) Exposures secured by recognized credit derivative contracts HK\$'M |
|-----------------|----------------------|--|--|--|--|---|
| 1 | Loans | 341,013 | 311,216 | 293,530 | 17,686 | - |
| 2 | Debt securities | 171,420 | 34,049 | 33,604 | 445 | - |
| 3 | Total | 512,433 | 345,265 | 327,134 | 18,131 | - |
| 4 | - Of which defaulted | 3,056 | 396 | 396 | - | - |

8 Credit risk for non-securitization exposures (continued)

d. Credit risk exposures and effects of recognized credit risk mitigation – for STC approach (CR4)

The following table sets out the effect of any recognized CRM (including recognized collateral under both comprehensive and simple approaches) on the calculation of capital requirements. RWA density provides a synthetic metric on riskiness of each portfolio.

| Exposure classes | (a) Exposures pre-CCF and pre-CRM | | (b) Off-balance sheet amount | | (c) On-balance sheet amount | | (d) Exposures post-CCF and post-CRM | | (e) Off-balance sheet amount | | (f) On-balance sheet amount | | (f) RWA and RWA density | | |
|--|---|---------------|------------------------------------|---------------|-----------------------------------|---------------|---|---------------|------------------------------------|---------------|-----------------------------------|------------|----------------------------|-------------|-------------|
| | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | RWA density | RWA density |
| | | | | | | | | | | | | | | | % |
| 1 Sovereign exposures | - | - | - | - | 432 | - | - | - | - | - | 86 | - | - | 86 | 20% |
| 2 PSE exposures | - | - | - | - | 19 | - | - | - | - | - | 4 | - | - | 4 | 21% |
| 2a – Of which: domestic PSEs | - | - | - | - | 19 | - | - | - | - | - | 4 | - | - | 4 | 21% |
| 2b – Of which: foreign PSEs | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 3 Multilateral development bank exposures | 3,213 | - | - | - | 3,213 | - | - | - | - | - | - | - | - | - | 0% |
| 4 Bank exposures | 1,806 | - | - | - | 1,830 | - | - | - | - | - | 367 | - | - | 367 | 20% |
| 5 Securities firm exposures | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 6 Corporate exposures | 23,576 | 2,467 | - | - | 14,284 | - | - | 482 | - | - | 14,531 | - | - | 14,531 | 98% |
| 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 | 4,029 | - | - | - | 4,029 | - | - | - | - | - | 3,022 | - | - | 3,022 | 75% |
| 11 Residential mortgage loans | 691 | - | - | - | 691 | - | - | - | - | - | 678 | - | - | 678 | 98% |
| 12 Other exposures which are not past due exposures | 14,948 | 30,103 | - | - | 4,626 | - | - | - | - | - | 4,626 | - | - | 4,626 | 100% |
| 13 Past due exposures | 649 | - | - | - | 649 | - | - | - | - | - | 972 | - | - | 972 | 150% |
| 14 Significant exposures to commercial entities | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 15 Total | 48,912 | 32,570 | 32,570 | 29,773 | 482 | 24,286 | 482 | 24,286 | 482 | 24,286 | 80% | 80% | 80% | 80% | 80% |

8 Credit risk for non-securitization exposures (continued)

e. Credit risk exposures by asset classes and by risk weights – for STC approach (CR5)

The following table sets out a breakdown of credit risk exposures by asset classes and by risk weights (corresponding to the classification of exposures according to the approaches used).

At 30 June 2017

| Exposure class | Risk Weight | | | | | | | | | | Total credit risk exposures amount (post CCF and post CRM) | |
|--|--------------|----------|--------------|-----------|------------|--------------|---------------|------------|-----------|------------|--|---------------|
| | (a) 0% | (b) 10% | (c) 20% | (d) 35% | (e) 50% | (f) 75% | (g) 100% | (h) 150% | (ha) 250% | (i) Others | | |
| | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M |
| 1 Sovereign exposures | - | - | 432 | - | - | - | - | - | - | - | - | 432 |
| 2 PSE exposures | - | - | 19 | - | - | - | - | - | - | - | - | 19 |
| 2a – Of which: domestic PSEs | - | - | 19 | - | - | - | - | - | - | - | - | 19 |
| 2b – Of which: foreign PSEs | - | - | - | - | - | - | - | - | - | - | - | - |
| 3 Multilateral development bank exposures | 3,213 | - | - | - | - | - | - | - | - | - | - | 3,213 |
| 4 Bank exposures | - | - | 1,825 | - | 5 | - | - | - | - | - | - | 1,830 |
| 5 Securities firm exposures | - | - | - | - | - | - | - | - | - | - | - | - |
| 6 Corporate exposures | - | - | 59 | - | 376 | - | 14,331 | - | - | - | - | 14,766 |
| 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 | - | - | - | - | - | 4,029 | - | - | - | - | - | 4,029 |
| 11 Residential mortgage loans | - | - | - | 21 | - | - | 670 | - | - | - | - | 691 |
| 12 Other exposures which are not past due exposures | - | - | - | - | - | - | 4,626 | - | - | - | - | 4,626 |
| 13 Past due exposures | - | - | - | - | - | - | 1 | 648 | - | - | - | 649 |
| 14 Significant exposures to commercial entities | - | - | - | - | - | - | - | - | - | - | - | - |
| 15 Total | 3,213 | - | 2,335 | 21 | 381 | 4,029 | 19,628 | 648 | - | - | - | 30,255 |

8 Credit risk for non-securitization exposures (continued)

f. Credit risk exposures by portfolio and PD ranges – for IRB approach (CR6)

The following table sets out the main parameters of internal models used for the calculation of credit risk capital requirements under the IRB approach, for the purpose of enhancing the transparency of RWA calculations and the reliability of regulatory measures.

