

Standard Chartered Bank
(Hong Kong) Limited

Supplementary Notes to
Condensed Consolidated Interim
Financial Statements (unaudited)

For period ended
30 June 2018

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 2018 Consolidated Interim Financial Statement (“consolidated financial statement”). The consolidated financial statement and this supplementary notes to consolidated financial statement (unaudited) taken together comply with the Banking (Disclosure) Rules (“Rules”) under section 60A of the Banking Ordinance.

Additional disclosures as required by the Banking (Disclosure) Rules will be available on our website: www.sc.com/hk on or before 30 September 2018.

1 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 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 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 2018	
		Total assets HK\$'M	Total equity HK\$'M
Standard Chartered Securities (Hong Kong) Limited	Equity capital markets, corporate finance and institutional brokerage	413	271
SC Learning Limited	Provision of learning solutions in the banking and finance industry	38	(19)
Standard Chartered Trust (HK) Limited	Trustee services	8	6
Standard Chartered Nominees (Western Samoa) Limited	Nominees Services	–	–
Horsford Nominees Limited	Nominees Services	–	–
Standard Chartered Global Trading Investment Limited	Nominees Services	–	–
		459	258

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 SEC-ERBA 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 Committee ("ALCO") and the Board of Directors ("the Board").

2 Key prudential ratios, overview of risk management and RWA

a. Key prudential ratios (KM1)

The following table sets out an overview of an AI's key prudential ratios.

	(a) At June 2018 HK\$'M	(b) At March 2018 HK\$'M	(c) At December 2017 HK\$'M	(d) At September 2017 HK\$'M	(e) At June 2017 HK\$'M	
Regulatory capital (amount)						
1	Common Equity Tier 1 (CET1)	58,281	55,813	51,835	53,734	51,592
2	Tier 1	64,111	61,643	57,665	57,612	55,470
3	Total capital	75,463	74,206	70,201	70,253	68,089
RWA (amount)						
4	Total RWA	410,755	410,247	385,071	397,498	395,544
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	14.2%	13.6%	13.5%	13.5%	13.0%
6	Tier 1 ratio (%)	15.6%	15.0%	15.0%	14.5%	14.0%
7	Total capital ratio (%)	18.4%	18.1%	18.2%	17.7%	17.2%
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	1.9%	1.9%	1.3%	1.3%	1.3%
9	Countercyclical capital buffer requirement (%)	1.4%	1.4%	0.9%	0.9%	0.9%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	0.8%	0.8%	0.8%	0.8%	0.8%
11	Total AI-specific CET1 buffer requirements (%)	4.0%	4.0%	2.9%	2.9%	2.9%
12	CET1 available after meeting the AI's minimum capital requirements (%)	9.6%	9.0%	9.0%	8.5%	8.0%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	1,213,719	1,103,049	1,077,378	1,072,065	1,053,200
14	LR (%)	5.3%	5.6%	5.4%	5.4%	5.3%
Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)						
Applicable to category 1 institutions only:						
15	Total high quality liquid assets (HQLA)	212,712	195,214	180,528	162,938	175,318
16	Total net cash outflows	123,668	123,350	115,416	127,672	131,771
17	LCR (%)	174%	160%	158%	129%	134%
Applicable to category 2 institutions only:						
17a	LMR (%)	NA	NA	NA	NA	NA
Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)						
Applicable to category 1 institutions only:						
18	Total available stable funding	693,240	677,803	NA	NA	NA
19	Total required stable funding	534,668	503,340	NA	NA	NA
20	NSFR (%)	130%	135%	NA	NA	NA
Applicable to category 2A institutions only:						
20a	CFR (%)	NA	NA	NA	NA	NA

2 Key prudential ratios, overview of risk management and RWA (continued)

b. Overview of risk-weighted amount (“RWA”) (OV1)

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#		Minimum capital requirements
	At June 2018 HK\$'M	At March 2018 HK\$'M	At June 2018 HK\$'M
1 Credit risk for non-securitization exposures	302,916	295,970	25,553
2 Of which STC approach	27,816	29,981	2,225
2a Of which BSC approach	–	–	–
3 Of which foundation IRB approach	–	–	–
4 Of which supervisory slotting criteria approach	5,642	5,741	478
5 Of which advanced IRB approach	269,458	260,248	22,850
6 Counterparty default risk and default fund contributions	6,868	6,396	579
7 Of which SA-CCR*	N/A	N/A	N/A
7a Of which CEM	6,868	6,396	579
8 Of which IMM(CCR) approach	–	–	–
9 Of which others	–	–	–
10 CVA risk	3,768	3,556	301
11 Equity positions in banking book under the simple risk-weight method and internal models method	–	–	–
12 Collective investment scheme (“CIS”) exposures – LTA*	N/A	N/A	N/A
13 CIS exposures – MBA*	N/A	N/A	N/A
14 CIS exposures – FBA*	N/A	N/A	N/A
14a CIS exposures – combination of approaches*	N/A	N/A	N/A
15 Settlement risk	–	24	–
16 Securitization exposures in banking book	3,212	3,172	257
17 Of which SEC-IRBA	–	–	–
18 Of which SEC-ERBA	3,212	3,172	257
19 Of which SEC-SA	–	–	–
19a Of which SEC-FBA	–	–	–
20 Market risk	24,198	24,528	1,935
21 Of which STM approach	23,518	23,849	1,881
22 Of which IMM approach	680	679	54
23 Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	N/A	N/A	N/A
24 Operational risk	41,917	40,892	3,353
25 Amounts below the thresholds for deduction (subject to 250% RW)	8,639	8,619	691
26 Capital floor adjustment	2,766	11,179	221
26a Deduction to RWA	404	393	32
26b Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	213	202	17
26c Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	191	191	15
27 Total	393,880	393,943	32,858

* Items marked with * will be applicable only after their respective policy frameworks takes effect.

#RWAs in this table are before the application of the 1.06 scaling factor, where applicable.

3 Reconciliation between accounting and regulatory balance sheets (CC2)

The following table shows differences between the scope of accounting consolidation and the scope of regulatory consolidation, and to show the link between the Bank's balance sheet in its published financial statements and the numbers used in the composition of regulatory capital disclosure template in Template CC1 in note 4a).

	(a)	(b)	(c)
	<i>Consolidated balance sheet as in published financial statements At 30 June 2018 HK\$'M</i>	<i>Under regulatory scope of consolidation At 30 June 2018 HK\$'M</i>	<i>Cross reference to note 4a (CC1)</i>
Assets			
Cash and balances with banks, central banks and other financial institutions	12,061	12,061	
Placements with banks and other financial institutions	163,174	163,165	
Hong Kong SAR Government certificates of indebtedness	44,751	44,751	
Trading assets	31,398	31,398	
Financial assets designated at fair value	–	–	
Investment securities	239,080	239,080	
Advances to customers	524,369	524,369	
Amounts due from immediate holding company	58,378	58,378	
Amounts due from fellow subsidiaries	21,578	21,578	
Amounts due from subsidiaries of the Bank	–	25	
<i>of which: significant capital investments in financial sector entities that are outside the scope of regulatory consolidation</i>		–	(1)
Investment in subsidiaries of the Bank	–	289	
<i>of which: significant capital investments in financial sector entities that are outside the scope of regulatory consolidation</i>		289	(2)
Interests in associates	12,095	3,166	
<i>of which: significant capital investments in financial sector entities that are outside the scope of regulatory consolidation</i>		3,166	(3)
Property, plant and equipment	42,521	42,521	
Goodwill and intangible assets	1,431	1,431	
<i>of which: goodwill</i>		729	(4)
<i>of which: other intangible assets</i>		702	(5)
Current tax assets	–	–	
Deferred tax assets	82	89	
<i>of which: deferred tax liabilities relating to goodwill</i>		–	(6)
<i>of which: deferred tax liabilities relating to intangible assets</i>		(85)	(7)
<i>of which: other deferred tax assets</i>		174	(8)
Other assets	15,285	15,263	
	1,166,203	1,157,564	

