

Public Bank (Hong Kong) Limited

Pillar 3 Regulatory Disclosures

**For the period ended
30 June 2017
(Consolidated and Unaudited)**

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Template OV1: Overview of RWA

The table below provides an overview of RWA and the related minimum capital requirements by risk type as at 30 June 2017 and 31 March 2017 respectively. The Group has adopted standardized approach for both credit risk RWA and market risk RWA, and standardized/ basic indicator approach for operational risk RWA. During the second quarter of 2017, RWA decreased by HK\$41.0 million to HK\$26.34 billion. The decrease was mainly due to a reduction of HK\$90.3 million in credit risk RWA from decline of risk weighted exposures related to loans.

		(a)	(b)	(c)
		RWA		Minimum capital requirements ¹
		30 June 2017	31 March 2017	30 June 2017
		HK\$'000	HK\$'000	HK\$'000
1	Credit risk for non-securitization exposures (excluding counterparty credit risk and 250% RWA)	22,675,262	22,765,565	1,814,021
2	Of which STC approach	22,675,262	22,765,565	1,814,021
2a	Of which BSC approach	0	0	0
3	Of which IRB approach	0	0	0
4	Counterparty credit risk	8,608	7,235	689
4a	Of which CVA risk	3,325	2,700	266
5	Of which SA-CCR	0	0	0
5a	Of which CEM	5,283	4,535	423
6	Of which IMM(CCR) approach	0	0	0
7	Equity exposures in banking book under the market-based approach	0	0	0
8	CIS exposures – LTA	0	0	0
9	CIS exposures – MBA	0	0	0
10	CIS exposures– FBA	0	0	0
11	Settlement risk	0	0	0
12	Securitization exposures in banking book ²	0	0	0
13	Of which IRB(S) approach – ratings-based method	0	0	0
14	Of which IRB(S) approach – supervisory formula method	0	0	0
15	Of which STC(S) approach	0	0	0
16	Market risk	1,178,163	1,149,250	94,253
17	Of which STM approach	1,178,163	1,149,250	94,253
18	Of which IMM approach	0	0	0
19	Operational risk	2,489,500	2,465,650	199,160

¹ Calculated at 8% of RWA as of 30 June 2017

² Of note, after entering into force of the revised securitization framework in January 2018, the following replacements in row 13, 14 and 15 should be made: (i) IRB(S) rating based method should be replaced by Securitization Internal Ratings-Based Approach (SEC-IRBA)*; (ii) IRB(S) supervisory formula method should be replaced by Securitization External Ratings-Based Approach (SEC-ERBA)*; and (iii) STC(S) should be replaced by Securitization Standardized Approach (SEC-SA)*. A new row following row 15 (say, row 15a) may be added to cater for Securitization Fall-back Approach (SEC-FBA)* where this is applicable. (* all names and applicable approaches subject to the final amendments to the BCR)

		(a)	(b)	(c)
		RWA		Minimum capital requirements ¹
		30 June 2017	31 March 2017	30 June 2017
		HK\$'000	HK\$'000	HK\$'000
20	Of which BIA approach	1,149,100	1,123,825	91,928
21	Of which STO approach	1,340,400	1,341,825	107,232
21a	Of which ASA approach	0	0	0
22	Of which AMA approach	N/A	N/A	N/A
23	Amounts below the thresholds for deduction (subject to 250% RW)	160,655	160,655	12,852
24	Capital floor adjustment	0	0	0
24a	Deduction to RWA	167,532	162,670	13,403
24b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	151,699	148,004	12,136
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	15,833	14,666	1,267
25	Total	26,344,656	26,385,685	2,107,572

N/A: Not applicable in the case of Hong Kong

Template CR1: Credit quality of exposures

The table below provides a breakdown of defaulted and non-defaulted loans, debt securities and off-balance sheet exposures as at 30 June 2017. The defaulted loans are individually determined to be impaired after considering the loan overdue more than three months and the qualitative factors such as bankruptcy proceedings, corporate winding-up arrangements and other serious warning signals.

		30 June 2017			
		(a)	(b)	(c)	(d)
		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	Loans	174,801	28,480,914	91,416	28,564,299
2	Debt securities	0	5,451,305	0	5,451,305
3	Off-balance sheet exposures	0	5,225,899	0	5,225,899
4	Total	174,801	39,158,118	91,416	39,241,503

Template CR2: Changes in defaulted loans and debt securities

The table below provides the movement of defaulted loans. During the first half of 2017, defaulted loans decreased by HK\$55.8 million to HK\$174.8 million. The decrease was mainly due to write-off of impaired loans and loan repayments.

