

BANK OF COMMUNICATIONS (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

REGULATORY DISCLOSURE STATEMENT

30 September 2018
(Unaudited)



SINCE 1908 YOUR WEALTH MANAGEMENT BANK

Bank of Communications (Hong Kong) Limited

20 Pedder Street, Central, Hong Kong

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BANK OF COMMUNICATIONS (HONG KONG) LIMITED
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REGULATORY DISCLOSURE STATEMENT (UNAUDITED)

Ref	Contents	Page(s)
	Key prudential ratios and overview of RWA	
KM1	Key prudential ratios	2
OV1	Overview of RWA	3 – 4
	Leverage ratio	
LR2	Leverage ratio (“LR”)	4
	Liquidity	
LIQ1	Liquidity Coverage Ratio – for category 1 institution	5 – 6

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The following disclosures contained all disclosures required by the Banking (Disclosure) Rules and disclosure templates issued by the HKMA.

Key prudential ratios and overview of RWA

KM1: Key prudential ratios

	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Sep 2017	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
				(Note)		
Regulatory capital (amount)						
1.	Common Equity Tier 1 (CET1)	17,775,567	17,511,408	7,392,057	N/A	N/A
2.	Tier 1	17,775,567	17,511,408	7,392,057	N/A	N/A
3.	Total capital	20,694,426	20,084,226	9,973,311	N/A	N/A
RWA (amount)						
4.	Total RWA	109,587,558	60,726,985	58,578,482	N/A	N/A
Risk-based regulatory capital ratios (as a percentage of RWA)						
5.	CET1 ratio (%)	16.22%	28.84%	12.62%	N/A	N/A
6.	Tier 1 ratio (%)	16.22%	28.84%	12.62%	N/A	N/A
7.	Total capital ratio (%)	18.88%	33.07%	17.03%	N/A	N/A
Additional CET1 buffer requirements (as a percentage of RWA)						
8.	Capital conservation buffer requirement (%)	1.875%	1.875%	1.875%	N/A	N/A
9.	Countercyclical capital buffer requirement (%)	1.470%	1.687%	1.739%	N/A	N/A
10.	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	0.000%	0.000%	0.000%	N/A	N/A
11.	Total AI-specific CET1 buffer requirements (%)	3.345%	3.562%	3.614%	N/A	N/A
12.	CET1 available after meeting the AI's minimum capital requirements (%)	10.22%	22.84%	6.62%	N/A	N/A
Basel III leverage ratio						
13.	Total leverage ratio (LR) exposure measure	194,000,996	186,046,438	196,149,668	N/A	N/A
14.	LR (%)	9.16%	9.41%	3.77%	N/A	N/A
Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)						
Applicable to category 1 institution only:						
15.	Total high quality liquid assets (HQLA)	25,360,604	35,739,131	46,761,565	N/A	N/A
16.	Total net cash outflows	12,979,109	16,437,410	16,072,981	N/A	N/A
17.	LCR (%)	213.11%	234.12%	298.91%	N/A	N/A
Applicable to category 2 institution only:						
17a.	LMR (%)	N/A	N/A	N/A	N/A	N/A
Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)						
Applicable to category 1 institution only:						
18.	Total available stable funding	152,253,762	154,080,500	163,367,671	N/A	N/A
19.	Total required stable funding	120,510,120	83,264,206	87,500,473	N/A	N/A
20.	NSFR (%)	126.34%	185.05%	186.70%	N/A	N/A
Applicable to category 2A institution only:						
20a.	CFR (%)	N/A	N/A	N/A	N/A	N/A

Note: Under section 3(14A) of the Banking (Disclosure) Rules ("the Disclosure Rules"), the Company is exempted from the application of the Disclosure Rules as it has not yet commenced its banking business until 29 January 2018. As such, no comparative figures before business commencement are available and no explanation of material changes is applicable.