| At 30 June 2017 | PD scale | (a) Original on- balance sheet gross exposure HK\$M | (b) Off-balance sheet exposures pre-CCF HK\$M | (c) Average CCF | (d) EAD post-CRM and post-CCF HK\$M | (e) Average PD | (f) Number of obligors | (g) Average LGD | (h) Average maturity | (i) RWA HK\$M | (j) RWA density | (k) EL HK\$M | (l) Provisions HK\$M | |
|------------------------------|--------------------------|---|---|--------------------|--|-------------------|------------------------------|--------------------|-------------------------|---------------------|--------------------|--------------------|----------------------------|-----|
| Portfolio (i) – Sovereign | 0.00 to < 0.15 | 121,592 | 18 | 36.63% | 125,155 | 0.02% | 32 | 37.99% | 1.23 | 6,742 | 5.39% | 10 | | |
| | 0.15 to < 0.25 | - | - | - | - | - | - | - | - | - | - | - | - | |
| | 0.25 to < 0.50 | - | - | - | - | - | - | - | - | - | - | - | - | |
| | 0.50 to < 0.75 | - | - | - | - | - | - | - | - | - | - | - | - | |
| | 0.75 to < 2.50 | - | - | - | - | - | - | - | - | - | - | - | - | |
| | 2.50 to < 10.00 | - | - | - | - | - | - | - | - | - | - | - | - | |
| | 10.00 to < 100.00 | - | - | - | - | - | - | - | - | - | - | - | - | |
| | 100.00 (Default) | - | - | - | - | - | - | - | - | - | - | - | - | |
| | Sub-total | | 121,592 | 18 | 36.63% | 125,155 | 0.02% | 32 | 37.99% | 1.23 | 6,742 | 5.39% | 10 | 140 |
| | Portfolio (ii) – Bank | 0.00 to < 0.15 | 213,766 | 36,225 | 18.66% | 232,011 | 0.04% | 140 | 27.21% | 1.04 | 17,133 | 7.38% | 25 | |
| 0.15 to < 0.25 | | 6,065 | 3,382 | 8.72% | 4,779 | 0.22% | 26 | 34.01% | 1.94 | 1,737 | 36.35% | 4 | | |
| 0.25 to < 0.50 | | 16,663 | 6,187 | 25.32% | 15,986 | 0.39% | 27 | 36.58% | 1.10 | 7,884 | 49.32% | 23 | | |
| 0.50 to < 0.75 | | 4,337 | 5,059 | 23.22% | 4,228 | 0.58% | 44 | 32.69% | 0.74 | 1,788 | 42.28% | 8 | | |
| 0.75 to < 2.50 | | 3,850 | 5,720 | 22.75% | 4,478 | 1.25% | 87 | 35.35% | 0.65 | 3,201 | 71.49% | 20 | | |
| 2.50 to < 10.00 | | 44 | 471 | 27.65% | 175 | 2.84% | 18 | 31.57% | 0.72 | 140 | 80.20% | 2 | | |
| 10.00 to < 100.00 | | 6 | 16 | 13.00% | 8 | 13.77% | 6 | 47.45% | 0.70 | 18 | 238.65% | - | | |
| 100.00 (Default) | | - | - | - | - | - | - | - | - | - | - | - | - | |
| Sub-total | | | 244,731 | 57,060 | 19.68% | 261,665 | 0.10% | 348 | 28.14% | 1.05 | 31,901 | 12.19% | 82 | 689 |

8 Credit risk for non-securitization exposures (continued)

f. Credit risk exposures by portfolio and PD ranges – for IRB approach (CR6) (continued)

| At 30 June 2017 | (a) PD scale | (b) Original on- balance sheet gross exposure HK\$M | (c) Off-balance sheet exposures pre-CCF HK\$M | (d) Average CCF | (e) EAD post-CRM and post-CCF HK\$M | (f) Average PD | (g) Number of obligors | (h) Average LGD | (i) Average maturity | (j) RWA HK\$M | (k) RWA density | (l) EL HK\$M | (m) Provisions HK\$M |
|-------------------|-------------------|---|--|--------------------|--|-------------------|------------------------------|--------------------|-------------------------|---------------------|--------------------|--------------------|----------------------------|
| Portfolio (iii) – | | | | | | | | | | | | | |
| Corporate – other | 0.00 to < 0.15 | 49,245 | 81,713 | 24.04% | 78,911 | 0.08% | 364 | 48.76% | 2.03 | 19,415 | 24.60% | 32 | |
| | 0.15 to < 0.25 | 20,518 | 26,585 | 22.65% | 24,130 | 0.22% | 260 | 51.15% | 1.61 | 10,987 | 45.53% | 27 | |
| | 0.25 to < 0.50 | 12,825 | 18,413 | 20.42% | 16,500 | 0.39% | 140 | 28.40% | 2.51 | 5,414 | 32.81% | 18 | |
| | 0.50 to < 0.75 | 39,562 | 29,115 | 19.02% | 44,230 | 0.57% | 403 | 45.69% | 1.76 | 25,624 | 57.94% | 112 | |
| | 0.75 to < 2.50 | 38,050 | 22,198 | 19.37% | 35,257 | 1.35% | 640 | 33.00% | 1.75 | 21,771 | 61.75% | 160 | |
| | 2.50 to < 10.00 | 17,331 | 12,836 | 11.59% | 13,049 | 4.39% | 511 | 33.20% | 1.80 | 12,144 | 93.07% | 190 | |
| | 10.00 to < 100.00 | 7,195 | 1,733 | 35.64% | 6,035 | 25.25% | 208 | 20.06% | 3.66 | 8,263 | 136.93% | 155 | |
| | 100.00 (Default) | 3,936 | 2,044 | 76.73% | 5,411 | 100.00% | 155 | 55.02% | 1.27 | 7,431 | 137.33% | 1,942 | |
| | Sub-total | 188,662 | 194,637 | 22.06% | 223,523 | 3.77% | 2,681 | 42.89% | 1.94 | 111,049 | 49.68% | 2,636 | 4,059 |
| Portfolio (iv) – | | | | | | | | | | | | | |
| Corporate – | 0.00 to < 0.15 | 147 | 27 | 49.65% | 254 | 0.13% | 3 | 47.76% | 1.03 | 59 | 23.23% | - | |
| small-and-medium | 0.15 to < 0.25 | 104 | 275 | 13.13% | 140 | 0.22% | 23 | 55.44% | 1.01 | 49 | 34.83% | - | |
| sized corporates | 0.25 to < 0.50 | 313 | 582 | 5.57% | 345 | 0.45% | 200 | 64.89% | 2.18 | 251 | 72.68% | 1 | |
| | 0.50 to < 0.75 | 259 | 422 | 18.32% | 336 | 0.63% | 127 | 48.38% | 1.68 | 212 | 62.91% | 1 | |
| | 0.75 to < 2.50 | 1,669 | 684 | 11.50% | 1,690 | 1.41% | 587 | 41.96% | 1.49 | 1,238 | 73.30% | 11 | |
| | 2.50 to < 10.00 | 1,596 | 984 | 18.09% | 1,774 | 5.53% | 267 | 27.92% | 1.48 | 1,300 | 73.27% | 25 | |
| | 10.00 to < 100.00 | 367 | 387 | 15.70% | 397 | 33.75% | 43 | 36.99% | 0.89 | 917 | 230.94% | 15 | |
| | 100.00 (Default) | 246 | 85 | 3.77% | 225 | 100.00% | 113 | 49.26% | 2.01 | 309 | 137.50% | 103 | |
| | Sub-total | 4,701 | 3,446 | 13.93% | 5,161 | 9.40% | 1,363 | 39.67% | 1.48 | 4,335 | 83.99% | 156 | 178 |

