REGULATORY DISCLOSURES

The capital adequacy ratios and the leverage ratio for the Bank are calculated on a consolidated basis.

Template OV1: Overview of Risk-Weighted Assets

The Group follows internal models method under market-based approach to calculate RWA for the Group's banking book listed equities holding. The Group estimates VaR by the historical simulation approach, where the VaR is derived from revaluating the portfolio for each of the historical scenarios from the market movements obtained from the historical observation period. This methodology uses historical movements in market rates and prices relative to risk-free rate, a 99% confidence level, a one-quarter holding period, and a three-year historical observation period.

The table below provides an overview of capital requirements in terms of a detailed breakdown of RWAs for various risks as at 31st March 2017 and 31st December 2016 respectively:

		(a)	(b)	(c)
		RWA		Minimum capital requirements
(HK$ million)		March 2017	December 2016	March 2017
1	**Credit risk for non-securitization exposures**	**462,843**	**442,134**	**37,027**
2	Of which STC approach	33,558	30,923	2,685
3	Of which IRB approach	429,285	411,210	34,343
4	**Counterparty credit risk**	**5,781**	**7,739**	**463**
4a	Of which CVA Risk	1,481	1,962	118
4b	Of which default risk exposures in respect of SFTs	194	196	16
4c	Of which default fund contribution to central counterparties	112	110	9
5a	Of which CEM	3,995	5,472	320
7	Equity exposures in banking book under the market-based approach	20,348	15,054	1,628
11	Settlement risk	0	0	0
12	**Securitization exposures in banking book**	**12**	**37**	**1**
13	Of which IRB(S) approach – ratings-based method	12	37	1
14	Of which IRB(S) approach – supervisory formula method	0	0	0
16	**Market risk**	**23,306**	**14,981**	**1,865**
17	Of which STM approach	6,480	3,915	518
18	Of which IMM approach	16,826	11,066	1,346
19	**Operational risk**	**28,831**	**29,267**	**2,306**
21	Of which STO approach	28,831	29,267	2,306
23	Amounts below the thresholds for deduction (subject to 250% RW)	13,839	12,102	1,107
24	Capital floor adjustment	0	0	0
24a	**Deduction to RWA**	**2,974**	**3,014**	**238**
24b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	406	436	32
24c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	2,569	2,578	205
25	**Total**	**551,987**	**518,299**	**44,159**

Template CR8: RWA flow statements of credit risk exposures under IRB approach

The table below presents a flow statement explaining variations in the RWA for credit risk determined under the IRB approach as at 31st March 2017 and 31st December 2016 respectively:

	(HK$ million)	(a) Amount
1	**RWA as at end of previous reporting period**	**413,553**
2	Asset size	20,813
3	Asset quality	736
6	Acquisitions and disposals	0
7	Foreign exchange movements	1,913
8	Other	223
9	**RWA as at end of reporting period**	**437,238**

Template MR2: RWA flow statements of market risk exposures under IMM approach

The table below presents a flow statement explaining variations in the RWA for market risk determined under the IMM approach as at 31st March 2017 and 31st December 2016 respectively:

		(a)	(b)	(c)	(d)	(e)	(f)
(HK$ million)		VaR	Stressed VaR	IRC	CRC	Other	Total RWA
1	**RWA as at end of previous reporting period**	**3,591**	**7,475**	**0**	**0**	**0**	**11,066**
1a	Regulatory adjustment	2,419	5,171	0	0	0	7,590
1b	RWA as at day-end of previous reporting period	1,172	2,304	0	0	0	3,476
2	Movement in risk levels	44	980	0	0	0	1,024
3	Model updates/changes	430	1,248	0	0	0	1,678
4	Methodology and policy	0	0	0	0	0	0
5	Acquisitions and disposals	0	0	0	0	0	0
6	Foreign exchange movements	14	-15	0	0	0	-1
7	Other	-113	-467	0	0	0	-580
7a	RWA as at day-end of reporting period	1,547	4,050	0	0	0	5,598
7b	Regulatory adjustment	3,224	8,004	0	0	0	11,229
8	**RWA as at end of reporting period**	**4,771**	**12,055**	**0**	**0**	**0**	**16,826**

Key capital ratios disclosures

1. Capital Adequacy Ratio

	At 31st March, 2017 HK$ Million	At 31st December, 2016 HK$ Million
Common Equity Tier 1 capital	64,835	62,780
Total Tier 1 capital	71,624	69,922
Total capital	90,318	90,282
Total risk weighted assets	551,987	518,299

	%	%
Common Equity Tier 1 capital ratio	11.7	12.1
Tier 1 capital ratio	13.0	13.5
Total capital ratio	16.4	17.4

2. Leverage ratio

	At 31st March, 2017 HK$ Million	At 31st December, 2016 HK$ Million
Total Tier 1 capital	71,624	69,922
Exposure measure	822,007	793,122

	%	%
Leverage ratio	8.7	8.8