

STANDARD CHARTERED BANK (HONG KONG) LIMITED

Liquidity Coverage Ratio Current Period

Table 1: Average LCR for the quarter ended 30th June 2016

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 30 June 2016 : (3)		Currency: (HK\$mil)	
Basis of disclosure: consolidated		UNWEIGHTED AMOUNT (Average Value)	WEIGHTED AMOUNT (Average Value)
A. HIGH QUALITY LIQUID ASSETS			
1	Total high quality liquid assets (HQLA)		187,902
B. CASH OUTFLOWS			
2	Retail deposits and small business funding, of which:	360,983	28,671
3	Stable retail deposits and stable small business funding	95,676	4,784
4	Less stable retail deposits and less stable small business funding	212,428	21,243
5	Retail term deposits and small business term funding	52,879	2,644
6	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	365,340	166,711
7	Operational deposits	145,750	36,304
8	Unsecured wholesale funding (other than small business funding) not covered in Row 7	219,590	130,407
9	Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period	-	-
10	Secured funding transactions (including securities swap transactions)		0
11	Additional requirements, of which:	154,713	14,685
12	Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements	8,652	5,235
13	Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions	305	305
14	Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)	145,757	9,145
15	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	17,133	17,133
16	Other contingent funding obligations (whether contractual or non-contractual)	222,870	977
17	TOTAL CASH OUTFLOWS		228,177
C. CASH INFLOWS			
18	Secured lending transactions (including securities swap transactions)	27,816	661
19	Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	152,917	82,023
20	Other cash inflows	11,113	8,941
21	TOTAL CASH INFLOWS	191,845	91,625
D. LIQUIDITY COVERAGE RATIO			ADJUSTED VALUE
22	TOTAL HQLA		187,902
23	TOTAL NET CASH OUTFLOWS		136,551
24	LCR (%)		138%

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Table 2: Average LCR for the quarter ended 31st March 2016

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 March 2016 : (3)		Currency: (HK\$mil)	
Basis of disclosure: consolidated		UNWEIGHTED AMOUNT (Average Value)	WEIGHTED AMOUNT (Average Value)
A. HIGH QUALITY LIQUID ASSETS			
1	Total high quality liquid assets (HQLA)		216,860
B. CASH OUTFLOWS			
2	Retail deposits and small business funding, of which:	351,790	28,032
3	Stable retail deposits and stable small business funding	95,037	4,752
4	Less stable retail deposits and less stable small business funding	208,846	20,885
5	Retail term deposits and small business term funding	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:	384,088	171,862
7	Operational deposits	148,924	36,914
8	Unsecured wholesale funding (other than small business funding) not covered in Row 7	235,164	134,948
9	Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period	-	-
10	Secured funding transactions (including securities swap transactions)		0
11	Additional requirements, of which:	144,473	13,916
12	Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements	7,544	4,856
13	Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions	155	155
14	Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)	136,773	8,905
15	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	17,122	17,122
16	Other contingent funding obligations (whether contractual or non-contractual)	233,712	903
17	TOTAL CASH OUTFLOWS		231,835
C. CASH INFLOWS			
18	Secured lending transactions (including securities swap transactions)	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	152,432	81,653
20	Other cash inflows	13,999	10,467
21	TOTAL CASH INFLOWS	198,926	92,271
D. LIQUIDITY COVERAGE RATIO		ADJUSTED VALUE	
22	TOTAL HQLA		216,860
23	TOTAL NET CASH OUTFLOWS		139,563
24	LCR (%)		156%

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Comparative Figures

	2Q 2016 %	1Q 2016 %	2Q 2015 %	1Q 2015 %
Average Liquidity Coverage Ratio for the Quarter	138%	156%	151%	167%

Key Drivers

SCB has maintained a strong liquidity position during the first half of 2016, which was reflected in healthy short term and structural liquidity metrics. Since local inception of LCR, the Bank has remained well above the regulatory minimum requirement of 70%.

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. Average LCR for 2016 decreased from 156% in the 1st Quarter to 138% in the 2nd Quarter. During this period, commercial asset growth have outpaced that of commercial deposits and hence reducing the surplus liquidity from the balance sheet. The additional liquidity requirement was managed through the corresponding reduction of HQLA assets and hence the lower LCR. Nevertheless, LCR remained well above regulatory requirement of 70%.

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

A substantial portion of our assets are 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 represents another stable source of funds for the Bank.

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

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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.

Currency Mismatch on LCR

Customer assets are as far as possible funded in the same currency. Where mismatch 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 denominated HQLA due to its significant market depth and ease of conversion into other currencies 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.

Centralisation of liquidity management

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.

Financial Markets is responsible for the day-to-day management of all the liquidity risk in the Bank, executing liquidity directives and operating within the liquidity policy and approved limits. All limits are reviewed at least annually, and more frequently if required, to ensure that they remain relevant given market conditions and business strategy. Compliance with limits is monitored independently on a regular basis. Limit excesses are escalated and approved under a delegated authority structure and reviewed by ALCO.