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Key prudential ratios and overview of RWA (Continued)

OV1: Overview of RWA

		RWA		Minimum capital requirements
		As at 30 Sep 2018	As at 30 Jun 2018	As at 30 Sep 2018
		HK\$'000	HK\$'000	HK\$'000
1.	Credit risk for non-securitization exposures	100,422,427	53,257,798	8,033,794
2.	Of which STC approach	100,422,427	53,257,798	8,033,794
2a.	Of which BSC approach	-	-	-
3.	Of which foundation IRB approach	-	-	-
4.	Of which supervisory slotting criteria approach	-	-	-
5.	Of which advanced IRB approach	-	-	-
6.	Counterparty default risk and default fund contributions	1,455,243	438,524	116,419
7.	Of which SA-CCR*	Not applicable	Not applicable	-
7a.	Of which CEM	1,455,243	438,524	116,419
8.	Of which IMM(CCR) approach	-	-	-
9.	Of which others	-	-	-
10.	CVA risk	597,500	110,450	47,800
11.	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12.	Collective investment scheme ("CIS") exposures – LTA*	Not applicable	Not applicable	-
13.	CIS exposures – MBA*	Not applicable	Not applicable	-
14.	CIS exposures – FBA*	Not applicable	Not applicable	-
14a.	CIS exposures – combination of approaches*	Not applicable	Not applicable	-
15.	Settlement risk	-	-	-
16.	Securitization exposures in banking book	-	-	-
17.	Of which SEC-IRBA	-	-	-
18.	Of which SEC-ERBA	-	-	-
19.	Of which SEC-SA	-	-	-
19a.	Of which SEC-FBA	-	-	-
20.	Market risk	794,738	578,163	63,579
21.	Of which STM approach	794,738	578,163	63,579
22.	Of which IMM approach	-	-	-
23.	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	Not applicable	Not applicable	-
24.	Operational risk	6,317,650	6,342,050	505,412
25.	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-
26.	Capital floor adjustment	-	-	-
26a.	Deduction to RWA	-	-	-
26b.	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
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	-	-	-
27.	Total	109,587,558	60,726,985	8,767,004

Point to note: Items marked with an asterisk (*) will be applicable only after their respective policy frameworks take effect. Until then, "Not applicable" should be reported in the rows.

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Key prudential ratios and overview of RWA (Continued)

OV1: Overview of RWA (Continued)

The RWA aggregate of all kind of risk amounted to 109,588 million as of September 2018, increased significantly by 80.46% compared to 60,727 million as of June 2018, or 48,861 million increments. The breakdown of each risk component is still mainly the Credit risk for non-securitization exposures amounted to 100,422 million, significantly increased by 47,164 million compared to 53,258 million as of June 2018 because of sharp increase in corporate loans. The remaining 9,166 million is for counterparty credit risk, market risk, CVA risk and operational risk. The RWA aggregate of counterparty credit risk, market risk and CVA risk is due to the increase of derivatives transactions, especially FX related products.

Leverage ratio

LR2: Leverage ratio (“LR”)

		30 Sep 2018	30 Jun 2018
		HK\$'000	HK\$'000
On-balance sheet exposures			
1.	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	188,557,069	183,345,502
2.	Less: Asset amounts deducted in determining Tier 1 capital	(729,764)	(435,780)
3.	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	187,827,305	182,909,722
Exposures arising from derivative contracts			
4.	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	1,383,976	255,352
5.	Add-on amounts for PFE associated with all derivative contracts	1,499,502	468,769
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 derivative contracts	(41,230)	(14,436)
8.	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9.	Adjusted effective notional amount of written credit derivative contracts	-	-
10.	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11.	Total exposures arising from derivative contracts	2,842,248	709,685
Exposures arising from SFTs			
12.	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	550,000	-
13.	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14.	CCR exposure for SFT assets	2,244	-
15.	Agent transaction exposures	-	-
16.	Total exposures arising from SFTs	552,244	-
Other off-balance sheet exposures			
17.	Off-balance sheet exposure at gross notional amount	11,497,406	10,583,264
18.	Less: Adjustments for conversion to credit equivalent amounts	(8,624,543)	(8,156,233)
19.	Off-balance sheet items	2,872,863	2,427,031
Capital and total exposures			
20.	Tier 1 capital	17,775,567	17,511,408
20a.	Total exposures before adjustments for specific and collective provisions	194,094,660	186,046,438
20b	Adjustments for specific and collective provisions	(93,664)	-
21.	Total exposures after adjustments for specific and collective provisions	194,000,996	186,046,438
Leverage ratio			
22.	Leverage ratio	9.16%	9.41%

