Goldman Sachs Asia Bank Limited, a restricted licence bank

Unaudited Interim Disclosure Statement

For the six months ended 30 June 2017

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Goldman Sachs Asia Bank Limited, a restricted licence bank

Unaudited Interim Disclosure Statement
For the six months ended 30 June 2017

This disclosure statement is prepared to comply with the relevant provisions of the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance for the period ended 30 June 2017. The disclosure statement is not required to be, and has not been, audited by our independent auditors.

1 General Information

Goldman Sachs Asia Bank Limited (the “Company”) is a restricted licence bank under the Banking Ordinance in Hong Kong. It is also a registered institution under the Hong Kong Securities and Futures Ordinance.

The Company has been established to provide the clients of The Goldman Sachs Group, Inc. and/or its consolidated subsidiaries (together, the “Group”) in the Asia excluding Japan region with the opportunity to transact business with a bank counterparty located in Asia. Its principal activities are to engage in deposit-taking and over-the-counter derivatives. These activities are conducted in cooperation with the affiliated companies within the Group, which give rise to service fee income and expense.

2 Capital framework

The Company is regulated by the Hong Kong Monetary Authority (the “HKMA”) and as such is subject to minimum capital requirements. The Company computes capital ratios in accordance with the Banking (Capital) Rules (the “BCR”) of the Banking Ordinance.

3 Regulatory capital disclosures

(a) Balance sheet reconciliation between the Company's balance sheet and the capital components of regulatory capital

The following table shows a reconciliation of amounts in the unaudited balance sheet of the Company to the capital components of regulatory capital:

30 June 2017

	Unaudited balance sheet	Under regulatory scope of consolidation	Cross reference to transition disclosure template
	US$	**US$**	
Assets			
Cash and cash equivalents	79,986,006	79,986,006	
Short-term bank deposits	29,500,000	29,500,000	
Derivative financial instruments	1,731,141	1,731,141	
Accounts receivable	182,173	182,173	
Other receivables	15,808,462	15,808,462	
Deferred income tax assets	498,265	498,265	(3)
Total Assets	**127,706,047**	**127,706,047**	
Liabilities			
Deposit from an affiliated customer	1,000,000	1,000,000	
Derivative financial instruments	1,733,537	1,733,537	
Short-term loans payable	2,000,000	2,000,000	
Accounts payable	182,173	182,173	
Other payables	9,117,781	9,117,781	
Current income tax liabilities	464,268	464,268	
Total Liabilities	**14,497,759**	**14,497,759**	
Equity			
Share capital	114,010,000	114,010,000	(1)
Accumulated losses	(801,712)	(801,712)	(2)
Total Equity	**113,208,288**	**113,208,288**	
Total Liabilities and Equity	**127,706,047**	**127,706,047**	

3 Regulatory capital disclosures (continued)

(b) Transition disclosures template

The following table sets out the detailed composition of the Company's regulatory capital as at 30 June 2017 using the Transition Disclosures Template as specified by the HKMA. The table also shows those items that are currently benefiting from the Basel III transitional arrangements, and are consequently subject to the pre-Basel III treatment, as set out in Schedule 4H to the Banking (Capital) Rules.

30 June 2017

			Amounts subject to pre-Basel III treatment*	Cross reference to balance sheet reconciliation
		US$	US$	
	CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	114,010,000		(1)
2	Retained earnings	(801,712)		(2)
3	Disclosed reserves	-		
4	*Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)*	Not applicable		
	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**	113,208,288		
	CET1 capital: regulatory deductions			
7	Valuation adjustments	-		
8	Goodwill (net of associated deferred tax liability)	-		
9#	Other intangible assets (net of associated deferred tax liability)	-	-	
10#	Deferred tax assets net of deferred tax liabilities	498,265		(3)
11	Cash flow hedge reserve	-		
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	-	
13	Gain-on-sale arising from securitization transactions	-		
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	-	
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)	-	-	
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		
23	of which: significant investments in the common stock of financial sector entities	Not applicable		
24	of which: mortgage servicing rights	Not applicable		