8 Credit risk for non-securitization exposures (continued)

f. Credit risk exposures by portfolio and PD ranges – for IRB approach (CR6) (continued)

| At 30 June 2017 | PD scale | (a) Original on-balance sheet gross exposure HK\$M | (b) Off-balance sheet exposures pre-CCF HK\$M | (c) Average CCF | (d) EAD post-CRM and post-CCF HK\$M | (e) Average PD | (f) Number of obligors | (g) Average LGD | (h) Average maturity | (i) RWA HK\$M | (j) RWA density | (k) EL HK\$M | (l) Provisions HK\$M | |
|----------------------------------|---|--|---|--------------------|--|-------------------|------------------------------|--------------------|-------------------------|---------------------|--------------------|--------------------|----------------------------|---|
| Portfolio (v) – Retail – QRRE | 0.00 to < 0.15 | 3,929 | 84,339 | 46.34% | 42,887 | 0.07% | 673,640 | 90.00% | - | 1,796 | 4.19% | 29 | - | |
| | 0.15 to < 0.25 | - | - | - | - | - | - | - | - | - | - | - | - | |
| | 0.25 to < 0.50 | 825 | 8,286 | 48.79% | 4,857 | 0.29% | 69,833 | 90.00% | - | 631 | 13.00% | 13 | - | |
| | 0.50 to < 0.75 | 900 | 12,111 | 47.70% | 6,673 | 0.68% | 98,184 | 90.00% | - | 1,703 | 25.52% | 41 | - | |
| | 0.75 to < 2.50 | 937 | 3,616 | 51.89% | 2,814 | 1.41% | 35,469 | 90.00% | - | 1,247 | 44.31% | 36 | - | |
| | 2.50 to < 10.00 | 2,016 | 2,215 | 63.91% | 3,459 | 5.17% | 37,462 | 90.00% | - | 3,719 | 107.51% | 161 | - | |
| | 10.00 to < 100.00 | 737 | 164 | 91.79% | 915 | 20.70% | 8,228 | 90.00% | - | 1,957 | 213.98% | 170 | - | |
| | 100.00 (Default) | 106 | - | - | 106 | 100.00% | 1,183 | 52.41% | - | 68 | 63.87% | 50 | - | |
| | Sub-total | 9,450 | 110,731 | 47.28% | 61,711 | 0.98% | 923,999 | 89.94% | - | 11,121 | 18.02% | 500 | 229 | |
| | Portfolio (vi) – Retail – Residential mortgage exposures | 0.00 to < 0.15 | 154,754 | 195 | 100.00% | 154,171 | 0.08% | 55,782 | 11.34% | - | 23,170 | 15.03% | 14 | - |
| | | 0.15 to < 0.25 | 43,082 | 6,547 | 100.00% | 49,270 | 0.20% | 13,681 | 12.19% | - | 8,064 | 16.37% | 12 | - |
| | | 0.25 to < 0.50 | 11,342 | 9 | 100.00% | 11,303 | 0.33% | 4,321 | 12.05% | - | 1,699 | 15.04% | 4 | - |
| 0.50 to < 0.75 | | 4,928 | 4 | 100.00% | 4,909 | 0.56% | 1,735 | 11.75% | - | 748 | 15.25% | 3 | - | |
| 0.75 to < 2.50 | | 8,281 | 321 | 100.00% | 8,561 | 1.47% | 2,844 | 12.26% | - | 1,770 | 20.67% | 16 | - | |
| 2.50 to < 10.00 | | 1,006 | 1 | 100.00% | 1,003 | 4.08% | 339 | 11.56% | - | 332 | 33.09% | 5 | - | |
| 10.00 to < 100.00 | | 148 | - | 100.00% | 148 | 28.61% | 56 | 11.64% | - | 90 | 60.84% | 5 | - | |
| 100.00 (Default) | | 109 | - | 100.00% | 109 | 100.00% | 160 | 12.36% | - | 103 | 94.99% | 5 | - | |
| Sub-total | 223,650 | 7,077 | 100.00% | 229,474 | 0.26% | 78,918 | 11.60% | - | 35,976 | 15.68% | 64 | 743 | | |

8 Credit risk for non-securitization exposures (continued)

f. Credit risk exposures by portfolio and PD ranges – for IRB approach (CR6) (continued)