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Liquidity

LIQ1: Liquidity Coverage Ratio – for category 1 institution

Average liquidity coverage ratio (“LCR”) - 2018 third quarter	213.11%
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The cornerstone of the Bank's funding sources is customer deposit. The Bank strives to build up core deposits while diversifying funding sources via various funding channels to enhance financing capacity. Regarding liquidity arrangement with parent bank, the Bank performs regular funding transfer with parent bank to preserve prompt intragroup backup funding supply if necessary. Monitoring and control on intragroup funding transactions are in line with those of third parties. Moreover, parent bank has set up groupwide internal limits to control the Bank's reliance on parent bank's funding.

The majority of the liquidity risk of the Bank arises from maturity mismatch of assets and liabilities. Therefore, regular cash flow analysis and projections on both on- and off-balance sheet items falling within different maturity buckets is performed to ensure funding need. Moreover, the Bank closely monitors off-balance sheet funding obligations (such as commitments or letters of guarantee) and assesses their impact to our liquidity capacity. Furthermore, the Bank strives to maintain high marketability of the asset portfolio to allow prompt monetization in case of unforeseeable liquidity crunch in the market.

Level 1 HQLA is the major component of the Bank's HQLA portfolio, which consists of balance with the HKMA, Exchange Fund Bills/Notes and unencumbered sovereign bonds. The Bank also holds a portion of Level 2A, which include corporate bonds with high credit rating.

LCR net cash outflow arising from off-balance-sheet derivatives and additional collateral provision is not material.

The Bank holds Level 1 HQLA denominated in foreign currencies (mainly RMB and USD) to cover respective LCR net cash outflow in foreign currency. The foreign currency LCR mismatch is bolstered mainly by our HKD-denominated HQLA through FX contracts. The Bank has established internal monitoring limit on Level 1 HQLA LCR for foreign major currencies according to the amendment of regulatory framework for supervision of major currency's liquidity risk under LM-1 by HKMA.

The Bank has established internal limit and management action trigger level on LCR to ensure our liquidity risk is controlled at the level commensurate with our risk appetite.

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Liquidity (Continued)

LIQ1: Liquidity Coverage Ratio – for category 1 institution (Continued)

2018 third quarter:

Number of data points used in calculating the average value of the LCR and related components set out in this template for the quarter ending on 30 Sep 2018 : (76)		HK\$'000	
Basis of disclosure: Hong Kong office		Unweighted value (average)	Weighted value (average)
A. HQLA			
1.	Total HQLA		25,360,604
B. Cash outflows			
2.	Retail deposits and small business funding, of which:	136,771,426	10,169,998
3.	<i>Stable retail deposits and stable small business funding</i>	6,265,075	313,254
4.	<i>Less stable retail deposits and less stable small business funding</i>	66,628,542	6,662,854
4a.	<i>Retail term deposits and small business term funding</i>	63,877,809	3,193,890
5.	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	15,988,878	10,012,566
6.	<i>Operational deposits</i>	21,883	5,388
7.	<i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i>	15,966,995	10,007,178
8.	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	-	-
9.	Secured funding transactions (including securities swap transactions)		-
10.	Additional requirements, of which:	17,144,726	1,232,589
11.	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	376,066	376,066
12.	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	-	-
13.	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	16,768,660	856,523
14.	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	4,069,204	4,069,204
15.	Other contingent funding obligations (whether contractual or non-contractual)	833,422	9,820
16.	Total Cash Outflows		25,494,177
C. Cash Inflows			
17.	Secured lending transactions (including securities swap transactions)	-	-
18.	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	11,401,165	8,960,306
19.	Other cash inflows	3,299,287	3,299,287
20.	Total Cash Inflows	14,700,452	12,259,593
D. Liquidity Coverage Ratio		Adjusted value	
21.	Total HQLA		25,360,604
22.	Total Net Cash Outflows		12,979,109
23.	LCR (%)		213.11%

Chan Ha Fong, Nancy, Chief Executive
23 November 2018