

Pillar 3 Disclosure – Composition of Capital

As at 30 June 2014

Composition of Capital

The following disclosures are made in accordance with Section 45 of the Banking (Disclosures) Rules issued by the Hong Kong Monetary Authority ("HKMA").

The following pages disclose the Statement of Financial Position Reconciliation as required by the HKMA:

- Consolidated statement of financial position in the published interim financial disclosure statements based on the accounting scope of consolidation and the regulatory scope of consolidation;
- 2. Expanded consolidated statement of financial position under the regulatory scope of consolidation with capital components breakdown; and
- 3. Transitional disclosure template.

Consolidated statement of financial position in the published interim financial disclosure statements based on the accounting scope of consolidation and the regulatory scope of consolidation As at 30 June 2014

	Consolidated statement of	
	financial position	
	as in published	
	interim financial	Under regulatory
	disclosure	scope of
	statements	consolidation
	30/6/2014	30/6/2014
	HK\$'000	HK\$'000
Assets	00.24 = 440	•••••
Cash and short-term funds	29,315,442	29,018,008
Placements with and loans and advances to banks	35,563,467	35,303,621
Trading securities	587,469	275,019
Derivative financial instruments	435,177	435,113
Financial assets designated at fair value through profit or loss	2,831,440	2,831,440
Available-for-sale securities	19,377,126	19,098,005
Held-to-maturity securities	7,374,663	6,833,317
Advances and other accounts	146,714,116	145,803,426
Interests in subsidiaries	-	675,218
Interests in jointly controlled entities	232,894	127,503
Interest in an associate	3,601	-
Investment properties	2,678,630	2,779,430
Interests in leasehold land	224,936	177,612
Other properties and equipment	863,927	793,324
Tax recoverable	2,742	2,742
Deferred tax assets	52,396	28,529
Total assets	246,258,026	244,182,307
Liabilities		
Deposits and balances from banks	11,978,953	11,978,953
Derivative financial instruments	375,645	375,645
Financial liabilities designated at fair value through profit or loss	511,126	511,126
Deposits from customers	184,103,381	185,334,777
Certificates of deposit issued	17,460,664	17,460,664
Subordinated debt issued	4,537,780	4,537,780
Current taxation	417,473	375,407
Deferred tax liabilities	6,429	5,627
Other accounts and accruals	5,448,485	2,968,926
Total liabilities	224,839,936	223,548,905
Equity		
Share capital	1,160,951	1,160,951
Reserves	20,257,139	19,472,451
Total equity	21,418,090	20,633,402
Total equity and liabilities	246,258,026	244,182,307

Expanded consolidated statement of financial position under the regulatory scope of consolidation with capital components breakdown As at 30 June 2014

As at 50 June 2014	Consolidated		
	statement of		
	financial position		Cross
	as in published		reference to
		Under regulatory	definition
	disclosure	scope of	of capital
	statements	consolidation	components
	30/6/2014	30/6/2014	
	HK\$'000	HK\$'000	
Assets			
Cash and short-term funds	29,315,442	29,018,008	
Placements with and loans and advances to banks	35,563,467	35,303,621	
Trading securities	587,469	275,019	
Derivative financial instruments	435,177	435,113	
Financial assets designated at fair value through profit or loss	2,831,440	2,831,440	
Available-for-sale securities	19,377,126	19,098,005	
Held-to-maturity securities	7,374,663	6,833,317	
Advances and other accounts	146,714,116	145,803,426	
- Loans			
of which:			
- collective impairment allowances reflected in regulatory		(320,987)	0
capital		(320,987)	a
- Other assets			
of which:			
- Defined benefit pension fund net assets		129,068	b
Interests in subsidiaries	-	675,218	
Interests in jointly controlled entities	232,894	127,503	
Interest in an associate	3,601	-	
Investment properties	2,678,630	2,779,430	
Interests in leasehold land	224,936	177,612	
Other properties and equipment	863,927	793,324	
Tax recoverable	2,742	2,742	
Deferred tax assets	52,396	28,529	c
Total assets	246,258,026	244,182,307	

Expanded consolidated statement of financial position under the regulatory scope of consolidation with capital components breakdown As at 30 June 2014