| At 30 June 2017 | PD scale | (a) Original on-balance sheet gross exposure HK\$M | (b) Off-balance sheet exposures pre-CCF HK\$M | (c) Average CCF | (d) EAD post-CRM and post-CCF HK\$M | (e) Average PD | (f) Number of obligors | (g) Average LGD | (h) Average maturity | (i) RWA HK\$M | (j) RWA density | (k) EL HK\$M | (l) Provisions HK\$M |
|---|---|--|---|--------------------|--|-------------------|------------------------------|--------------------|-------------------------|---------------------|--------------------|--------------------|----------------------------|
| Portfolio (vii) – Retail – small business retail exposures | 0.00 to < 0.15 | - | - | - | - | - | - | - | - | - | - | - | - |
| | 0.15 to < 0.25 | - | - | - | - | - | - | - | - | - | - | - | - |
| | 0.25 to < 0.50 | 265 | 52 | - | 265 | 0.46% | 353 | 85.62% | 1.58 | 156 | 58.87% | 1 | - |
| | 0.50 to < 0.75 | 176 | 42 | - | 176 | 0.63% | 222 | 85.69% | 1.66 | 123 | 69.88% | 1 | - |
| | 0.75 to < 2.50 | 1,266 | 319 | - | 1,266 | 1.54% | 1,545 | 86.46% | 1.64 | 1,281 | 101.18% | 17 | - |
| | 2.50 to < 10.00 | 666 | 167 | - | 666 | 4.01% | 826 | 86.59% | 1.68 | 827 | 124.10% | 23 | - |
| | 10.00 to < 100.00 | 80 | 17 | - | 80 | 33.38% | 137 | 86.38% | 1.53 | 131 | 164.95% | 23 | - |
| | 100.00 (Default) | 7 | 37 | - | 6 | 100.00% | 221 | 89.70% | 1.45 | 12 | 182.35% | 5 | - |
| | Sub-total | 2,460 | 634 | - | 2,459 | 3.31% | 3,304 | 86.36% | 1.64 | 2,530 | 102.86% | 70 | 52 |
| | Portfolio (viii) – Other retail exposures to individuals | 0.00 to < 0.15 | 168 | 3,287 | 43.45% | 1,597 | 0.08% | 3,260 | 90.35% | - | 293 | 18.35% | 1 |
| 0.15 to < 0.25 | 148 | 221 | 0.00% | 148 | 0.24% | 897 | 97.00% | - | 66 | 44.70% | - | - | |
| 0.25 to < 0.50 | 3,013 | 5,323 | 50.27% | 5,707 | 0.36% | 23,587 | 91.25% | - | 3,091 | 54.16% | 19 | - | |
| 0.50 to < 0.75 | 1,377 | 1,981 | 17.11% | 1,720 | 0.61% | 6,543 | 95.44% | - | 1,309 | 76.06% | 10 | - | |
| 0.75 to < 2.50 | 3,563 | 3,382 | 43.19% | 5,038 | 1.11% | 19,147 | 92.45% | - | 4,879 | 96.86% | 52 | - | |
| 2.50 to < 10.00 | 4,994 | 3,478 | 68.62% | 7,411 | 3.33% | 25,846 | 91.24% | - | 9,458 | 127.62% | 226 | - | |
| 10.00 to < 100.00 | 675 | 431 | 35.75% | 841 | 19.03% | 4,011 | 92.32% | - | 1,547 | 183.80% | 149 | - | |
| 100.00 (Default) | 41 | - | - | 41 | 100.00% | 314 | 64.07% | - | 37 | 88.69% | 23 | - | |
| Sub-total | 13,979 | 18,103 | 46.64% | 22,503 | 2.39% | 83,605 | 91.80% | - | 20,680 | 91.89% | 480 | 445 | |
| Total (sum of all portfolios) | | 809,225 | 391,706 | 31.28% | 931,651 | 1.18% | 1,094,250 | 34.78% | 0.94 | 224,334 | 24.08% | 3,998 | 6,535 |

8 Credit risk for non-securitization exposures (continued)

g. Effects on RWA of recognized credit derivative contracts used as recognized credit risk mitigation – for IRB approach (CR7)

The following table sets out the effect of recognized credit derivative contracts on the calculation of credit risk capital requirements under the IRB approach. The hypothetical RWA before taking into account the mitigation effect of recognized credit derivative contracts (column (a) below) is disclosed to evaluate the impact of recognized credit derivative contracts on RWA. This is irrespective of the extent that recognized CRM are taken into account in calculating the RWA.

| At 30 June 2017 | | (a) Pre-credit derivatives RWA HK\$'M | (b) Actual RWA HK\$'M |
|-----------------|--|---|-----------------------------|
| 1 | Corporate – Specialized lending under supervisory slotting criteria approach (project finance) | – | – |
| 2 | Corporate – Specialized lending under supervisory slotting criteria approach (object finance) | 2,357 | 2,357 |
| 3 | Corporate – Specialized lending under supervisory slotting criteria approach (commodities finance) | – | – |
| 4 | Corporate – Specialized lending under supervisory slotting criteria approach (income-producing real estate) | – | – |
| 5 | Corporate – Specialized lending (high-volatility commercial real estate) | – | – |
| 6 | Corporate – Small-and-medium sized corporates | 4,336 | 4,336 |
| 7 | Corporate – Other corporates | 112,416 | 112,416 |
| 8 | Sovereigns | 6,742 | 6,742 |
| 9 | Sovereign foreign public sector entities | – | – |
| 10 | Multilateral development banks | – | – |
| 11 | Bank exposures – Banks | 30,486 | 30,486 |
| 12 | Bank exposures – Securities firms | 2,910 | 2,910 |
| 13 | Bank exposures – Public sector entities (excluding sovereign foreign public sector entities) | 609 | 609 |
| 14 | Retail – Small business retail exposures | 2,530 | 2,530 |
| 15 | Retail – Residential mortgages to individuals | 33,800 | 33,800 |
| 16 | Retail – Residential mortgages to property-holding shell companies | 2,176 | 2,176 |
| 17 | Retail – Qualifying revolving retail exposures (QRRE) | 11,121 | 11,121 |
| 18 | Retail – Other retail exposures to individuals | 20,680 | 20,680 |
| 19 | Equity – Equity exposures under market-based approach (simple risk-weight method) | – | – |
| 20 | Equity – Equity exposures under market-based approach (internal models method) | – | – |
| 21 | Equity – Equity exposures under PD/LGD approach (publicly traded equity exposures held for long-term investment) | – | – |
| 22 | Equity – Equity exposures under PD/LGD approach (privately owned equity exposures held for long-term investment) | – | – |
| 23 | Equity – Equity exposures under PD/LGD approach (other publicly traded equity exposures) | – | – |
| 24 | Equity – Equity exposures under PD/LGD approach (other equity exposures) | – | – |
| 25 | Equity – Equity exposures associated with equity investments in funds (CIS exposures) | – | – |
| 26 | Other – Cash items | 3 | 3 |
| 27 | Other – Other items | 48,821 | 48,821 |
| 28 | Total (under the IRB calculation approaches) | 278,987 | 278,987 |

There is no effect in RWA as the Bank does not have credit derivative contracts used as recognised credit risk mitigation.

8 Credit risk for non-securitization exposures (continued)

h. RWA flow statements of credit risk exposures under IRB approach (CR8)

The following table sets out a flow statement explaining variations in the RWA for credit risk determined under the IRB approach.

| | (a) Amount HK\$'M |
|---|-------------------------|
| 1 RWA as at end of previous reporting period (31 March 2017)¹ | 269,492 |
| 2 Asset size | 12,740 |
| 3 Asset quality | (6,017) |
| 4 Model updates | (1,447) |
| 5 Methodology and policy | – |
| 6 Acquisitions and disposals | – |
| 7 Foreign exchange movements | 745 |
| 8 Other | – |
| 9 RWA as at end of reporting period (30 June 2017) | <u>275,513</u> |

¹ To align with the presentation in Note 7, RWAs in this table now exclude the 1.06 scaling factor and the opening position has been restated.