3 Regulatory capital disclosures (continued)

(b) Transition disclosures template (continued)

30 June 2017

			Amounts subject to pre-Basel III treatment*	Cross reference to balance sheet reconciliation
		US$	US$	
	CET1 capital: regulatory deductions			
25	of which: deferred tax assets arising from temporary differences	Not applicable		
26	National specific regulatory adjustments applied to CET1 capital	-		
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-		
26b	Regulatory reserve for general banking risks	-		
26c	Securitization exposures specified in a notice given by the Monetary Authority	-		
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	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**	498,265		
29	**CET1 capital**	112,710,023		
	AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	-		
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	*Capital instruments subject to phase out arrangements from AT1 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: AT1 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	-	-	
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	-		

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3 Regulatory capital disclosures (continued)

(b) Transition disclosures template (continued)

30 June 2017

			Amounts subject to pre-Basel III treatment*	Cross reference to balance sheet reconciliation
		US$	US$	
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	-		
	AT1 capital: regulatory deductions			
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	-		
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	-		
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-		
vi	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	-		
vii	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	-		
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**	-		
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	112,710,023		
	Tier 2 capital: instruments and provisions			
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 consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-		
49	*of which: 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	-		
51	**Tier 2 capital before regulatory deductions**	-		
	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	-	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-		

3 Regulatory capital disclosures (continued)

(b) Transition disclosures template (continued)

30 June 2017

			Amounts subject to pre-Basel III treatment*	Cross reference to balance sheet reconciliation
		US$	US$	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-		
	Tier 2 capital: regulatory deductions			
56b	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 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	-		
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	-		
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-		
vi	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	-		
vii	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**	-		
58	**Tier 2 capital**	-		
59	**Total capital (Total capital = Tier 1 + Tier 2)**	112,710,023		
59a	Deduction items under Basel III which during transitional period remain subject to risk-weighting, based on pre-Basel III treatment			
i	of which: Mortgage servicing rights	-		
ii	of which: Defined benefit pension fund net assets	-		
iii	of which: Investments in own CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments	-		
iv	of which: Capital investment in a connected company which is a commercial entity	-		
v	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	-		
vi	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	-		
60	**Total risk weighted assets**	56,072,824		
	Capital ratios (as a percentage of risk weighted assets)			
61	CET1 capital ratio	201.01%		
62	Tier 1 capital ratio	201.01%		

3 Regulatory capital disclosures (continued)

(b) Transition disclosures template (continued)

30 June 2017

			Amounts subject to pre-Basel III treatment*	Cross reference to balance sheet reconciliation
		US$	US$	
63	Total capital ratio	201.01%		
64	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)	6.927%		
65	*of which: capital conservation buffer requirement*	1.250%		
66	*of which: bank specific countercyclical buffer requirement*	1.177%		
67	*of which: G-SIB or D-SIB buffer requirement*	0.00%		
68	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	196.51%		
	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)			
72	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	-		
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
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			
76	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)	-		
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	-		
78	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*	-		
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.

Footnote:
# Indicates elements where a more conservative definition has been applied in the BCR relative to that set out in the Basel III capital standards.
Abbreviations:
CET1: Common Equity Tier 1
AT1: Additional Tier 1

3 Regulatory capital disclosures (continued)

(c) Main features of capital instruments

The following tables show the main features of outstanding capital instruments:

