

STANDARD CHARTERED BANK (HONG KONG) LIMITED

Liquidity Coverage Ratio Current Period

Table 1: Average LCR for the quarter ended 30 June 2015

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 2015 : (3)		Currency: (HK\$mil)	
		UNWEIGHTED AMOUNT (Average Value)	WEIGHTED AMOUNT (Average Value)
Basis of disclosure: consolidated			
A. HIGH QUALITY LIQUID ASSETS			
1	Total high quality liquid assets (HQLA)		196,152
B. CASH OUTFLOWS			
2	Retail deposits and small business funding, of which:	365,587	28,602
3	Stable retail deposits and stable small business funding	94,416	4,721
4	Less stable retail deposits and less stable small business funding	206,450	20,645
5	Retail term deposits and small business term funding	64,721	3,236
6	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	453,625	214,606
7	Operational deposits	163,045	40,445
8	Unsecured wholesale funding (other than small business funding) not covered in Row 7	288,977	172,557
9	Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period	1,603	1,603
10	Secured funding transactions (including securities swap transactions)		199
11	Additional requirements, of which:	29,590	6,544
12	Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral	2,779	2,099
13	Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions	553	553
14	Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)	26,258	3,891
15	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	16,121	16,121
16	Other contingent funding obligations (whether contractual or non-contractual)	428,517	1,078
17	TOTAL CASH OUTFLOWS		267,150
C. CASH INFLOWS			
18	Secured lending transactions (including securities swap transactions)	52,131	4,104
19	Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	201,780	123,986
20	Other cash inflows	14,182	9,330
21	TOTAL CASH INFLOWS	268,093	137,419
D. LIQUIDITY COVERAGE RATIO			ADJUSTED VALUE
22	TOTAL HQLA		196,152
23	TOTAL NET CASH OUTFLOWS		129,730
24	LCR (%)		151%

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Table 2: Average LCR for the quarter ended 31 March 2015

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 2015 : (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)		125,463
B. CASH OUTFLOWS			
2	Retail deposits and small business funding, of which:	364,486	28,122
3	Stable retail deposits and stable small business funding	90,438	4,522
4	Less stable retail deposits and less stable small business funding	197,949	19,795
5	Retail term deposits and small business term funding	76,098	3,805
6	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	441,846	219,287
7	Operational deposits	146,319	36,256
8	Unsecured wholesale funding (other than small business funding) not covered in Row 7	293,716	181,219
9	Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period	1,811	1,811
10	Secured funding transactions (including securities swap transactions)		259
11	Additional requirements, of which:	31,676	6,348
12	Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral	3,914	2,058
13	Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions	266	266
14	Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)	27,497	4,024
15	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	18,125	18,125
16	Other contingent funding obligations (whether contractual or non-contractual)	392,519	989
17	TOTAL CASH OUTFLOWS		273,128
C. CASH INFLOWS			
18	Secured lending transactions (including securities swap transactions)	8,353	613
19	Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	263,381	182,585
20	Other cash inflows	17,184	13,089
21	TOTAL CASH INFLOWS	288,918	196,287
D. LIQUIDITY COVERAGE RATIO			ADJUSTED VALUE
22	TOTAL HQLA		125,463
23	TOTAL NET CASH OUTFLOWS		76,841
24	LCR (%)		167%

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Comparative Figures

Since local implementation of Basel III LCR standard, Banking Liquidity Rules, only took effect from 1st of January 2015, there is no prior period comparative information on Liquidity Coverage Ratio. The bank provided below Liquidity Ratio information for 2014 which was replaced by LCR in 2015.

	1Q 2014 %	2Q 2014 %	3Q 2014 %	4Q 2014 %
Average Liquidity Ratio for the Quarter	36%	33%	33%	35%

The average Liquidity Ratio was computed as the simple average of each calendar month's average ratio and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

Key Drivers

SCB has maintained a strong liquidity position in 2015, 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 60%.

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. The average LCR decreased 16%, from 167%, in the 1st quarter to 151% in the 2nd quarter. The LCR movement was mainly driven by a reduction of cash inflow from secured and unsecured loans that matured within LCR period from 1st Quarter to the 2nd Quarter, partially being offset by an increase in HQLA holdings in mainly Level 1 Assets.

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 ALCO monitors trends in the balance sheet and ensures that any concerns that might impact the stability of these deposits are addressed effectively and timely. 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 as part of its asset and liability management process. The principal derivative instruments used by the Bank are foreign exchange related and interest rate related contracts, which are primarily over-the-counter derivatives. The Bank largest derivative counterparty is SCB UK, and our derivative positions are marked-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. However the bank holds more 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.

Centralisation of liquidity management

It is Bank's policy is to manage liquidity without presumption of Group 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.