8 Credit risk for non-securitization exposures (continued)

i. Specialized lending under supervisory slotting criteria approach – for IRB approach (CR10)

The following table sets out the quantitative information in respect of specialized lending under the supervisory slotting criteria approach.

I. Specialized Lending under supervisory slotting criteria approach – Other than HVCRE

| At 30 June 2017 | | (a) | (b) | (c) | (d)(i) | (d)(ii) | (d)(iii) | (d)(iv) | (d)(v) | (e) | (f) |
|-----------------------|---------------------------------|---|--|------|-----------|--------------|-----------|-------------|--------------|--------------|-----------------------------|
| Regulatory Categories | Remaining Maturity | On-balance sheet exposure amount HK\$'M | Off-balance sheet exposure amount HK\$'M | SRW | PF HK\$'M | OF HK\$'M | CF HK\$'M | IPRE HK\$'M | Total HK\$'M | RWA HK\$'M | Expected loss amount HK\$'M |
| Strong [^] | Less than 2.5 years | 226 | 0 | 50% | - | 226 | - | - | 226 | 113 | - |
| Strong | Equal to or more than 2.5 years | 512 | 405 | 70% | - | 512 | - | - | 512 | 359 | 2 |
| Good [^] | Less than 2.5 years | - | - | 70% | - | - | - | - | - | - | - |
| Good | Equal to or more than 2.5 years | 1,034 | 134 | 90% | - | 1,085 | - | - | 1,085 | 977 | 9 |
| Satisfactory | | 635 | 327 | 115% | - | 790 | - | - | 790 | 908 | 22 |
| Weak | | - | - | 250% | - | - | - | - | - | - | - |
| Default | | - | - | 0% | - | - | - | - | - | - | - |
| Total | | 2,407 | 866 | | - | 2,613 | - | - | 2,613 | 2,357 | 33 |

[^] Use of preferential risk-weights.

9 Counterparty Credit risk

a. Analysis of counterparty default risk exposures (other than those to CCPs) by approaches (CCR1)

The following table sets out a comprehensive breakdown of default risk exposures (other than those to CCPs), RWAs, and, where applicable, main parameters under the approaches used to calculate default risk exposures in respect of derivative contracts and SFTs.

| | (a) | (b) | (c) | (d) | (e) | (f) |
|-------------------------------------|--------------------------|--------|------------------|---|---------------------------------------|--------------|
| | Replacement cost (RC) | PFE | Effective EPE | Alpha (α) used for computing default risk exposure | Default risk exposure after CRM | RWA |
| At 30 June 2017 | HK\$'M | | % | | HK\$'M | HK\$'M |
| 1 SA-CCR (for derivative contracts) | – | – | | 1.4 | – | – |
| 1a CEM | 1,517 | 11,372 | | N/A | 12,889 | 2,740 |
| 2 IMM (CCR) approach | | | | | – | – |
| 3 Simple Approach (for SFTs) | | | | | – | – |
| 4 Comprehensive Approach (for SFTs) | | | | | 41,804 | 1,197 |
| 5 VaR (for SFTs) | | | | | – | – |
| 6 Total | | | | | | 3,937 |

b. CVA capital charge (CCR2)

The following table sets out an information on portfolios subject to the CVA capital charge and the CVA calculations based on standardized CVA method and advanced CVA method.

| | (a) | (b) |
|--|---------------|--------------|
| | EAD post CRM | RWA |
| At 30 June 2017 | HK\$'M | HK\$'M |
| Netting sets for which CVA capital charge is calculated by the advanced CVA method | – | – |
| 1 (i) VaR (after application of multiplication factor if applicable) | | – |
| 2 (ii) Stressed VaR (after application of multiplication factor if applicable) | | – |
| 3 Netting sets for which CVA capital charge is calculated by the standardized CVA method | 12,889 | 2,776 |
| 4 Total | 12,889 | 2,776 |

9 Counterparty Credit risk (continued)

c. Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach (CCR3)

The following table sets out a breakdown of default risk exposures, other than those to CCPs, in respect of derivative contracts and SFTs that are subject to the STC approach, by asset classes and risk-weights (the latter representing the riskiness attributed to the exposure according to the respective approaches), irrespective of the approach used to determine the amount of default risk exposures.

| | | At 30 June 2017 | | | | | | | | | | | Total default risk |
|----------------|--|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------------------|
| | | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) | (k) | |
| Risk Weight | | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Others | | exposure after CRM |
| Exposure class | | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M | HK\$'M |
| 1 | Sovereign exposures | - | - | - | - | - | - | - | - | - | - | - | - |
| 2 | PSE exposures | - | - | - | - | - | - | - | - | - | - | - | - |
| 2a | - Of which: domestic PSEs | - | - | - | - | - | - | - | - | - | - | - | - |
| 2b | - Of which: foreign PSEs | - | - | - | - | - | - | - | - | - | - | - | - |
| 3 | Multilateral development bank exposures | - | - | - | - | - | - | - | - | - | - | - | - |
| 4 | Bank exposures | - | - | - | - | 177 | - | - | - | - | - | - | 177 |
| 5 | Securities firm exposures | - | - | - | - | - | - | - | - | - | - | - | - |
| 6 | Corporate exposures | - | - | - | - | - | - | 376 | - | - | - | - | 376 |
| 7 | CIS exposures | - | - | - | - | - | - | - | - | - | - | - | - |
| 8 | Regulatory retail exposures | - | - | - | - | - | - | - | - | - | - | - | - |
| 9 | Residential mortgage loans | - | - | - | - | - | - | - | - | - | - | - | - |
| 10 | Other exposures which are not past due exposures | - | - | - | - | - | - | - | - | - | - | - | - |
| 11 | Significant exposures to commercial entities | - | - | - | - | - | - | - | - | - | - | - | - |
| 12 | Total | - | - | - | - | 177 | - | 376 | - | - | - | - | 553 |

9 Counterparty Credit risk (continued)

d. Counterparty default risk exposures (other than those to CCPs) by portfolio and PD range – for IRB approach (CCR4)

The following table sets out all the relevant parameters used for the calculation of counterparty default risk capital requirements for IRB exposures (other than those to CCPs).