30 June 2017

1	Issuer	Goldman Sachs Asia Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable
3	Governing law(s) of the instrument	Hong Kong Law
	Regulatory treatment	
4	Transitional Basel III rules#	Not applicable
5	Post-transitional Basel III rules+	Common Equity Tier 1
6	Eligible at solo*/group/group & solo	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)	US$114.01 million
9	Par value of instrument	Not applicable
10	Accounting classification	Shareholders' equity
11	Original date of issuance	10,000 shares issued on 12 December 2012 1,000,000 shares issued on 14 January 2015 13,000,000 shares issued on 26 June 2015 100,000,000 shares issued on 12 July 2016
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Not applicable
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	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Footnote:
Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules
+ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules
* Include solo-consolidated

4 Key capital ratios disclosures

Capital adequacy ratios

The capital adequacy ratios are measures of regulatory capital to risk-weighted amounts ("RWAs"). Risk-weighted amounts represent the sum of the Company's exposure to credit risk, market risk and operational risk calculated in accordance with the relevant provisions of the BCR.

The Common Equity Tier 1 ("CET1") ratio is defined as CET1 divided by RWAs. The Tier 1 capital ratio is defined as Tier 1 capital divided by RWAs. The total capital ratio is defined as total capital divided by RWAs.

The capital base for each of the capital adequacy ratios and the RWAs are set out below:

	30 June 2017 US$
CET 1 capital	112,710,023
Tier 1 capital	112,710,023
Total capital	112,710,023
Total RWAs	56,072,824
CET 1 capital ratio	201%
Tier 1 capital ratio	201%
Total capital ratio	201%

Information relating to the disclosure of the full terms and conditions of the Company's capital instruments can be viewed on the website: http://www.goldmansachs.com/disclosures/gsab-disclosures/terms-and-conditions.html

5 Leverage ratio disclosures

(a) Leverage ratio

The leverage ratio is calculated in accordance with the HKMA's completion instructions on the Quarterly Survey on Leverage Ratio under the requirements specified in the leverage ratio framework. It is defined as Tier 1 capital to a measure of total exposures, defined as the sum of on-balance sheet exposures (after certain Tier 1 capital deductions), certain derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.

The Tier 1 capital and the total exposures are set out below:

	30 June 2017 US$
Tier 1 capital	112,710,023
Total exposures	126,852,874
Leverage ratio	88.85%

(b) Leverage ratio disclosure templates

Summary Comparison Table

30 June 2017

	Item	Leverage ratio framework US$ equivalent
1	Total consolidated assets as per published financial statements	127,706,047
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	(354,908)
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
7	Other adjustments	(498,265)
8	**Leverage ratio exposure**	126,852,874

5 Leverage ratio disclosures (continued)

(b) Leverage ratio disclosure templates (continued)

Leverage Ratio Common Disclosure Template

30 June 2017

	Item	Leverage ratio framework US$ equivalent
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	125,974,906
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(498,265)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	125,476,641
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	341,140
5	Add-on amounts for PFE associated with all derivatives transactions	1,035,093
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	-
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	-
11	Total derivative exposures (sum of lines 4 to 10)	1,376,233
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	-
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	-
19	Off-balance sheet items (sum of lines 17 and 18)	-
	Capital and total exposures	
20	Tier 1 capital	112,710,023
21	Total exposures (sum of lines 3, 11, 16 and 19)	126,852,874
	Leverage ratio	
22	**Basel III leverage ratio**	**88.85%**

6 Countercyclical capital buffer ("CCyB") ratio disclosures

The geographical breakdown of RWA in relation to private sector credit exposures as at 30 June 2017 are as follows:

30 June 2017

Jurisdiction	Applicable jurisdictional CCyB ratio in effect	Total RWA used in the computation of CCyB ratio	CCyB ratio	CCyB amount
		US$		US$
Hong Kong	1.250%	8,306,335		
Singapore	0%	6,555		
United Kingdom	0%	47,086		
United States	0%	465,131		
Cayman Islands	0%	968		
		8,826,075	1.177%	103,829

7 International claims

International claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account any risk transfer. The risk transfers have been made if the claims are guaranteed by a party in a geographical area which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical area.