3 Reconciliation between accounting and regulatory balance sheets (CC2) (continued)

	(a)	(b)	(c)
	<i>Consolidated balance sheet as in published financial statements At 30 June 2018 HK\$'M</i>	<i>Under regulatory scope of consolidation At 30 June 2018 HK\$'M</i>	<i>Cross reference to note 4a (CC1)</i>
Liabilities			
Hong Kong SAR currency notes in circulation	44,751	44,751	
Deposits and balances of banks and other financial institutions	29,837	29,837	
Deposit from customers	878,290	878,290	
Trading liabilities	14,338	14,338	
<i>of which: gains or losses due to changes in own credit risk</i>		–	(9)
Financial liabilities designated at fair value	11,665	11,665	
<i>of which: gains or losses due to changes in own credit risk</i>		326	(10)
Debt securities in issue	3,525	3,525	
Amounts due to immediate holding company	59,262	59,262	
<i>of which: subordinated liabilities eligible for inclusion in regulatory capital</i>		6,277	(11)
Amounts due to fellow subsidiaries	11,969	11,969	
Amounts due to subsidiaries of the Bank	–	450	
Current tax liabilities	936	936	
Deferred tax liabilities	484	484	
Other liabilities	24,795	24,737	
Subordinated liabilities	5,923	5,923	
<i>of which: subordinated liabilities eligible for inclusion in regulatory capital (subject to phase out arrangements)</i>		2,626	(12)
	1,085,775	1,086,167	
Equity			
Share capital	20,256	20,256	
<i>of which: amount eligible for CET1</i>		16,378	(13)
<i>of which: amount eligible for AT1</i>		3,878	(14)
Other equity instruments	1,952	1,952	
<i>of which: amount eligible for AT1</i>		1,952	(14)
Reserves	58,220	49,189	
<i>of which: Cumulative cash flow hedge reserves that relate to the hedging of financial instruments that are not fair valued on the balance sheet</i>		474	(15)
<i>of which: Cumulative cash flow hedge reserves that relate to the hedging of financial instruments that are fair valued on the balance sheet</i>		–	(16)
<i>of which: Available-for-sale investment reserve</i>		32	(17)
<i>of which: Property revaluation reserve</i>		–	(18)
<i>of which: Exchange reserve</i>		1	(19)

3 Reconciliation between accounting and regulatory balance sheets (CC2) (continued)

	(a)	(b)	(c)
	<i>Consolidated balance sheet as in published financial statements At 30 June 2018 HK\$'M</i>	<i>Under regulatory scope of consolidation At 30 June 2018 HK\$'M</i>	<i>Cross reference to note 4a (CC1)</i>
<i>of which: Merger reserve</i>		154	(20)
<i>of which: Share option equity reserve</i>		382	(21)
<i>of which: Own credit adjustments reserves</i>		326	(22)
<i>of which: Retained earnings</i>		47,820	(23)
<i>of which: Cumulative fair value gains arising from the revaluation of land and buildings (audited)</i>		346	(24)
<i>of which: Regulatory reserve for general banking risks</i>		4,228	(25)
	80,428	71,397	
	1,166,203	1,157,564	

4 Regulatory capital

a. Composition of regulatory capital (CC1)

The following table sets out a breakdown of the constituent elements of Total regulatory capital.

At 30 June 2018	(a) HK\$'M	(b) <i>Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 3 (CC2)</i>
CET1 capital: instruments and reserves		
1 Directly issued qualifying CET1 capital instruments plus any related share premium	16,378	(13)
2 Retained earnings	47,820	(23)
3 Disclosed reserves	1,369	(15)+(16)+(17)+ (18)+(19)+(20)+ (21)+(22)
4 Directly issued capital subject to phase out arrangements from CET1 (only applicable to non-joint stock companies)	Not applicable	Not applicable
5 Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6 CET1 capital before regulatory adjustments	65,567	

4 Regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

At 30 June 2018	(a) HK\$'M	(b) <i>Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 3 (CC2)</i>
CET1 capital: regulatory deductions		
7 Valuation adjustments	308	
8 Goodwill (net of associated deferred tax liabilities)	729	(4)–(6)
9 Other intangible assets (net of associated deferred tax liabilities)	617	(5)–(7)
10 Deferred tax assets (net of associated deferred tax liabilities)	174	(8)
11 Cash flow hedge reserve	474	(15)
12 Excess of total EL amount over total eligible provisions under the IRB approach	–	
13 Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	–	
14 Gains and losses due to changes in own credit risk on fair valued liabilities	326	(9)+(10)
15 Defined benefit pension fund net assets (net of associated deferred tax liabilities)	84	
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)–(26)
20 Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21 Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22 Amount exceeding the 15% threshold	Not applicable	Not applicable
23 of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24 of which: mortgage servicing rights	Not applicable	Not applicable
25 of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26 National specific regulatory adjustments applied to CET1 capital	4,574	
26a Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	346	(18)+(24)
26b Regulatory reserve for general banking risks	4,228	(25)
26c Securitization exposures specified in a notice given by the MA	–	
26d Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	–	
26e Capital shortfall of regulated non-bank subsidiaries	–	

4 Regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

	(a)	(b)
	HK\$'M	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 3 (CC2)
At 30 June 2018		
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	7,286	
29 CET1 capital	58,281	
AT1 capital: instruments		
30 Qualifying AT1 capital instruments plus any related share premium	5,830	(14)
31 of which: classified as equity under applicable accounting standards	–	
32 of which: classified as liabilities under applicable accounting standards	–	
33 <i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	–	
34 AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	–	
35 <i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i>	–	
36 AT1 capital before regulatory deductions	5,830	
AT1 capital: regulatory deductions		
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	–	
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	5,830	
45 Tier 1 capital (T1 = CET1 + AT1)	64,111	
Tier 2 capital: instruments and provisions		
46 Qualifying Tier 2 capital instruments plus any related share premium	6,277	(11)
47 <i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	2,626	(12)
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)	–	

4 Regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

	(a)	(b)
	HK\$'M	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 3 (CC2)
At 30 June 2018		
49 of which: capital instruments issued by subsidiaries subject to phase-out arrangements	–	
50 Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	2,294	(27)+(28)
51 Tier 2 capital before regulatory deductions	11,197	
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 (net of eligible short positions)	–	(1)
56 National specific regulatory adjustments applied to Tier 2 capital	(155)	
56a Add back of cumulative fair value gains arising from the revaluation of land and buildings (ownuse and investment properties) eligible for inclusion in Tier 2 capital	(155)	[(18)+(24)]x45%
57 Total regulatory adjustments to Tier 2 capital	(155)	
58 Tier 2 capital (T2)	11,352	
59 Total regulatory capital (TC = T1 + T2)	75,463	
60 Total RWA	410,755	
Capital ratios (as a percentage of RWA)		
61 CET1 capital ratio	14.19%	
62 Tier 1 capital ratio	15.61%	
63 Total capital ratio	18.37%	
64 Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer plus higher loss absorbency requirements)	3.99%	
65 of which: capital conservation buffer requirement	1.88%	
66 of which: bank specific countercyclical buffer requirement	1.36%	
67 of which: G-SIB or D-SIB buffer requirement	0.75%	
68 CET1 (as a percentage of RWA) available after meeting minimum capital requirements	9.61%	
National minima (if different from Basel 3 minimum)		
69 National CET1 minimum ratio	Not applicable	Not applicable
70 National Tier 1 minimum ratio	Not applicable	Not applicable
71 National Total capital minimum ratio	Not applicable	Not applicable

4 Regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

	(a)	(b)
At 30 June 2018	HK\$'M	<i>Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 3 (CC2)</i>
Amounts below the thresholds for deduction (before risk weighting)		
72 Insignificant capital investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	28	–
73 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	3,455	(26)
74 Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75 Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
Applicable caps on the inclusion of provisions in Tier 2 capital		
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	718	
77 Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	505	(27)
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	1,943	
79 Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	1,789	(28)
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80 Current cap on CET1 capital instruments subject to phase-out arrangements	Not applicable	Not applicable
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	Not applicable	Not applicable
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	2,626	(12)
85 Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	3,297	

4 Regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

Notes to the template:

(on elements where a more conservative definition has been applied in the BCR relative to that set out in the Basel III capital standards.)