As at 30 June 2014	Consolidated		
	statement of		
	financial position		Cross
	as in published	TI 11-4	reference to
	disclosure	Under regulatory	definition
	statements	scope of consolidation	
	30/6/2014	30/6/2014	components
	HK\$'000	HK\$'000	
Liabilities	1114 000	11114 000	
Deposits and balances from banks	11,978,953	11,978,953	
Derivative financial instruments	375,645	375,645	
Financial liabilities designated at fair value through profit or loss	511,126	511,126	
Deposits from customers	184,103,381	185,334,777	
Certificates of deposit issued	17,460,664	17,460,664	
Subordinated debt issued	4,537,780	4,537,780	
of which:			
- subordinated debt eligible for inclusion in regulatory capital		3,630,224	d
- subordinated debt not eligible for inclusion in regulatory capital		907,556	
Current taxation	417,473	375,407	
Deferred tax liabilities	6,429	5,627	
Other accounts and accruals	5,448,485	2,968,926	_
Total liabilities	224,839,936	223,548,905	
Equity			
Share capital	1,160,951	1,160,951	e
Reserves	20,257,139	19,472,451	
of which:			
- Capital reserve		20,000	f
- Bank premises revaluation reserve		65,144	g
- Investment revaluation reserve		210,059	h
- Other reserve		1,032,553	i
- Retained earnings		18,144,695	j
of which:			
- revaluation of land and buildings		3,230,899	k
- regulatory reserve for general banking risks		1,264,188	1
Total equity	21,418,090	20,633,402	.
Total equity and liabilities	246,258,026	244,182,307	_

As at 3	90 June 2014		Amounts subject to pre-Basel III treatment*	
		HK\$'000	HK\$'000	
	CET1 capital: instruments and reserves	1.150.051		_
2	Directly issued qualifying CET1 capital instruments plus any related share premium Retained earnings	1,160,951 18,144,695		e j
3		1,327,756		f+g+h+i
4	Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	Not applicable		J
	Public sector capital injections grandfathered until 1 January 2018	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 deductions	20,633,402		
7	CET1 capital: regulatory deductions			
	Valuation adjustments Goodwill (net of associated deferred tax liability)	-		
	Other intangible assets (net of associated deferred tax liability)	-		
10	Deferred tax assets net of deferred tax liabilities	(28,529)		c
11	Cash flow hedge reserve	-		
	Excess of total EL amount over total eligible provisions under the IRB approach	-	 	
	Gain-on-sale arising from securitization transactions	-		
	Gains and losses due to changes in own credit risk on fair valued liabilities Defined benefit pension fund net assets (net of associated deferred tax liabilities)	(25,814)	103,254	b
	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported	(23,014)	103,234	b
16	balance sheet)	-	 	
17	Reciprocal cross-holdings in CET1 capital instruments Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are	-	<u></u>	
18	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)	-	-	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable		
22	Amount exceeding the 15% threshold	Not applicable		
	of which: significant investments in the common stock of financial sector entities	Not applicable		
	of which: mortgage servicing rights	Not applicable		
	of which: deferred tax assets arising from temporary differences National specific regulatory adjustments applied to CET1 capital	Not applicable (4,560,231)		
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(3,296,043)		g+k
26b	Regulatory reserve for general banking risks	(1,264,188)		1
26c		-		
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-		
26e	Capital shortfall of regulated non-bank subsidiaries	-		
26f	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	(4,614,574)		
29		16,018,828		
20	AT1 capital: instruments			
	Qualifying AT1 capital instruments plus any related share premium of which: classified as equity under applicable accounting standards	_		
	of which: classified as liabilities under applicable accounting standards	-		
33	Capital instruments subject to phase out arrangements from ATI capital	-		
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-		
35	of which: ATI capital instruments issued by subsidiaries subject to phase out arrangements	-		
36	AT1 capital before regulatory deductions	-		
	AT1 capital: regulatory deductions			
37	Investments in own AT1 capital instruments Reciprocal cross-holdings in AT1 capital instruments	-	i 	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	 	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	 .	
41	National specific regulatory adjustments applied to AT1 capital	-		
41a	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 1 capital	-		
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	-		
- ;;	of which: Capital shortfall of regulated non-hank subsidiaries	1		