30 June 2017

	Banks	Non-bank financial institutions	Non-financial private sector	Total
	US$	US$	US$	US$
Major developed countries:				
United States	15,442,292	-	1,192,733	16,635,025
Australia	14,682,695	-	-	14,682,695
Canada	27,011,438	-	-	27,011,438
United Kingdom	21,635,012	21,487	-	21,656,499
Total	78,771,437	21,487	1,192,733	79,985,657
Major offshore centres:				
Hong Kong	30,249,147	18,649,018	699,100	49,597,265

8 Loans and advances – sector information

There are no loans and advances to customers as at 30 June 2017.

9 Overdue and rescheduled assets

There are no impaired, rescheduled or overdue assets as at 30 June 2017.

10 Mainland activities

30 June 2017

Type of counterparties	On-balance sheet exposures US$	Off-balance sheet exposures US$	Total US$	Specific provisions US$
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	-	4,534	4,534	-
Total	-	4,534	4,534	-

11 Currency risk

The currency risk arising from the Company's operations for those individual currencies which each constitute more than 10% of the total net positions in all foreign currencies are as follows:

	30 June 2017 US$
USD currency	
Spot assets	129,102,391
Spot liabilities	(124,139,744)
Forward purchases	5,507,739
Forward sales	(9,378,736)
Net long position	1,091,650

As at 30 June 2017, the Company had no net currency position calculated on the basis of the delta-weighted position of its options contracts.

As at 30 June 2017, the Company had no foreign currency exposure arising from structural positions.

12 Off-balance sheet exposures (other than derivative transactions)

There are no off-balance sheet exposures (other than derivative transactions) as at 30 June 2017.

13 Liquidity information disclosures

(a) Average value of liquidity maintenance ratio

	For the period ended 30 June 2017
Average liquidity maintenance ratio	160%

13 Liquidity information disclosures (continued)

(a) Average value of liquidity maintenance ratio (continued)

The average liquidity maintenance ratio is computed in accordance with the Banking (Liquidity) Rules.

(b) Liquidity risk management

Liquidity risk is the risk that the Company will be unable to fund itself or meet its liquidity needs in the event of company-specific, broader industry, or market liquidity stress events. Liquidity is of critical importance to financial institutions, as most of the failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, the Company has in place a comprehensive and conservative set of liquidity and funding policies. The principal objective is to be able to fund the Company and to enable the core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

Corporate Treasury has the primary responsibility for assessing, monitoring and managing liquidity and funding strategy. Corporate Treasury is independent of the revenue-producing units and reports to the Chief Financial Officer of Group.

The Liquidity Risk Management and Analysis ("Liquidity Risk Management") function of Group is an independent risk management function responsible for control and oversight of liquidity risk management framework of Group, including stress testing and limit governance. Liquidity Risk Management is independent of the revenue-producing units and Corporate Treasury, and reports to the Chief Risk Officer of Group.

The Company manages liquidity risk according to three principles: (i) hold sufficient excess liquidity to cover outflows during a stressed period; (ii) maintain appropriate asset-liability management; and (iii) maintain a viable contingency funding plan.

- **Excess liquidity.** The Company maintains excess liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment.

- **Asset-liability management.** The Company's liquidity risk management policies are designed to ensure it has a sufficient amount of financing, even when funding markets experience persistent stress. The Company strives to manage the maturities and diversity of its funding across markets, products and counterparties, and seeks to maintain a long-dated and diversified funding profile, taking into consideration the characteristics and liquidity profile of its assets.

- **Contingency funding plan.** The Company maintains a contingency funding plan to provide a framework for analysing and responding to a liquidity crisis situation or periods of market stress. The contingency funding plan outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of, and managing through, a liquidity crisis and / or market dislocation. The contingency funding plan also describes the Company's potential responses if assessments indicate that the Company has entered a liquidity crisis, which includes pre-funding for what the Company estimates will be its potential cash and collateral needs as well as utilising secondary sources of liquidity. Mitigants and action items to address specific risks which may arise are also described and assigned to individuals responsible for execution.