| At 30 June 2017 | PD scale | (a) EAD post-CRM HK\$'M | (b) Average PD | (c) Number of obligors | (d) Average LGD | (e) Average maturity | (f) RWA HK\$'M | (g) RWA density % |
|---------------------------|-----------------------|-------------------------------|-------------------|---------------------------|--------------------|-------------------------|----------------------|-------------------------|
| Portfolio (i) – Sovereign | 0.00 to < 0.15 | 1 | 0.01% | 2 | 25.00% | 1.00 | - | 1.75% |
| | 0.15 to < 0.25 | - | - | - | - | - | - | - |
| | 0.25 to < 0.50 | - | - | - | - | - | - | - |
| | 0.50 to < 0.75 | - | - | - | - | - | - | - |
| | 0.75 to < 2.50 | - | - | - | - | - | - | - |
| | 2.50 to < 10.00 | - | - | - | - | - | - | - |
| | 10.00 to < 100.00 | - | - | - | - | - | - | - |
| | 100.00 (Default) | - | - | - | - | - | - | - |
| | Sub-total | 1 | 0.01% | 2 | 25.00% | 1.00 | - | 1.75% |
| | Portfolio (ii) – Bank | 0.00 to < 0.15 | 44,615 | 0.05% | 18 | 11.31% | 0.34 | 1,318 |
| 0.15 to < 0.25 | | 851 | 0.22% | 3 | 6.92% | 1.00 | 56 | 6.58% |
| 0.25 to < 0.50 | | 2,286 | 0.39% | 8 | 7.51% | 0.32 | 195 | 8.51% |
| 0.50 to < 0.75 | | 2,708 | 0.64% | 9 | 7.23% | 1.00 | 319 | 11.77% |
| 0.75 to < 2.50 | | 2,002 | 0.95% | 8 | 6.35% | 1.00 | 201 | 10.05% |
| 2.50 to < 10.00 | | 100 | 2.77% | 3 | 6.20% | 1.00 | 15 | 14.72% |
| 10.00 to < 100.00 | | - | - | - | - | - | - | - |
| 100.00 (Default) | | - | - | - | - | - | - | - |
| Sub-total | | 52,562 | 0.14% | 49 | 10.67% | 0.41 | 2,104 | 4.00% |

9 Counterparty Credit risk (continued)

d. Counterparty default risk exposures (other than those to CCPs) by portfolio and PD range – for IRB approach (CCR4) (continued)

| At 30 June 2017 | PD scale | (a) EAD post-CRM HK\$'M | (b) Average PD | (c) Number of obligors | (d) Average LGD | (e) Average maturity | (f) RWA HK\$'M | (g) RWA density % |
|-----------------------------|---|-------------------------------|-------------------|---------------------------|--------------------|-------------------------|----------------------|-------------------------|
| Portfolio (iii) – Corporate | 0.00 to < 0.15 | 700 | 0.06% | 17 | 63.78% | 2.43 | 210 | 30.01% |
| | 0.15 to < 0.25 | 169 | 0.22% | 12 | 70.00% | 1.01 | 84 | 49.96% |
| | 0.25 to < 0.50 | 17 | 0.39% | 8 | 70.00% | 1.89 | 15 | 85.96% |
| | 0.50 to < 0.75 | 191 | 0.66% | 19 | 69.84% | 1.77 | 205 | 107.83% |
| | 0.75 to < 2.50 | 446 | 1.54% | 26 | 70.00% | 1.32 | 744 | 166.59% |
| | 2.50 to < 10.00 | 52 | 5.13% | 14 | 70.00% | 1.05 | 109 | 207.31% |
| | 10.00 to < 100.00 | - | 13.77% | 4 | 70.00% | 2.14 | 1 | 329.50% |
| | 100.00 (Default) | - | - | - | - | - | - | - |
| | Sub-total | 1,575 | 0.74% | 100 | 67.22% | 1.83 | 1,368 | 86.81% |
| | Total (all portfolios subject to the IRB approaches) | 54,138 | 0.16% | 151 | 12.31% | 0.45 | 3,472 | 6.41% |

9 Counterparty Credit risk (continued)

e. Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs) (CCR5)

The following table sets out a breakdown of all types of collateral posted or recognized collateral received to support or reduce the exposures to counterparty default risk exposures in respect of derivative contracts or SFTs entered into, including contracts or transactions cleared through a CCP.

| At 30 June 2017 | (a) | | (b) | | (c) | | (d) | | (e) | | (f) |
|--------------------------|--|--------------|---------------------------------|--------------|------------|--------------|------------|---------------|--|---------------------------------|-----|
| | | | Derivative contracts | | | | | | SFTs | | |
| | Fair value of recognized collateral received | | Fair value of posted collateral | | | | | | Fair value of recognized collateral received | Fair value of posted collateral | |
| | Segregated | Unsegregated | Segregated | Unsegregated | Segregated | Unsegregated | Segregated | Unsegregated | received | collateral | |
| HK\$'M | | HK\$'M | | HK\$'M | | HK\$'M | | HK\$'M | | HK\$'M | |
| Cash – domestic currency | – | – | – | – | – | – | – | – | – | 5,629 | |
| Cash – other currencies | – | – | – | – | – | – | – | 2,812 | 32,725 | – | |
| Domestic sovereign debt | – | – | – | – | – | – | – | – | – | – | |
| Other sovereign debt | – | – | – | – | – | – | – | 16,145 | – | – | |
| Government agency debt | – | – | – | – | – | – | – | 81 | 177 | – | |
| Corporate bonds | – | – | – | – | – | – | – | 10,673 | 3,273 | – | |
| Equity securities | – | – | – | – | – | – | – | 4,600 | – | – | |
| Other collateral | – | – | – | – | – | – | – | – | – | – | |
| Total | – | – | – | – | – | – | – | 34,311 | 41,804 | – | |

9 Counterparty Credit risk (continued)

f. Credit-related derivatives contracts (CCR6)

The following table sets out the amount of credit-related derivative contracts, broken down into credit protection bought and credit protection sold.

| At 30 June 2017 | (a) Protection bought HK\$'M | (b) Protection sold HK\$'M |
|---|---------------------------------------|-------------------------------------|
| Notional amounts | | |
| Single-name credit default swaps | 8 | 8 |
| Index credit default swaps | – | – |
| Total return swaps | 283 | 1,690 |
| Credit-related options | – | – |
| Other credit-related derivative contracts | – | – |
| Total notional amounts | 291 | 1,698 |
| Fair values | | |
| Positive fair value (asset) | 244 | 147 |
| Negative fair value (liability) | (124) | – |

g. Exposures to CCPs (CCR8)

The following table sets out a comprehensive breakdown of exposures to both qualifying and non-qualifying CCPs and the respective RWAs, covering all types of credit risk exposures (including default risk exposures to the CCPs, credit risk exposures arising from initial margins posted, and default fund contributions made, to the CCPs).