Description	At 30 June 2018	
	Hong Kong basis HK\$'M	Basel III basis HK\$'M
9 Other intangible assets (net of associated deferred tax liability)	617	617

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.

10 Deferred tax assets (net of associated deferred tax liabilities)	174	57
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Explanation

As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs 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 or other credit exposures to connected companies) under Basel III.

4 Regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

Description	At 30 June 2018	
	Hong Kong basis HK\$'M	Basel III basis HK\$'M
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 MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.

19 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–
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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 MA 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.

4 Regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

Description	At 30 June 2018	
	Hong Kong basis HK\$'M	Basel III basis HK\$'M
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.

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)	–	–
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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.

4 Regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

Remarks:

The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.

Abbreviations:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

Note:

Cross-references (1) to (25) are referenced to Reconciliation of regulatory capital to balance sheet (CC2).

Cross-references (26) to (28) are referenced within the Composition of regulatory capital (CC1).

b. Main features of regulatory capital instruments (CCA)

The following is a summary of the group's common equity tier 1 ('CET1') capital, additional tier 1 ('AT1') capital and tier 2 capital instruments.

	<i>At June 2018</i>	
	<i>Total amount</i>	<i>Amount recognised in regulatory capital HK\$'M</i>
CET1 capital instruments		
Ordinary shares:		
1,937,138,640 issued and fully paid ordinary shares	HK\$16,378m	16,378
AT1 capital instruments		
Perpetual non-cumulative convertible preference shares	US\$500m	3,878
Perpetual non-cumulative capital securities	US\$250m	1,952
Tier 2 capital instruments		
Subordinated loan due 2020	US\$750m	2,626
Fixed rate (4.30%) subordinated loan due 2026, callable from 2021	US\$800m	6,277

The full terms and conditions of the Bank's capital instruments can be found in the Regulatory Disclosures section of our website, www.sc.com/hk.

4 Regulatory capital (continued)

b. Main features of regulatory capital instruments (CCA) (continued)

Ordinary Shares

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Common Equity Tier 1
6	Eligible at solo ³ /group/group & solo	Group & solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HKD16,378 Million
9	Par value of instrument	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1 July 2004 (780 Million shares) 29 June 2005 (451 Million shares) 29 October 2010 (706 Million shares)
12	Perpetual or dated	Perpetual
13	Original maturity date	Undated
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	The Board may from time to time make calls upon the members in respect of any moneys unpaid on their shares. A call shall be deemed to have been made at the time when the resolution of the Board authorising the call was passed.
16	Subsequent call dates, if applicable	N/A
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Preference Shares are immediately senior to Ordinary Shares
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

4 Regulatory capital (continued)

b. Main features of regulatory capital instruments (CCA) (continued)

Perpetual non-cumulative convertible preference shares

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Additional Tier 1
6	Eligible at solo ³ /group/group & solo	Group & solo
7	Instrument type (types to be specified by each jurisdiction)	Preference Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HKD 3,878 Million
9	Par value of instrument	10 perpetual non-cumulative convertible preference shares at aggregate issue price of USD500 Million and a Liquidation Preference of USD500 Million
10	Accounting classification	Shareholders' equity
11	Original date of issuance	30 December 2014
12	Perpetual or dated	Perpetual
13	Original maturity date	Undated
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	First Call Date: 31 December 2019 Included tax and regulatory redemption options Redemption at 100% of the prevailing Liquidation Preference together with uncanceled but unpaid dividends
16	Subsequent call dates, if applicable	Each dividend payment date after the First Call Date
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6.25 per cent per annum payable semi-annually in arrears
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Convertible
24	If convertible, conversion trigger (s)	If a Non-Viability Event occurs and is continuing, "Non-Viability Event" means the earlier of: (a) the Monetary Authority notifying the Bank in writing that the Monetary Authority is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and (b) the Monetary Authority notifying the Bank in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.
25	If convertible, fully or partially	Fully
26	If convertible, conversion rate	Each Preference Share to 12,500,000 A Shares at the USD4.00 per A Share "A Shares" means Class A Ordinary Shares in the share capital of the Bank
27	If convertible, mandatory or optional conversion	Mandatory

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

4 Regulatory capital (continued)

b. Main features of regulatory capital instruments (CCA) (continued)

Perpetual non-cumulative convertible preference shares (continued)

28	If convertible, specify instrument type convertible into	Common Equity Tier 1
29	If convertible, specify issuer of instrument it converts into	Standard Chartered Bank (Hong Kong) Limited
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The Dated Subordinated Notes are immediately senior to Preference Shares
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

4 Regulatory capital (continued)

b. Main features of regulatory capital instruments (CCA) (continued)

Perpetual non-cumulative capital securities

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Additional Tier 1
6	Eligible at solo ³ /group/group & solo	Group & solo
7	Instrument type (types to be specified by each jurisdiction)	Perpetual debt instrument
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HKD 1,952 Million
9	Par value of instrument	Issue price at 100 per cent of the Aggregate Nominal Amount of USD250 Million
10	Accounting classification	Shareholders' equity
11	Original date of issuance	13 December 2017
12	Perpetual or dated	Perpetual
13	Original maturity date	Undated
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	First Call Date: 13 December 2024 Included tax and regulatory redemption options Redemption at 100% of the Capital Securities at their outstanding principal amount together with the distribution accrued but unpaid to the date fixed for redemption.
16	Subsequent call dates, if applicable	Each dividend payment date after the First Call Date
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.00 per cent per annum payable semi-annually in arrears
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Full discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	If a Non-Viability Event occurs and is continuing, "Non-Viability Event" means the earlier of: (a) the Monetary Authority notifying the Bank in writing that the Monetary Authority is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and (b) the Monetary Authority notifying the Bank in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.
32	If write-down, full or partial	Full or Partial
33	If write-down, permanent or temporary	Permanent

4 Regulatory capital (continued)

b. Main features of regulatory capital instruments (CCA) (continued)

Perpetual non-cumulative capital securities (continued)

34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The Dated Subordinated Notes are immediately senior to Capital Securities
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

4 Regulatory capital (continued)

b. Main features of regulatory capital instruments (CCA) (continued)

Subordinated loan due 2020

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0520042416 (ISIN Code)
3	Governing law(s) of the instrument	The Notes are governed by and construed in accordance with English Law, except for the provisions relating to the subordination of Subordinated Notes to be issued by SCBHK which will be governed by, and construed in accordance with, Hong Kong Law
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	Tier 2
5	Post-transitional Basel III rules ²	Ineligible
6	Eligible at solo ³ /group/group & solo	Group & solo
7	Instrument type (types to be specified by each jurisdiction)	Other Tier 2 instruments
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HKD 2,626 Million
9	Par value of instrument	Issue price at 99.485 per cent of the Aggregate Nominal Amount of USD750 Million
10	Accounting classification	Liability – amortised cost
11	Original date of issuance	24 June 2010
12	Perpetual or dated	Dated
13	Original maturity date	24 June 2020
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	The notes may, at any time, be redeemed at par for taxation reasons
16	Subsequent call dates, if applicable	N/A
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.875 per cent per annum payable semi-annually in arrears
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Creditors are immediately senior to the Dated Subordinated Notes
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	The terms and conditions do not have a provision that requires the instrument to fully absorb losses at the point of non-viability

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

4 Regulatory capital (continued)

b. Main features of regulatory capital instruments (CCA) (continued)

Fixed rate (4.30%) subordinated loan due 2026, callable from 2021

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Tier 2
6	Eligible at solo ³ /group/group & solo	Group & solo
7	Instrument type (types to be specified by each jurisdiction)	Other Tier 2 instruments
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HKD 6,277 Million
9	Par value of instrument	Issue price at 100 per cent of the Aggregate Nominal Amount of USD800 Million
10	Accounting classification	Liability – amortised cost
11	Original date of issuance	19 December 2016
12	Perpetual or dated	Dated
13	Original maturity date	19 December 2026
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	First Call Date: 20 December 2021 Included tax and regulatory redemption options Redemption at 100% of the Subordinated Notes at their outstanding principal amount together with interest accrued but unpaid to the date fixed for redemption.
16	Subsequent call dates, if applicable	Each interest payment date after the First Call Date
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	4.30 per cent per annum payable quarterly in arrears
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	If a Non-Viability Event occurs and is continuing, “Non-Viability Event” means the earlier of: (a) the Monetary Authority notifying the Bank in writing that the Monetary Authority is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and (b) the Monetary Authority notifying the Bank in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.
32	If write-down, full or partial	Full or Partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Creditors are immediately senior to the Dated Subordinated Notes
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Macroprudential supervisory measures

Geographical distribution of credit exposures used in countercyclical capital buffer (CCyB1)

The following table sets out an overview of the geographical distribution of private sector credit exposures relevant for the calculation of an AI's CCyB ratio.