		(a)
		Amount
		HK\$'000
1	Defaulted loans and debt securities at end of the previous reporting period (31 Dec 2016)	230,616
2	Loans and debt securities that have defaulted since the last reporting period	214,432
3	Returned to non-defaulted status	(39,263)
4	Amounts written off	(177,645)
5	Other changes*	(53,339)
6	Defaulted loans and debt securities at end of the current reporting period (30 Jun 2017)	174,801

* Other changes include loan repayments

Template CR3: Overview of recognized credit risk mitigation

The table below provides a breakdown of unsecured and secured exposures (net of impairment allowances), including loans and debt securities as at 30 June 2017. The collateral for secured loans and advances and receivables were cash deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

		30 June 2017				
		(a)	(b1)	(b)	(d)	(f)
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	Loans	4,139,341	24,424,958	24,197,811	227,147	0
2	Debt securities	5,451,305	0	0	0	0
3	Total	9,590,646	24,424,958	24,197,811	227,147	0
4	Of which defaulted	23,061	69,633	69,633	0	0

Template CR4: Credit risk exposures and effects of recognized credit risk mitigation (“CRM”) – for STC approach

The table below illustrates the effect of any recognized CRM on the calculation of credit risk capital requirements under STC approach as at 30 June 2017.

Exposure classes		30 June 2017					
		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	%	
1	Sovereign exposures	1,994,669	0	1,994,669	0	90,193	4.5%
2	PSE exposures	388,828	0	388,828	0	77,766	20.0%
2a	Of which: domestic PSEs	388,828	0	388,828	0	77,766	20.0%
2b	Of which: foreign PSEs	0	0	0	0	0	N/A
3	Multilateral development bank exposures	0	0	0	0	0	N/A
4	Bank exposures	10,036,214	1,743,011	10,036,214	38,991	3,532,201	35.1%
5	Securities firm exposures	396,073	0	396,073	0	198,037	50.0%
6	Corporate exposures	5,288,805	2,325,393	5,288,805	8,880	5,297,685	100.0%
7	CIS exposures	0	0	0	0	0	N/A
8	Cash items	1,672,450	0	1,672,450	0	283,798	17.0%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	0	0	0	0	0	N/A

		30 June 2017					
		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
Exposure classes		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	%
10	Regulatory retail exposures	9,419,246	851,081	9,419,246	36,947	7,086,302	74.9%
11	Residential mortgage loans	10,245,662	306,414	10,245,662	0	4,165,890	40.7%
12	Other exposures which are not past due exposures	1,871,828	0	1,871,828	0	1,871,828	100.0%
13	Past due exposures	60,526	0	60,526	0	76,845	127.0%
14	Significant exposures to commercial entities	0	0	0	0	0	N/A
15	Total	41,374,301	5,225,899	41,374,301	84,818	22,680,545	54.7%

Template CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

The table below provides the breakdown of credit risk exposures by asset classes and by risk weights under STC approach as at 30 June 2017.

		30 June 2017										
HK\$'000		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
Exposure class	Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	1,543,706	0	450,963	0	0	0	0	0	0	0	1,994,669
2	PSE exposures	0	0	388,828	0	0	0	0	0	0	0	388,828
2a	Of which: domestic PSEs	0	0	388,828	0	0	0	0	0	0	0	388,828
2b	Of which: foreign PSEs	0	0	0	0	0	0	0	0	0	0	0
3	Multilateral development bank exposures	0	0	0	0	0	0	0	0	0	0	0
4	Bank exposures	387	0	5,037,132	0	5,025,825	0	11,861	0	0	0	10,075,205
5	Securities firm exposures	0	0	0	0	396,073	0	0	0	0	0	396,073
6	Corporate exposures	0	0	0	0	0	0	5,297,685	0	0	0	5,297,685
7	CIS exposures	0	0	0	0	0	0	0	0	0	0	0
8	Cash items	253,459	0	1,418,991	0	0	0	0	0	0	0	1,672,450

		30 June 2017										
HK\$'000		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
Exposure class	Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	0	0	0	0	0	0	0	0	0	0	0
10	Regulatory retail exposures	9,836	0	6,554	0	0	9,419,246	20,557	0	0	0	9,456,193
11	Residential mortgage loans	0	0	0	9,209,000	0	375,690	660,972	0	0	0	10,245,662
12	Other exposures which are not past due exposures	0	0	0	0	0	0	1,871,828	0	0	0	1,871,828
13	Past due exposures	0	0	0	0	0	0	27,888	32,638	0	0	60,526
14	Significant exposures to commercial entities	0	0	0	0	0	0	0	0	0	0	0
15	Total	1,807,388	0	7,302,468	9,209,000	5,421,898	9,794,936	7,890,791	32,638	0	0	41,459,119

Template CCR1: Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

The table below provides a breakdown of counterparty 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 as at 30 June 2017.