| At 30 June 2017 | (a) Exposure after CRM HK\$'M | (b) RWA HK\$'M |
|--|--|----------------------|
| 1 Exposures of the AI as clearing member or client to qualifying CCPs (total) | | 0 |
| 2 Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), – of which: | – | – |
| 3 (i) OTC derivative transactions | – | – |
| 4 (ii) Exchange-traded derivative contracts | – | – |
| 5 (iii) Securities financing transactions | – | – |
| 6 (iv) Netting sets subject to valid cross-product netting agreements | – | – |
| 7 Segregated initial margin | – | |
| 8 Unsegregated initial margin | – | – |
| 9 Funded default fund contributions | 0 | 0 |
| 10 Unfunded default fund contributions | – | – |
| 11 Exposures of the AI as clearing member or client to non-qualifying CCPs (total) | | – |
| 12 Default risk exposures to non-qualifying CCPs (excluding items disclosed in rows 17 to 20), – of which: | – | – |
| 13 (i) OTC derivative transactions | – | – |
| 14 (ii) Exchange-traded derivative contracts | – | – |
| 15 (iii) Securities financing transactions | – | – |
| 16 (iv) Netting sets subject to valid cross-product netting agreements | – | – |
| 17 Segregated initial margin | – | |
| 18 Unsegregated initial margin | – | – |
| 19 Funded default fund contributions | – | – |
| 20 Unfunded default fund contributions | – | – |

11 Market risk

a. Market risk under STM approach (MR1)

The following table sets out the components of the market risk capital requirements calculated using the standardized (market risk) approach (STM approach).

| | | (a) RWA HK\$'M |
|----------------------------|---|----------------------|
| At 30 June 2017 | | |
| Outright product exposures | | |
| 1 | Interest rate exposures (general and specific risk) | 15,147 |
| 2 | Equity exposures (general and specific risk) | 7 |
| 3 | Foreign exchange (including gold) exposures | 1,759 |
| 4 | Commodity exposures | – |
| Option exposures | | |
| 5 | Simplified approach | – |
| 6 | Delta-plus approach | – |
| 7 | Other approach | – |
| 8 | Securitization exposures | – |
| 9 | Total | 16,913 |

b. RWA flow statements of market risk exposures under IMM approach (MR2)

The following table sets out a flow statement explaining variations in the RWA for market risk determined under the IMM approach.

| | (a) VaR HK\$'M | (b) Stressed VaR HK\$'M | (c) IRC HK\$'M | (d) CRC HK\$'M | (e) Other HK\$'M | (f) Total RWA HK\$'M |
|---|---|-------------------------------|----------------------|----------------------|------------------------|----------------------------|
| 1 | RWA as at end of previous reporting period (31 March 2017) | | | | | |
| | – | – | – | – | 650 | 650 |
| 2 | Movement in risk levels | | | | | |
| | – | – | – | – | – | – |
| 3 | Model updates/changes | | | | | |
| | – | – | – | – | – | – |
| 4 | Methodology and policy | | | | | |
| | – | – | – | – | – | – |
| 5 | Acquisitions and disposals | | | | | |
| | – | – | – | – | – | – |
| 6 | Foreign exchange movements | | | | | |
| | – | – | – | – | – | – |
| 7 | Other | | | | | |
| | – | – | – | – | 1 | 1 |
| 8 | RWA as at end of reporting period (30 June 2017) | | | | | |
| | – | – | – | – | 651 | 651 |

12 International claims

International claims are on-balance sheet exposures of counterparties based on the location of those counterparties after taking into account the transfer of risk. Recognized risk transfer refers to the reduction of exposure to a particular country by an effective transfer of credit risk to a different country. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated.

International claims on individual countries or segments, after risk transfer, amounting to 10% or more of the aggregated international claims are shown as below:

| At 30 June 2017 | <i>Banks</i> <i>HK\$'M</i> | <i>Official Sector</i> <i>HK\$'M</i> | <i>Non-bank</i> <i>Financial</i> <i>institution</i> <i>HK\$'M</i> | <i>Non-financial</i> <i>private sector</i> <i>HK\$'M</i> | <i>Total</i> <i>HK\$'M</i> |
|-----------------------------|-------------------------------|---|--|--|-------------------------------|
| Developed countries | 90,696 | 43,822 | 7,520 | 20,809 | 162,847 |
| Offshore centres | 10,219 | 1,258 | 11,153 | 86,856 | 109,486 |
| – of which Hong Kong SAR | 5,751 | 1,258 | 10,236 | 63,174 | 80,419 |
| Developing Asia and Pacific | 176,691 | 17,829 | 7,603 | 31,097 | 233,220 |
| – of which China | 123,467 | 2,764 | 2,324 | 22,399 | 150,954 |

13 Advances to customers analysed by industry sector

The analysis of gross advances to customers by industry sector is based on the categories used by the HKMA.

| | At 30 June 2017 HK\$'M | % of advances covered by collateral or other securities |
|--|---------------------------------|--|
| Gross advances for use in Hong Kong | | |
| <i>Industrial, commercial and financial</i> | | |
| - Property development | 15,740 | 26% |
| - Property investment | 28,483 | 80% |
| - Financial concerns | 22,002 | 41% |
| - Stockbrokers | 7,967 | 74% |
| - Wholesale and retail trade | 15,830 | 30% |
| - Manufacturing | 20,416 | 13% |
| - Transport and transport equipment | 6,601 | 26% |
| - Recreational activities | 374 | 44% |
| - Information technology | 3,182 | - |
| - Others | 29,845 | 5% |
| <i>Individuals</i> | | |
| - Advances for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 461 | 100% |
| - Advances for the purchase of other residential properties | 209,283 | 100% |
| - Credit card advances | 17,156 | - |
| - Others | 23,211 | 44% |
| <i>Total gross advances for use in Hong Kong</i> | 400,551 | |
| Trade finance | 37,700 | 2% |
| Trade bills | 1,510 | 5% |
| Gross advances for use outside Hong Kong | 38,309 | 13% |
| Gross advances to customers | 478,070 | 58% |

As at 30 June 2017, approximately 82 per cent of the Bank's advances to customers were classified under Hong Kong.

Except for Hong Kong, none of the remaining geographical segments represents more than 10% of the Bank's gross loans and advances to customers after taking into account the transfer of risk.

The above balances do not include inter-company loans and advances.