14 Overview of RWAs

The Company uses the Standardized (Credit Risk) Approach ("STC"), the Standardized (Market Risk) Approach ("STM") and the Basic Indicator Approach, as set out in the BCR, to calculate its credit risk, market risk and operational risk respectively.

Using the standard template as specified by the HKMA, the detailed breakdown of the Company's RWAs and an explanation of material changes in the RWAs during the quarterly reporting period is set out below.

Template OV1: Overview of RWAs

		(a)	(b)	(c)	
		RWA		Minimum capital requirements (Note (i))	
		30 June 2017	31 March 2017	30 June 2017	
		US$	US$	US$	Note
1	Credit risk for non-securitization exposures	43,214,024	36,562,142	3,457,122	(ii)
2	Of which STC approach	43,214,024	36,562,142	3,457,122	
2a	Of which BSC approach	-	-	-	
3	Of which IRB approach	-	-	-	
4	Counterparty credit risk	946,165	1,225,229	75,693	
5	Of which SA-CCR	-	-	-	
5a	Of which CEM	946,165	1,225,229	75,693	
6	Of which IMM(CCR) approach	-	-	-	
7	Equity exposures in banking book under the market-based approach	-	-	-	
8	CIS exposures – LTA	-	-	-	
9	CIS exposures – MBA	-	-	-	
10	CIS exposures – FBA	-	-	-	
11	Settlement risk	-	-	-	
12	Securitization exposures in banking book	-	-	-	
13	Of which IRB(S) approach – ratings-based method	-	-	-	
14	Of which IRB(S) approach – supervisory formula method	-	-	-	
15	Of which STC(S) approach	-	-	-	
16	Market risk	45,171	46,018	3,614	
17	Of which STM approach	45,171	46,018	3,614	
18	Of which IMM approach	-	-	-	
19	Operational risk	11,867,464	9,695,722	949,397	(iii)
20	Of which BIA approach	11,867,464	9,695,722	949,397	
21	Of which STO approach	-	-	-	
21a	Of which ASA approach	-	-	-	
22	Of which AMA approach	N/A	N/A	N/A	
23	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-	
24	Capital floor adjustment	-	-	-	
24a	Deduction to RWA	-	-	-	
24b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-	
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	-	-	-	
25	Total	56,072,824	47,529,111	4,485,826	
N/A: Not applicable in the case of Hong Kong					

14 Overview of RWAs (continued)

(i) The minimum capital requirements are determined by multiplying the Company's RWAs derived from the relevant calculation approach by 8%, not the Company's actual regulatory capital.

(ii) Credit risk for non-securitization exposures increased from the previous quarter due to the increase in time deposit placements with longer maturity during the quarter ended June 30 2017.

(iii) The increase in operational risk RWAs from the previous quarter is mainly due to an increase in service fee income.

15 Credit risk for non-securitization exposures

Using the standard templates as specified by the HKMA, the following tables provide detailed information relating to credit risk for non-securitization exposures under STC approach.

There were no loans or debt securities or related off-balance sheet exposures as at 30 June 2017.

15 Credit risk for non-securitization exposures (continued)

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

<u>30 June 2017</u>

		(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	Note
		US$	US$	US$	US$	US$	%	
1	Sovereign exposures	-	-	-	-	-	-	
2	PSE exposures	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	
4	Bank exposures	109,559,178	-	109,559,178	-	35,170,004	32	
5	Securities firm exposures	15,746,885	-	15,746,885	-	7,873,442	50	(i)
6	Corporate exposures	164,619	-	164,619	-	164,619	100	
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	-	-	-	-	-	-	
11	Residential mortgage loans	-	-	-	-	-	-	
12	Other exposures which are not past due exposures	5,959	-	5,959	-	5,959	100	
13	Past due exposures	-	-	-	-	-	-	
14	Significant exposures to commercial entities	-	-	-	-	-	-	
15	**Total**	125,476,641	-	125,476,641	-	43,214,024	34	

(i) The increase in securities firm exposures from 31 December 2016 is mainly due to the increase in receivables from an affiliate.