		30 June 2017					
		(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
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1	SA-CCR (for derivative contracts)	0	0		1.4	0	0
1a	CEM	9,610	16,801		N/A	26,411	5,283
2	IMM (CCR) approach			0	0	0	0
3	Simple Approach (for SFTs)					0	0
4	Comprehensive Approach (for SFTs)					0	0
5	VaR (for SFTs)					0	0
6	Total						5,283

Template CCR2: CVA capital charge

The table below provides information on CVA capital charge and the CVA calculations based on standardized CVA method as at 30 June 2017.

		30 June 2017	
		(a)	(b)
		EAD post CRM	RWA
		HK\$'000	HK\$'000
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	0	0
1	(i) VaR (after application of multiplication factor if applicable)		0
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		0
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	26,411	3,325
4	Total	26,411	3,325

Template CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

The Bank's counterparty default risk exposures by asset classes and by risk weights under STC approach as at 30 June 2017 are shown below.

		30 June 2017										
	HK\$'000	(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
	Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
	Exposure class											
1	Sovereign exposures	0	0	0	0	0	0	0	0	0	0	0
2	PSE exposures	0	0	0	0	0	0	0	0	0	0	0
2a	Of which: domestic PSEs	0	0	0	0	0	0	0	0	0	0	0
2b	Of which: foreign PSEs	0	0	0	0	0	0	0	0	0	0	0
3	Multilateral development bank exposures	0	0	0	0	0	0	0	0	0	0	0
4	Bank exposures	0	0	26,411	0	0	0	0	0	0	0	26,411
5	Securities firm exposures	0	0	0	0	0	0	0	0	0	0	0
6	Corporate exposures	0	0	0	0	0	0	0	0	0	0	0
7	CIS exposures	0	0	0	0	0	0	0	0	0	0	0
8	Regulatory retail exposures	0	0	0	0	0	0	0	0	0	0	0
9	Residential mortgage loans	0	0	0	0	0	0	0	0	0	0	0
10	Other exposures which are not past due exposures	0	0	0	0	0	0	0	0	0	0	0
11	Significant exposures to commercial entities	0	0	0	0	0	0	0	0	0	0	0
12	Total	0	0	26,411	0	0	0	0	0	0	0	26,411

Template MR1: Market risk under STM approach

The table below provides information on market risk RWA from foreign exchange exposures as at 30 June 2017.

		30 June 2017
		(a)
		RWA
		HK\$'000
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	0
2	Equity exposures (general and specific risk)	0
3	Foreign exchange (including gold) exposures	1,178,163
4	Commodity exposures	0
	Option exposures	
5	Simplified approach	0
6	Delta-plus approach	0
7	Other approach	0
8	Securitization exposures	0
9	Total	1,178,163

Key Capital Ratios Disclosures

Capital adequacy ratio		30 June 2017	31 March 2017
Item		HK\$'000	HK\$'000
1	CET1 capital	4,707,042	4,558,947
2	AT1 capital	0	0
3	Tier 1 capital (Tier 1 = CET1 + AT1)	4,707,042	4,558,947
4	Tier 2 capital	298,469	298,633
5	Total capital (Total capital = Tier 1 + Tier 2)	5,005,511	4,857,580
6	Total risk weighted assets	26,344,656	26,385,685
Capital ratios (as a percentage of risk weighted assets)			
	CET1 capital ratio	17.87%	17.28%
	Tier 1 capital ratio	17.87%	17.28%
	Total capital ratio	19.00%	18.41%

Leverage ratio		30 June 2017	31 March 2017
Item		HK\$'000	HK\$'000
1	Tier 1 capital	4,707,042	4,558,947
2	Total exposures	41,440,349	42,643,127
Leverage ratio (as a percentage of risk weighted assets)			
	Leverage ratio	11.36%	10.69%

Abbreviations:

CET1: Common Equity Tier 1

AT1: Additional Tier 1