13 Advances to customers analysed by industry sector (continued)

The amount of impaired and overdue advances to customers and individually and collectively assessed impairment provision for industry sectors which constitute not less than 10% of the Bank and its subsidiaries' total advances to customers are as follows:

| | <i>Impaired advances to customers HK\$'M</i> | <i>Overdue advances to customers HK\$'M</i> | <i>Individually assessed impairment provision HK\$'M</i> | <i>Collectively assessed impairment provision HK\$'M</i> | <i>New provision charge HK\$'M</i> |
|--|--|---|--|--|--|
| At 30 June 2017 | | | | | |
| Advances for the purchase of other residential properties | 50 | 14 | – | 2 | – |

14 Overdue advances to customers

| | <i>At 30 June 2017</i> | |
|--|------------------------|---|
| | <i>HK\$'M</i> | <i>% of advances to customers</i> |
| Gross advances to customers which have been overdue with respect to either principal or interest for periods of: | | |
| 6 months or less but over 3 months | 92 | 0.02% |
| 1 year or less but over 6 months | 281 | 0.06% |
| Over 1 year | 1,107 | 0.23% |
| | <u>1,480</u> | <u>0.31%</u> |
| | | <i>At 30 June 2017 HK\$'M</i> |
| Fair value of collateral held against the covered portion of overdue advances to customers | | <u>534</u> |
| Covered portion of overdue advances to customers | | 534 |
| Uncovered portion of overdue advances to customers | | <u>946</u> |

14 Overdue advances to customers (continued)

The covered portion of overdue advances to customers represents the amount of collateral held against outstanding balances. It does not include any collateral held over and above outstanding exposures.

The collateral held in respect of overdue advances to customers consists of cash, properties, securities and government guarantee.

| | <i>At 30 June 2017 HK\$'M</i> |
|---|---|
| Individually assessed impairment provision against advances to customers overdue more than 3 months | 811 |

As at 30 June 2017 and 31 December 2016, there were no overdue advances to banks and other financial institutions.

15 Rescheduled advances to customers

| | <i>At 30 June 2017</i> | |
|-----------------------------------|------------------------|---|
| | <i>HK\$'M</i> | <i>% of advances to customers</i> |
| Rescheduled advances to customers | 897 | 0.19% |

Rescheduled advances are those advances, which have been restructured or renegotiated because of a deterioration in the financial position of the borrowers, or the inability of the borrowers to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Bank. Rescheduled advances to customers are stated net of any advances that have subsequently become overdue for over 3 months and reported as overdue advances in note 14.

As at 30 June 2017, there were no rescheduled advances to banks and other financial institutions.

16 Mainland Activities

| | <i>On-balance sheet exposure HK\$'M</i> | <i>Off-balance sheet exposure HK\$'M</i> | <i>Total HK\$'M</i> |
|--|---|--|-------------------------|
| At 30 June 2017 | | | |
| (i) Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs") | 35,966 | 504 | 36,470 |
| (ii) Local governments, local government-owned entities and their subsidiaries and JVs | 812 | 463 | 1,275 |
| (iii) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs | 21,262 | 2,729 | 23,991 |
| (iv) Other entities of central government not reported in item (i) above | 1,636 | 217 | 1,853 |
| (v) Other entities of local governments not reported in item (ii) above | 2,347 | 144 | 2,491 |
| (vi) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China | 24,988 | 1,221 | 26,209 |
| (vii) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures | 20,128 | 5,833 | 25,961 |
| Total | <u>107,139</u> | <u>11,111</u> | <u>118,250</u> |
| Total assets after provision | <u>1,038,304</u> | | |
| On-balance sheet exposures as percentage of total assets | <u>10.32%</u> | | |

The off-balance sheet exposure represents the amount at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

17 Comparative figures

Certain comparative figures have been restated to conform with the current year's presentation.

Acronyms

| | | | |
|-----------|--|--------|--|
| AI | Authorised institution | LCR | Liquidity coverage ratio |
| AIRB | Advance internal ratings-based approach | LGD | Loss given default |
| ALCO | Asset and Liability Management Committee | LTA | Look through approach |
| AMA | Advanced measurement approach | MBA | Mandate-based approach |
| ASA | Alternative standardised approach | MSRs | Mortgage servicing rights |
| AT1 | Additional tier 1 | N/A | Not applicable |
| Bank | Standard Chartered Bank (Hong Kong) Limited | OF | Object finance |
| BCBS | Basel Committee on Banking Supervision | OTC | Over-the-counter |
| BCR | Banking (Capital) Rules | PD | Probability of default |
| BDR | Banking (Disclosure) Rules | PF | Project finance |
| BIA | Basic indicator approach | PFE | Potential future exposure |
| BSC | Basic approach | PRC | People's Republic of China |
| CCF | Credit conversion factor | PSE | Public sector entity |
| CCP | Central counterparty | QRRE | Qualifying revolving retail exposures |
| CCR | Counterparty credit risk | RC | Replacement cost |
| CCyB | Countercyclical capital buffer | RW | Risk-weight |
| CEM | Current exposure method | RWA | Risk-weighted asset/risk-weighted amount |
| CET1 | Common equity tier 1 | S | Securitisation |
| CF | Commodities finance | SA-CCR | Standardised approach for counterparty credit risk |
| CIS | Collective investment scheme | SFT | Securities financing transaction |
| CRC | Comprehensive risk charge | SME | Small and Medium Enterprises |
| CRM | Credit risk mitigation | SRW | Supervisory risk-weighted |
| CVA | Credit valuation adjustment | STC | Standardised (credit risk) approach |
| D-SIB | Domestic systematically important authorised institution | STC(S) | Standardised (securitisation) approach |
| DTAs | Deferred tax assets | STM | Standardised (market risk) approach |
| EAD | Exposure at default | STO | Standardised (operational risk) approach |
| EL | Expected loss | VaR | Value at risk |
| EPE | Expected positive exposure | | |
| FBA | Fall-back approach | | |
| G-SIB | Global systematically important authorised institution | | |
| HKMA | Hong Kong Monetary Authority | | |
| HVCRE | High-volatility commercial real estate | | |
| HQLA | High quality liquid assets | | |
| IMM | Internal models approach | | |
| IMM (CCR) | Internal models (counterparty credit risk) approach | | |
| ICAAP | Internal Capital Adequacy Assessment Process | | |
| IPRE | Income-producing real estate | | |
| IRB | Internal ratings-based approach | | |
| IRB(S) | Internal ratings-based (securitisation) approach | | |
| IRC | Incremental risk charge | | |
| JCCyB | Jurisdictional countercyclical capital buffer | | |
| JVs | Joint ventures | | |