ii of which: Capital shortfall of regulated non-bank subsidiaries

protion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital i of which: Excess of total EL amount over total eligible provisions under the IRB approach ii of which: Capital shortfall of regulated non-bank subsidiaries iii of which: Investments in own CET1 capital instruments vof which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base) of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation 57 Total regulatory deductions to Tier 2 capital 1,483,219 Tier 2 capital (Total capital = Tier 1 + Tier 2) Deduction items under Basel III which during transitional period remain subject to risk-weighting, based on pre-Basel III treatment of which: Mortgage servicing rights - i of which: Defined benefit pension fund net assets - iii of which: Investments in own CET1 capital instruments, AT1 capital instruments and Tier 2 capital information of the capital instruments in the capital instruments and Tier 2 capital instruments and Tier 2 capital instruments in the capital instruments and Tier 2 capital (Total capital = Tier 1 + Tier 2) 59a Of which: Defined benefit pension fund net assets - i of which: Investments in own CET1 capital instruments, AT1 capital instruments and Tier 2 capital	Cross-referenced to Consolidated Balance Sheet
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46 Qualifying Tier 2 capital instruments plus any related share premium 47 Capital instruments subject to phase out arrangements from Tier 2 capital 48 Tier 2 capital instruments issued by consolidation group) 49 of which: capital instruments issued by subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group) 50 Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital instruments issued by subsidiaries subject to phase out arrangements 50 Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital instruments 51 Tier 2 capital before regulatory deductions 52 Investments in own Tier 2 capital instruments 53 Reciprocal cross-holdings in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold) 54 Significant 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 (amount above 10% threshold) 56 National specific regulatory dajustments applied to Tier 2 capital 57 Tier 2 capital investment applied to Tier 2 capital and and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital 58 Tier 2 capital investment in a connected company which is a commercial entity (amount above 15% of which: Capital shortfall of regulated non-bank subsidiaries 59 Total regulatory deductions to Tier 2 capital instruments, ATI capital instruments and Tier via 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation 50 Total regulatory deductions to Tier 2 capital instruments, ATI capital instruments and Tier via 2 capi	
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of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier vi 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	
60 Total risk weighted assets 155,551,334	
Capital ratios (as a percentage of risk weighted assets)	
61 CET1 capital ratio 10.30%	
62 Tier 1 capital ratio 10.30%	
63 Total capital ratio 14.60%	

Transitional Disclosure Template As at 30 June 2014

Amounts subject | Cross-referenced to pre-Basel III | to Consolidated treatment* | Balance Sheet

		treatmen
	HK\$'000	HK\$'00
Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3A, or s.3B, as the case requires, of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	4.00%	
65 of which: capital conservation buffer requirement	0.00%	
66 of which: bank specific countercyclical buffer requirement	0.00%	
67 of which: G-SIB or D-SIB buffer requirement	0.00%	
CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3A, or s.3B, as the case requires, of the BCR	4.80%	
National minima (if different from Basel 3 minimum)		
69 National CET1 minimum ratio	Not applicable	
70 National Tier 1 minimum ratio	Not applicable	
71 National Total capital minimum ratio	Not applicable	
Amounts below the thresholds for deduction (before risk weighting)		
Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	352,899	
73 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	943,454	
74 Mortgage servicing rights (net of related tax liability)	Not applicable	
75 Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable	
Applicable caps on the inclusion of provisions in Tier 2 capital		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardized (credit risk) approach (prior to application of cap)	1,585,175	
Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	1,837,230	
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	-	
79 Cap for inclusion of provisions in Tier 2 under the IRB approach	-	
Capital instruments subject to phase-out arrangements		
80 Current cap on CET1 capital instruments subject to phase out arrangements	Not applicable	
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	Not applicable	
82 Current cap on AT1 capital instruments subject to phase out arrangements		
83 Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	-	
84 Current cap on Tier 2 capital instruments subject to phase out arrangements	3,630,224	
85 Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	907,556	

⁸⁵ Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)

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

Transitional Disclosure Template As at 30 June 2014

Notes to the template:

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

Hong Is

Row No.	Description	Hong Kong basis	Basel III basis		
		HK\$'000	HK\$'000		
	Other intangible assets (net of associated deferred tax liability)	-	-		
9	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.				
	Deferred tax assets net of deferred tax liabilities	(28,529)	-		
10	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities				
	and other credit exposures to connected companies) under Basel III.				
	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-		
18	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 companie where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted 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.				
	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-		
19	Explanation For the purpose of determining the total amount of significant capital investments in CET1 capital instruments issued by financial sector entity 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 connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinar 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 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.				
	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-		
39	Explanation The effect of treating loans, facilities or other credit exposures to connected companies which are financia instruments for the purpose of considering deductions to be made in calculating the capital base (see note mean the headroom within the threshold available for the exemption from capital deduction of other insign capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 may be gone The amount reported under the column "Basel III basis" in this box represents the amount reported in row "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposur which were subject to deduction under the Hong Kong approach.	re row 18 to the ten nificant capital inver- reater than that requals 39 (i.e. the amount	nplate above) will stments in AT1 tired under Basel III. reported under the		

Transitional Disclosure Template As at 30 June 2014

Notes to the template:

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

Row No.	Description	Hong Kong basis	Basel III basis
		HK\$'000	HK\$'000
	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	1
Explanation The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the te mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital invapital instruments may be smaller. Therefore, the amount to be deducted as reported in row 54 may be greater than that red The amount reported under the column "Basel III basis" in this box represents the amount reported in row 54 (i.e. the amount "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's cont which were subject to deduction under the Hong Kong approach.			nplate above) will estments in Tier 2 uired under Basel III. reported under the

Remarks:

The amount of the 10% / 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the Banking (Capital) Rules.

Abbreviations:

CET1: Common Equity Tier 1 AT1: Additional Tier 1