15 Credit risk for non-securitization exposures (continued)

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

30 June 2017

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)	
	Risk weight / Exposure class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)	Note
		US$	US$	US$	US$	US$	US$	US$	US$	US$	US$	US$	
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-	
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-	
4	Bank exposures	-	-	65,365,284	-	44,193,894	-	-	-	-	-	109,559,178	
5	Securities firm exposures	-	-	-	-	15,746,885	-	-	-	-	-	15,746,885	(i)
6	Corporate exposures	-	-	-	-	-	-	164,619	-	-	-	164,619	
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	-	-	-	-	-	-	-	-	-	-	-	
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-	
12	Other exposures which are not past due exposures	-	-	-	-	-	-	5,959	-	-	-	5,959	
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-	
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-	
15	Total	-	-	65,365,284	-	59,940,779	-	170,578	-	-	-	125,476,641	

(i) The increase in securities firm credit risk exposures from 31 December 2016 is mainly due to the increase in receivables from an affiliate.

16 Counterparty credit risk

Using the standard templates as specified by the HKMA, the following tables provide detailed information relating to counterparty credit risk and credit valuation adjustment ("CVA") arising from derivative contracts.

There were no credit-related derivatives contracts or exposures to central counterparties as at 30 June 2017.

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

30 June 2017

		(a)	(b)	(c)	(d)	(e)	(f)	
		Replace-ment cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA	Note
		US$	US$	US$		US$	US$	
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-	
1a	CEM	341,139	1,037,703		-	818,833	782,056	(i)
2	IMM (CCR) approach			-	-	-	-	
3	Simple Approach (for SFTs)					-	-	
4	Comprehensive Approach (for SFTs)					-	-	
5	VaR (for SFTs)					-	-	
6	**Total**						782,056	

(i) RWA calculated under the Current Exposure Method ("CEM") increased from 31 December 2016 due to the increase in transaction volumes.

(b) Template CCR2: CVA capital charge

30 June 2017

		(a)	(b)	
		EAD post CRM	RWA	Note
		US$	US$	
	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	818,833	164,109	(i)
4	Total	818,833	164,109	

(i) CVA capital charge increased from 31 December 2016 due to the increase in transaction volumes.

16 Counterparty credit risk (continued)

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

<u>30 June 2017</u>

		(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)	
	Risk weight / Exposure class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)	Note
		US$	US$	US$	US$	US$	US$	US$	US$	US$	US$	US$	
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-	
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-	
4	Bank exposures	-	-	-	-	-	-	-	-	-	-	-	
5	Securities firm exposures	-	-	-	-	73,554	-	-	-	-	-	73,554	(i)
6	Corporate exposures	-	-	-	-	-	-	745,279	-	-	-	745,279	(i)
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	-	-	-	-	73,554	-	745,279	-	-	-	818,833	

(i) The increase in securities firm and corporate counterparty default risk exposures from 31 December 2016 is mainly due to the increase in transaction volumes.

16 Counterparty credit risk (continued)

(d) Template CCR5: Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

<u>30 June 2017</u>

	(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		
	US$	US$	US$	US$	US$	US$
Cash - domestic currency	-	560,009	-	-	-	-
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	560,009	-	-	-	-

17 Securitization exposures

There were no securitization exposures as at 30 June 2017.

18 Market risk

Using the standard templates as specified by the HKMA, the following table provides detailed information relating to market risk under STM approach.

Template MR1: Market risk under STM approach

<u>30 June 2017</u>

		(a)
		RWA
		US$
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	-
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	45,171
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	**Total**	45,171