At 30 June 2018

	<i>Jurisdiction (J)</i>	<i>Applicable JCCyB ratio in effect</i>	<i>Total RWA used in computation of CCyB ratio of AI</i>	<i>CCyB ratio of AI</i>	<i>CCyB amount of AI HK\$'M</i>
1	Hong Kong	1.875%	218,179		
2	Norway	2.000%	–		
3	Sweden	2.000%	391		
4	United Kingdom	0.500%	5,405		
5	Sum ¹	–	223,975		
6	Total²		304,321	1.36%	4,126

¹ This represents the sum of RWAs for the private sector credit exposures in jurisdictions with a non-zero countercyclical buffer rate.

² The total RWAs used in the computation of the CCyB ratio in row (6) represents the total RWAs for the private sector credit exposures in all jurisdictions to which the bank is exposed, including jurisdictions with no countercyclical buffer rate or with a countercyclical buffer rate set at zero.

6 Leverage Ratio

a. Leverage ratio (LR2)

The following table sets out a detailed breakdown of the components of the LR denominator.

	(a)	(b)	
	At 30 June 2018 HK\$'M	At 31 March 2018 HK\$'M	
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1,026,718	987,974
2	Less: Asset amounts deducted in determining Base III Tier 1 capital	(6,960)	(6,620)
3	Total on-balance sheet exposures (excluding derivatives and SFTs)	1,019,758	981,354
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivatives contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	5,080	3,318
5	Add-on amounts for PFE associated with all derivatives contracts	16,651	15,164
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–	–
7	Less: Deductions of receivables assets for cash variation margin provided under derivatives contracts	–	–
8	Less: Exempted CCP leg of client-cleared trade exposures	–	–
9	Adjusted effective notional amount of written credit derivatives	3,884	4,279
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives	(3,884)	(4,279)
11	Total exposures arising from derivative contract	21,731	18,482
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	110,140	40,498
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	–	–
14	CCR exposure for SFT assets	56	244
15	Agent transaction exposures	–	–
16	Total exposures arising from SFTs*	110,196	40,742
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	404,869	398,234
18	Less: Adjustments for conversion to credit equivalent amounts	(341,272)	(333,918)
19	Off-balance sheet items	63,597	64,316
Capital and total exposures			
20	Tier 1 capital	64,111	61,643
20a	Total exposures before adjustments for specific and collective provisions	1,215,282	1,104,894
20b	Adjustments for specific and collective provisions	(1,563)	(1,847)
21	Total exposures after adjustments for specific and collective provisions	1,213,719	1,103,047
Leverage ratio			
22	Leverage ratio	5.28%	5.59%

* Total exposures arising from SFTs increased mainly driven by repo and reverse repo transactions.

6 Leverage Ratio (continued)

b. Summary comparison of accounting assets against leverage ratio exposure measure (LR1)

The following table reconcile the total assets in the published financial statements to the LR exposure measure.

At 30 June 2018	(a) Value under the LR framework HK\$'M
1 Total consolidated assets as per published financial statements	1,166,203
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(8,643)
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	–
4 Adjustments for derivative contracts	(481)
5 Adjustment for SFTs (i.e. repos and similar secured lending)	44,765
6 Adjustment for off-balance sheet (“OBS”) items (i.e. conversion to credit equivalent amounts of OBS exposures)	63,597
6a Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(1,563)
7 Other adjustments	(50,159)
8 Leverage ratio exposure measure	1,213,719

Other adjustments mainly represent the Hong Kong Government certificates of indebtedness and assets deducted in determining Tier 1 capital.

These are excluded for deriving the leverage ratio exposure in accordance with the ‘Leverage Ratio Framework’ issued by the HKMA.

7 Liquidity

Liquidity Coverage Ratio – for category 1 institution (LIQ1)

The following table sets out the details of LCR, high quality liquid assets (“HQLA”), and a breakdown of cash outflows and inflows.

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 2017, 30 Jun 2017, 31 Mar 2018 and 30 Jun 2018 are 73, 71, 72 and 73.

		Q2 2018 Currency: (HK\$mil)		Q1 2018 Currency: (HK\$mil)		Q2 2017 Currency: (HK\$mil)		Q1 2017 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)		212,712		195,214		175,318		184,656
B. CASH OUTFLOWS									
2	Retail deposits and small business funding, of which:	444,814	35,408	433,222	34,643	403,823	32,507	390,513	31,354
3	Stable retail deposits and stable small business funding	111,382	5,569	111,144	5,557	105,937	5,297	102,371	5,119
4	Less stable retail deposits and less stable small business funding	263,336	26,334	259,628	25,963	246,310	24,631	236,563	23,656
5	Retail term deposits and small business term funding	70,096	3,505	62,450	3,123	51,576	2,579	51,579	2,579
6	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	399,757	171,478	395,503	172,490	380,591	170,511	373,329	171,279
7	Operational deposits	190,810	47,352	186,640	46,321	174,645	43,336	156,886	38,903
8	Unsecured wholesale funding (other than small business funding) not covered in Row 7	208,569	123,748	208,684	125,990	205,863	127,092	216,425	132,358
9	Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period	378	378	179	179	83	83	18	18
10	Secured funding transactions (including securities swap transactions)		0		–		0		–
11	Additional requirements, of which:	179,564	21,860	162,460	18,444	164,847	16,307	163,291	16,208
12	Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements	6,363	6,363	6,750	6,750	5,069	5,069	4,498	4,498
13	Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions	7	7	29	29	286	286	139	139
14	Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)	173,194	15,490	155,681	11,665	159,492	10,952	158,654	11,571
15	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	22,751	22,751	27,106	27,106	21,954	21,954	24,502	24,502
16	Other contingent funding obligations (whether contractual or non-contractual)	245,492	995	238,246	1,037	239,110	1,343	228,908	1,069
17	TOTAL CASH OUTFLOWS		252,492		253,720		242,622		244,412
C. CASH INFLOWS									
18	Secured lending transactions (including securities swap transactions)	22,272	1,068	10,977	1,017	20,553	1,998	19,183	1,932
19	Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	203,568	112,556	198,736	112,004	168,370	95,197	159,315	90,493
20	Other cash inflows	18,764	15,199	21,649	17,349	17,904	13,656	14,947	10,426
21	TOTAL CASH INFLOWS	244,605	128,823	231,362	130,370	206,826	110,851	193,445	102,851
D. LIQUIDITY COVERAGE RATIO									
22	TOTAL HQLA		212,712		195,214		175,318		184,656
23	TOTAL NET CASH OUTFLOWS		123,669		123,350		131,771		141,561
24	LCR (%)		174%		160%		134%		131%

7 Liquidity (continued)

LCR 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. The Bank has maintained a strong liquidity position and well above the regulatory requirement of 90% throughout the first half of the year of 2018. The average LCR increased from 160% for the quarter ending 31st March 2018 to 174% for the quarter ending 30 June 2018 mainly as a result of higher 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 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.

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.

7 Liquidity (continued)

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.

Net Stable Funding Ratio – for category 1 institution (LIQ2)

The following table sets out the details of NSFR and details of ASF and RSF components.

Table 1: LIQ2 for Quarter ending 30th June 2018

	(a)	(b)	(c)	(d)	(e)
	No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	Weighted amount
Basis of disclosure: consolidated					
A. Available stable funding ("ASF") item					
1 Capital:	72,161	–	–	8,903	81,064
2 Regulatory capital	72,161	–	–	6,277	78,438
2a Minority interests not covered by row 2	–	–	–	–	–
3 Other capital instruments	–	–	–	2,626	2,626
4 Retail deposits and small business funding:	–	448,338	27,420	804	434,405
5 Stable deposits		108,384	–	–	102,965
6 Less stable deposits		339,954	27,420	804	331,440
7 Wholesale funding:		472,804	5,072	2,344	171,568
8 Operational deposits		177,800	–	–	88,900
9 Other wholesale funding	–	295,004	5,072	2,344	82,668
10 Liabilities with matching interdependent assets	44,751	–	–	–	–
11 Other liabilities:	35,044	11,888	843	5,782	6,203
12 Net derivative liabilities	83				
13 All other funding and liabilities not included in the above categories	34,961	11,888	843	5,782	6,203
14 Total ASF					693,240
B. Required stable funding ("RSF") item					
15 Total HQLA for NSFR purposes				202,975	9,762
16 Deposits held at other financial institutions for operational purposes	–	11,217	–	–	5,609
17 Performing loans and securities:	56,354	363,485	45,519	352,965	454,650
18 Performing loans to financial institutions secured by Level 1 HQLA	–	57,303	–	–	5,730
19 Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	15,011	142,871	16,998	39,262	84,202
20 Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:	41,343	131,480	15,071	81,951	211,731

7 Liquidity (continued)

Net Stable Funding Ratio – for category 1 institution (LIQ2) (continued)

Basis of disclosure: consolidated		(a)	(b)	(c)	(d)	(e)
		Unweighted value by residual maturity				Weighted amount
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
21	With a risk-weight of less than or equal to 35% under the STC approach	–	–	–	–	–
22	Performing residential mortgages, of which:	–	8,757	3,863	203,958	113,032
23	With a risk-weight of less than or equal to 35% under the STC approach	–	8,019	3,562	164,935	112,998
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	23,074	9,587	27,794	39,955
25	Assets with matching interdependent liabilities	44,751	–	–	–	–
26	Other assets:	60,823	6,057	–	–	56,868
27	Physical traded commodities, including gold	–				–
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	–				–
29	Net derivative assets	–				–
30	Total derivative liabilities before deduction of variation margin posted	3,955				N/A
31	All other assets not included in the above categories	56,868	6,057	–	–	56,868
32	Off-balance sheet items				404,331	7,779
33	Total RSF					534,668
34	Net Stable Funding Ratio (%)					130%

Table 2: LIQ2 for Quarter ending 31st March 2018

Basis of disclosure: consolidated		(a)	(b)	(c)	(d)	(e)
		Unweighted value by residual maturity				Weighted amount
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
A. Available stable funding (“ASF”) item						
1	Capital:	69,398	–	–	10,220	79,618
2	Regulatory capital	69,398	–	–	6,281	75,679
2a	Minority interests not covered by row 2	–	–	–	–	–
3	Other capital instruments	–	–	–	3,939	3,939
4	Retail deposits and small business funding:	–	451,031	17,832	1,701	429,387
5	Stable deposits		114,193	–	–	108,483
6	Less stable deposits		336,838	17,832	1,701	320,904
7	Wholesale funding:		413,205	7,367	2,535	162,324
8	Operational deposits		178,454	–	–	89,227
9	Other wholesale funding	–	234,751	7,367	2,535	73,097
10	Liabilities with matching interdependent assets	44,141	–	–	–	–
11	Other liabilities:	38,594	10,293	768	6,090	6,474
12	Net derivative liabilities	1,038				
13	All other funding and liabilities not included in the above categories	37,556	10,293	768	6,090	6,474
14	Total ASF					677,803

7 Liquidity (continued)

Net Stable Funding Ratio – for category 1 institution (LIQ2) (continued)

Basis of disclosure: consolidated		(a)	(b)	(c)	(d)	(e)
		Unweighted value by residual maturity				Weighted amount
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
B. Required stable funding (“RSF”) item						
15	Total HQLA for NSFR purposes				188,903	10,269
16	Deposits held at other financial institutions for operational purposes	–	9,169	–	–	4,584
17	Performing loans and securities:	58,332	338,183	46,397	322,738	421,772
18	Performing loans to financial institutions secured by Level 1 HQLA	–	31,390	–	–	3,139
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	15,617	156,531	21,743	23,068	73,036
20	Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:	42,715	119,236	12,394	71,504	197,348
21	With a risk-weight of less than or equal to 35% under the STC approach	–	–	–	–	–
22	Performing residential mortgages, of which:	–	10,134	3,816	204,436	113,411
23	With a risk-weight of less than or equal to 35% under the STC approach	–	9,443	3,533	164,443	113,376
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	20,892	8,444	23,730	34,838
25	Assets with matching interdependent liabilities	44,141	–	–	–	–
26	Other assets:	61,975	8,498	–	–	58,751
27	Physical traded commodities, including gold	–				–
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	–				–
29	Net derivative assets	–				–
30	Total derivative liabilities before deduction of variation margin posted	3,224				N/A
31	All other assets not included in the above categories	58,751	8,498	–	–	58,751
32	Off-balance sheet items				399,396	7,963
33	Total RSF					503,339
34	Net Stable Funding Ratio (%)					135%

7 Liquidity (continued)

NSFR Key Drivers

Net Stable Funding Ratio (NSFR) requires the bank to maintain sufficient stable funding relative to required stable funding. It reflects a bank's long-term funding profile and complement Liquidity Coverage Ratio (LCR) which measures short-term resilience to liquidity risk. The bank has continuously maintained a healthy NSFR ratio during the first half of 2018, and well above the regulatory requirement minimum of 100%.

NSFR decreased slightly from 135% in the first quarter 2018 to 130% in the second quarter 2018 as a result of increased medium term loans partially being offset by higher client stable deposits.

Composition of AI's interdependent assets and liabilities

Complying with HKMA Banking Liquidity Rules, the Bank's interdependent assets and liabilities consist of legal tender notes and certificates of indebtedness, being one of the note-issuing bank in Hong Kong.

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 2018	(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	2,409	694,643	1,562	695,490
2 Debt securities	–	246,752	7	246,745
3 Off-balance sheet exposures	261	404,608	–	404,869
4 Total	2,670	1,346,003	1,569	1,347,104

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

The following table sets out 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 2017)	3,831
2 Loans and debt securities that have defaulted since the last reporting period	1,345
3 Returned to non-defaulted status	(18)
4 Amounts written off	(306)
5 Other changes ¹	(2,443)
6 Defaulted loans and debt securities at end of the current reporting period (30 June 2018)	2,409

¹ Other changes included repayment and foreign exchange movement.

8 Credit risk for non-securitization exposures (continued)

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.

	(a)	(b1)	(b)	(d)	(f)
	Exposures unsecured: carrying amount HK\$'M	Exposures to be secured HK\$'M	Exposures secured by recognized collateral HK\$'M	Exposures secured by recognized guarantees HK\$'M	Exposures secured by recognized credit derivative contracts HK\$'M
At 30 June 2018					
1 Loans	380,046	315,444	280,909	17,439	–
2 Debt securities	232,392	14,353	10,637	235	–
3 Total	612,438	329,797	291,546	17,674	–
4 – Of which defaulted	2,120	289	214	2	–

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.

	(a)	(b)	(c)	(d)	(e)	(f)
	Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
At 30 June 2018	On-balance sheet amount HK\$'M	Off-balance sheet amount HK\$'M	On-balance sheet amount HK\$'M	Off-balance sheet amount HK\$'M	RWA HK\$'M	RWA density %
<i>Exposure classes</i>						
1 Sovereign exposures	–	–	–	–	–	–
2 PSE exposures	–	–	–	–	–	–
2a – Of which: domestic PSEs	–	–	–	–	–	–
2b – Of which: foreign PSEs	–	–	–	–	–	–
3 Multilateral development bank exposures	12,010	–	12,010	–	–	0%
4 Bank exposures	3,069	–	3,086	–	617	20%
5 Securities firm exposures	–	–	–	–	–	–
6 Corporate exposures	30,308	3,021	16,897	465	16,472	95%
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	7,669	–	4,731	–	3,548	75%
11 Residential mortgage loans	686	–	686	–	676	99%
12 Other exposures which are not past due exposures	18,177	48,750	5,879	–	5,879	100%
13 Past due exposures	417	–	417	–	624	150%
14 Significant exposures to commercial entities	–	–	–	–	–	–
15 Total	72,336	51,771	43,706	465	27,816	63%

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).

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
At 30 June 2018											
Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post 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
1 Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2 PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a – Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b – Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3 Multilateral development bank exposures	12,010	-	-	-	-	-	-	-	-	-	12,010
4 Bank exposures	-	-	3,086	-	-	-	-	-	-	-	3,086
5 Securities firm exposures	-	-	0	-	-	-	-	-	-	-	-
6 Corporate exposures	-	-	716	-	636	-	16,010	-	-	-	17,362
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	-	-	-	-	-	4,731	-	-	-	-	4,731
11 Residential mortgage loans	-	-	-	15	-	-	671	-	-	-	686
12 Other exposures which are not past due exposures	-	-	-	-	-	-	5,879	-	-	-	5,879
13 Past due exposures	-	-	-	-	-	-	1	416	-	-	417
14 Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15 Total	12,010	-	3,802	15	636	4,731	22,561	416	-	-	44,171

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 2018 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	149,633	18	59.10%	153,524	0.01%	30	32.82%	1.14	5,772	3.76%	8	
0.15 to < 0.25	-	-	0.00%	-	0.00%	-	0.00%	-	-	0.00%	-	
0.25 to < 0.50	-	-	0.00%	-	0.00%	-	0.00%	-	-	0.00%	-	
0.50 to < 0.75	-	-	0.00%	-	0.00%	-	0.00%	-	-	0.00%	-	
0.75 to < 2.50	785	-	0.00%	785	0.89%	1	55.21%	1.46	724	92.30%	4	
2.50 to < 10.00	-	-	0.00%	-	0.00%	-	0.00%	-	-	0.00%	-	
10.00 to < 100.00	-	-	0.00%	-	0.00%	-	0.00%	-	-	0.00%	-	
100.00 (Default)	-	-	0.00%	-	0.00%	-	0.00%	-	-	0.00%	-	113
Sub-total	150,418	18	59.10%	154,309	0.02%	31	32.93%	1.14	6,496	4.21%	12	113
Portfolio (ii) – Bank												
0.00 to < 0.15	223,308	46,255	11.96%	244,433	0.04%	134	28.97%	1.11	18,799	7.69%	26	
0.15 to < 0.25	4,495	1,785	3.67%	4,063	0.22%	19	40.26%	0.59	1,310	32.24%	4	
0.25 to < 0.50	4,257	5,895	24.74%	5,507	0.39%	26	34.08%	1.57	2,506	45.50%	7	
0.50 to < 0.75	5,479	6,836	17.51%	6,665	0.56%	46	29.99%	1.71	3,183	47.76%	11	
0.75 to < 2.50	5,077	6,669	22.44%	4,604	1.37%	84	28.68%	0.87	2,651	57.57%	18	
2.50 to < 10.00	14	798	28.22%	239	3.31%	14	28.30%	0.98	192	80.63%	2	
10.00 to < 100.00	-	16	13.00%	2	13.77%	2	13.20%	1.00	1	67.38%	-	
100.00 (Default)	-	-	0.00%	-	0.00%	-	0.00%	-	-	0.00%	-	564
Sub-total	242,630	68,254	14.62%	265,513	0.09%	325	29.27%	1.12	28,642	10.79%	68	564
Portfolio (iii) – Corporate – Other												
0.00 to < 0.15	60,490	67,498	27.67%	90,261	0.08%	398	52.48%	1.59	21,869	24.23%	39	
0.15 to < 0.25	24,309	15,004	22.77%	27,624	0.22%	232	51.38%	2.24	12,485	45.19%	31	
0.25 to < 0.50	19,446	11,095	38.36%	24,605	0.39%	215	39.54%	2.20	11,598	47.14%	38	
0.50 to < 0.75	28,294	14,502	19.67%	32,393	0.56%	295	45.33%	1.65	18,448	56.95%	80	
0.75 to < 2.50	35,469	14,510	17.94%	28,309	1.43%	713	34.94%	2.15	19,232	67.93%	141	
2.50 to < 10.00	26,949	11,875	20.63%	16,952	4.42%	395	42.69%	1.14	19,567	115.42%	316	
10.00 to < 100.00	3,624	2,232	14.53%	3,738	36.24%	328	37.24%	1.90	7,312	195.60%	224	
100.00 (Default)	1,579	67	0.00%	1,551	100.00%	123	50.57%	2.34	5,828	375.70%	379	2,377
Sub-total	200,160	136,783	25.28%	225,433	1.98%	2,699	46.70%	1.79	116,339	51.61%	1,248	2,377

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 2018 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 (iv) – Corporate – Small- and-medium sized corporates												
0.00 to < 0.15	-	-	0.00%	-	0.05%	1	55.21%	1.00	-	10.78%	-	-
0.15 to < 0.25	193	119	13.12%	208	0.21%	135	61.55%	2.28	99	47.79%	-	-
0.25 to < 0.50	191	117	20.97%	216	0.37%	88	46.31%	1.75	104	48.20%	-	-
0.50 to < 0.75	279	488	15.44%	354	0.64%	150	50.34%	2.04	248	70.11%	1	-
0.75 to < 2.50	2,466	2,552	13.50%	2,811	1.43%	666	36.46%	1.54	1,783	63.44%	14	-
2.50 to < 10.00	3,477	2,224	12.53%	3,758	4.06%	345	23.02%	1.28	2,007	53.41%	34	-
10.00 to < 100.00	668	345	14.06%	715	32.03%	65	38.23%	1.59	1,587	221.90%	41	-
100.00 (Default)	282	74	6.17%	265	100.00%	107	53.68%	1.26	233	87.70%	147	253
Sub-total	7,556	5,919	13.37%	8,327	8.29%	1,557	32.57%	1.46	6,061	72.80%	237	253
Portfolio (v) – Retail – QRRE												
0.00 to < 0.15	4,733	87,049	46.64%	45,343	0.07%	689,693	90.00%	-	1,901	4.19%	30	-
0.15 to < 0.25	-	-	0.00%	-	0.00%	-	0.00%	-	-	0.00%	-	-
0.25 to < 0.50	992	8,994	49.21%	5,424	0.29%	75,676	90.00%	-	709	13.06%	14	-
0.50 to < 0.75	1,400	16,435	48.26%	9,341	0.68%	122,769	90.00%	-	2,386	25.56%	57	-
0.75 to < 2.50	1,297	4,632	52.27%	3,727	1.48%	42,854	90.00%	-	1,709	45.85%	50	-
2.50 to < 10.00	2,028	2,296	63.75%	3,526	5.13%	36,360	90.00%	-	3,761	106.68%	163	-
10.00 to < 100.00	683	143	92.94%	842	21.35%	7,173	90.00%	-	1,801	213.75%	162	-
100.00 (Default)	87	-	0.00%	87	100.00%	1,015	56.71%	-	59	67.62%	45	218
Sub-total	11,220	119,549	47.66%	68,290	0.90%	975,540	89.96%	-	12,326	18.05%	521	218
Portfolio (vi) – Retail – Residential mortgage exposures												
0.00 to < 0.15	155,234	232	100.00%	155,466	0.08%	54,864	10.38%	-	24,957	16.05%	14	-
0.15 to < 0.25	38,843	3,433	100.00%	42,276	0.21%	12,073	11.57%	-	8,406	19.88%	10	-
0.25 to < 0.50	4,460	6	100.00%	4,467	0.36%	1,634	10.57%	-	704	15.76%	2	-
0.50 to < 0.75	7,106	17	100.00%	7,122	0.55%	2,347	10.59%	-	1,137	15.97%	4	-
0.75 to < 2.50	6,900	136	100.00%	7,036	1.31%	2,228	11.58%	-	1,413	20.08%	11	-
2.50 to < 10.00	1,099	1	100.00%	1,100	3.67%	374	10.49%	-	316	28.69%	4	-
10.00 to < 100.00	182	-	100.00%	182	29.27%	52	10.49%	-	105	57.75%	6	-
100.00 (Default)	105	-	100.00%	105	100.00%	140	10.00%	-	77	72.64%	4	660
Sub-total	213,929	3,825	100.00%	217,754	0.26%	73,712	10.66%	-	37,115	17.04%	55	660

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 2018 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	-	-	0.00%	-	-	-	0.00%	-	-	0.00%	-	-
0.15 to < 0.25	195	-	0.00%	194	0.20%	257	86.28%	1.71	69	35.36%	-	-
0.25 to < 0.50	152	-	0.00%	151	0.38%	191	85.59%	1.76	79	52.11%	-	-
0.50 to < 0.75	317	-	0.00%	316	0.65%	355	86.66%	1.99	226	71.45%	2	-
0.75 to < 2.50	1,368	-	100.00%	1,367	1.41%	1,609	86.51%	1.74	1,339	98.01%	17	-
2.50 to < 10.00	477	-	0.00%	477	4.17%	600	86.52%	1.65	594	124.54%	17	-
10.00 to < 100.00	73	-	0.00%	72	35.84%	178	86.55%	1.46	124	171.07%	22	-
100.00 (Default)	6	-	0.00%	5	100.00%	230	89.70%	1.10	10	182.35%	4	43
Sub-total	2,588	-	100.00%	2,582	2.84%	3,420	86.47%	1.74	2,441	94.47%	62	43
Portfolio (viii) – Other retail exposures to individuals												
0.00 to < 0.15	147	3,327	45.64%	1,668	0.08%	3,070	90.11%	-	301	18.03%	1	-
0.15 to < 0.25	715	691	0.12%	716	0.23%	3,121	97.00%	-	308	43.09%	2	-
0.25 to < 0.50	2,770	4,713	53.08%	5,297	0.37%	20,055	91.21%	-	2,929	55.29%	18	-
0.50 to < 0.75	357	1,325	41.18%	903	0.68%	2,008	92.21%	-	706	78.16%	6	-
0.75 to < 2.50	4,014	3,527	39.52%	5,422	1.21%	18,043	92.94%	-	5,442	100.36%	61	-
2.50 to < 10.00	6,199	4,031	66.29%	8,915	3.38%	26,236	91.47%	-	11,419	128.09%	277	-
10.00 to < 100.00	720	349	48.36%	901	18.04%	3,457	92.32%	-	1,637	181.71%	151	-
100.00 (Default)	32	-	0.00%	33	100.00%	249	64.23%	-	28	86.86%	19	404
Sub-total	14,954	17,963	49.00%	23,855	2.48%	76,239	91.84%	-	22,770	95.45%	535	404
Total (all portfolios subject to the IRB approaches)	843,455	352,311	32.63%	966,063	0.75%	1,133,523	35.74%	0.93	232,190	24.03%	2,738	4,632

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 2018		(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)	5,642	5,642
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	6,097	6,097
7	Corporate – Other corporates	118,598	118,598
8	Sovereigns	6,364	6,364
9	Sovereign foreign public sector entities	132	132
10	Multilateral development banks	–	–
11	Bank exposures – Banks	25,099	25,099
12	Bank exposures – Securities firms	6,667	6,667
13	Bank exposures – Public sector entities (excluding sovereign foreign public sector entities)	735	735
14	Retail – Small business retail exposures	2,441	2,441
15	Retail – Residential mortgages to individuals	35,120	35,120
16	Retail – Residential mortgages to property-holding shell companies	1,995	1,995
17	Retail – Qualifying revolving retail exposures (QRRE)	12,326	12,326
18	Retail – Other retail exposures to individuals	22,770	22,770
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	2	2
27	Other – Other items	37,265	37,265
28	Total (under the IRB calculation approaches)	281,253	281,253

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 2018)	265,989
2 Asset size	8,158
3 Asset quality	1,692
4 Model updates	–
5 Methodology and policy	–
6 Acquisitions and disposals	–
7 Foreign exchange movements	(739)
8 Other	–
9 RWA as at end of reporting period (30 June 2018)	<u>275,100</u>

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.

Specialized Lending under supervisory slotting criteria approach – Other than HVCRE

At 30 June 2018		(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	611	67	50%	–	639	–	–	639	320	–
Strong	Equal to or more than 2.5 years	2,249	424	70%	–	2,416	–	–	2,416	1,691	10
Good [^]	Less than 2.5 years	154	3	70%	–	156	–	–	156	109	1
Good	Equal to or more than 2.5 years	673	104	90%	–	724	–	–	724	651	6
Satisfactory		2,449	187	115%	–	2,497	–	–	2,497	2,871	70
Weak		–	–	250%	–	–	–	–	–	–	–
Default		–	–	0%	–	–	–	–	–	–	–
Total		<u>6,136</u>	<u>785</u>		<u>–</u>	<u>6,432</u>	<u>–</u>	<u>–</u>	<u>6,432</u>	<u>5,642</u>	<u>87</u>

[^] 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 2018	HK\$'M		%		HK\$'M	HK\$'M
1 SA-CCR (for derivative contracts)	–	–		1.4	–	–
1a CEM	5,080	16,608		0.0	21,687	4,919
2 IMM (CCR) approach					–	–
3 Simple Approach (for SFTs)					–	–
4 Comprehensive Approach (for SFTs)					112,981	1,949
5 VaR (for SFTs)					–	–
6 Total						6,868

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 2018	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	21,687	3,768
4 Total	21,687	3,768

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 2018	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k) Total default risk exposure after CRM
Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	
Exposure class	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	-	-	-	-	255	-	-	-	-	-	255
5 Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6 Corporate exposures	-	-	-	-	-	-	586	-	-	-	586
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	-	-	-	-	255	-	586	-	-	-	841

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 2018 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	3	0.01%	2	25.00%	1.00	0	4.20%
0.15 to < 0.25	–	0.00%	–	0.00%	–	–	0.00%
0.25 to < 0.50	–	0.00%	–	0.00%	–	–	0.00%
0.50 to < 0.75	–	0.00%	–	0.00%	–	–	0.00%
0.75 to < 2.50	–	0.00%	–	0.00%	–	–	0.00%
2.50 to < 10.00	–	0.00%	–	0.00%	–	–	0.00%
10.00 to < 100.00	–	0.00%	–	0.00%	–	–	0.00%
100.00 (Default)	–	0.00%	–	0.00%	–	–	0.00%
Sub-total	3	0.01%	2	25.00%	1.00	0	4.20%
Portfolio (ii) – Bank							
0.00 to < 0.15	110,569	0.04%	25	9.23%	0.19	2,384	2.16%
0.15 to < 0.25	12,397	0.22%	4	7.05%	0.13	641	5.17%
0.25 to < 0.50	1,181	0.39%	7	9.05%	1.01	128	10.87%
0.50 to < 0.75	3,337	0.54%	14	6.30%	1.00	299	8.95%
0.75 to < 2.50	3,417	1.16%	8	5.86%	1.00	393	11.51%
2.50 to < 10.00	120	2.67%	3	5.00%	1.00	14	11.74%
10.00 to < 100.00	–	0.00%	–	0.00%	–	–	0.00%
100.00 (Default)	–	0.00%	–	0.00%	–	–	0.00%
Sub-total	131,021	0.11%	61	8.85%	0.24	3,859	2.95%
Portfolio (iii) – Corporate							
0.00 to < 0.15	1,100	0.08%	37	68.75%	2.09	416	37.87%
0.15 to < 0.25	133	0.22%	12	62.09%	1.15	65	49.13%
0.25 to < 0.50	19	0.39%	9	70.00%	1.24	14	74.79%
0.50 to < 0.75	926	0.56%	28	68.44%	1.16	806	87.00%
0.75 to < 2.50	451	1.24%	40	69.44%	1.63	660	146.35%
2.50 to < 10.00	168	4.04%	27	70.00%	1.07	318	188.74%
10.00 to < 100.00	6	13.77%	6	70.00%	1.01	16	263.41%
100.00 (Default)	–	0.00%	–	0.00%	–	–	0.00%
Sub-total	2,803	0.70%	159	68.53%	1.60	2,295	81.89%
Total (all portfolios subject to the IRB approaches)	*133,827	0.12%	222	10.10%	0.26	6,154	4.60%

* Counterparty default risk exposures post-CRM increased mainly driven by the higher volume of transactions with Bank customers.

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 2018 Exposure classes	(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	Segregated	Unsegregated	Segregated
HK\$'M		HK\$'M		HK\$'M		HK\$'M		HK\$'M		HK\$'M	
Cash – domestic currency	–	–	–	–	–	–	–	–	–	–	6,386
Cash – other currencies	–	–	–	–	–	–	–	–	35,756	–	59,096
Domestic sovereign debt	–	–	–	–	–	–	–	–	–	–	–
Other sovereign debt	–	–	–	–	–	–	–	–	30,226	–	–
Government agency debt	–	–	–	–	–	–	–	–	–	–	47,200
Corporate bonds	–	–	–	–	–	–	–	–	13,158	–	298
Equity securities	–	–	–	–	–	–	–	–	6,564	–	–
Other collateral	–	–	–	–	–	–	–	–	–	–	–
Total	–	–	–	–	–	–	–	–	85,704	–	112,980

* Fair value of collateral posted and received increased mainly driven by the reverse repo and repo transactions.

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 2018	(a)	(b)
	Protection bought HK\$'M	Protection sold HK\$'M
Notional amounts		
Single-name credit default swaps	361	949
Index credit default swaps	–	–
Total return swaps	3,393	595
Credit-related options	–	–
Other credit-related derivative contracts	–	–
Total notional amounts	3,754	1,544
Fair values		
Positive fair value (asset)	28	–
Negative fair value (liability)	(1,126)	(18)

9 Counterparty Credit risk (continued)

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 2018	(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

For the calculation of the capital requirement for market risk, the Bank uses an internal models approach for two guaranteed retirement funds and the standardised (market risk) approach for other exposures.

Further information regarding market risk governance and management is set out in note 37 (c) on pages 89 to 91 of the 2017 consolidated financial statements.

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).

At 30 June 2018		(a) RWA HK\$'M
Outright product exposures		
1	Interest rate exposures (general and specific risk)	21,287
2	Equity exposures (general and specific risk)	–
3	Foreign exchange (including gold) exposures	747
4	Commodity exposures	–
Option exposures		
5	Simplified approach	–
6	Delta-plus approach	–
7	Other approach	–
8	Securitization exposures	1,484
9	Total	23,518

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 2018)					
	–	–	–	–	679	679
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 2018)					
	–	–	–	–	680	680

11 Market risk (continued)

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

The capital requirement for the Bank's guaranteed retirement funds is calculated based on the potential shortfall between the estimated returns from the funds and the guaranteed returns. The projected returns are estimated using a simulation approach with a 99% confidence level. The model is back-tested against actual results.

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 2018	<i>Banks</i> HK\$'M	<i>Official Sector</i> HK\$'M	<i>Non-bank Financial institution</i> HK\$'M	<i>Non-financial private sector</i> HK\$'M	<i>Total</i> HK\$'M
Developed countries	120,418	32,223	6,869	33,806	193,316
Offshore centres	17,968	349	25,222	99,913	143,452
– of which Hong Kong SAR	11,453	349	22,316	72,759	106,877
Developing Asia and Pacific	162,939	3,156	2,462	31,976	200,533
– of which China	130,306	2,452	1,489	23,844	158,091

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 2018 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	14,689	20%
– Property investment	27,946	80%
– Financial concerns	36,445	33%
– Stockbrokers	16,473	40%
– Wholesale and retail trade	14,799	19%
– Manufacturing	36,028	7%
– Transport and transport equipment	8,179	4%
– Recreational activities	1,412	13%
– Information technology	4,317	1%
– Others	20,217	6%
<i>Individuals</i>		
– Advances for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	431	100%
– Advances for the purchase of other residential properties	202,575	100%
– Credit card advances	19,836	0%
– Others	28,100	44%
<i>Total gross advances for use in Hong Kong</i>	431,447	
Trade finance	34,205	2%
Trade bills	1,312	8%
Gross advances for use outside Hong Kong	58,958	6%
Gross advances to customers	525,922	51%

As at 30 June 2018, approximately 81 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>Stage 3 expected credit loss provision HK\$'M</i>	<i>Stage 1 & 2 expected credit loss provision HK\$'M</i>	<i>Provision charge HK\$'M</i>
At 30 June 2018					
Advances for the purchase of other residential properties	51	25	–	4	2
Gross advances for use outside Hong Kong	140	–	38	36	57

14 Overdue advances to customers

	<i>At 30 June 2018</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	241	0.04%
1 year or less but over 6 months	92	0.02%
Over 1 year	683	0.13%
	<u>1,016</u>	<u>0.19%</u>
Fair value of collateral held against the covered portion of overdue advances to customers		
		<u>635</u>
Covered portion of overdue advances to customers		528
Uncovered portion of overdue advances to customers		<u>488</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 2018 HK\$'M</i>
Individually assessed impairment provision against advances to customers overdue more than 3 months	479

As at 30 June 2018 and 31 December 2017, there were no overdue advances to banks and other financial institutions.

15 Rescheduled advances to customers

	<i>At 30 June 2018</i>	
	<i>HK\$'M</i>	<i>% of advances to customers</i>
Rescheduled advances to customers	400	0.08%

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 2018, 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>
<i>At 30 June 2018</i>			
(i) Central government, central government-owned entities and their subsidiaries and joint ventures (“JVs”)	31,750	916	32,666
(ii) Local governments, local government-owned entities and their subsidiaries and JVs	1,474	762	2,236
(iii) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	52,342	4,199	56,541
(iv) Other entities of central government not reported in item (i) above	838	51	889
(v) Other entities of local governments not reported in item (ii) above	515	–	515
(vi) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	31,834	2,088	33,922
(vii) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	15,221	1,716	16,937
Total	133,974	9,732	143,706
Total assets after provision	1,158,749		
On-balance sheet exposures as percentage of total assets	11.56%		

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.

Acronyms

AI	Authorised institution	LGD	Loss given default
AIRB	Advance internal ratings-based approach	LMR	Liquidity Maintenance Ratio
ALCO	Asset and Liability 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	Securitization
CF	Commodities finance	SA-CCR	Standardised approach for counterparty credit risk
CIS	Collective investment scheme	SEC-ERBA	Securitization external ratings-based approach
CRC	Comprehensive risk charge	SEC-FBA	Securitization full back approach
CRM	Credit risk mitigation	SEC-IRBA	Securitization internal ratings-based approach
CVA	Credit valuation adjustment	SEC-SA	Securitization standardised approach
D-SIB	Domestic systematically important authorised institution	ASF	Available stable funding
DTAs	Deferred tax assets	NSFR	Net stable funding ratio
EAD	Exposure at default	RSF	Required stable funding
EL	Expected loss	SFT	Securities financing transaction
EPE	Expected positive exposure	SME	Small and Medium Enterprises
FBA	Fall-back approach	SRW	Supervisory risk-weighted
G-SIB	Global systematically important authorised institution	STC	Standardised (credit risk) approach
HKMA	Hong Kong Monetary Authority	STM	Standardised (market risk) approach
HVCRE	High-volatility commercial real estate	STO	Standardised (operational risk) approach
HQLA	High quality liquid assets	VaR	Value at risk
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		
IRC	Incremental risk charge		
JCCyB	Jurisdictional countercyclical capital buffer		
JVs	Joint ventures		
LCR	Liquidity coverage ratio		