Goldman Sachs Asia Bank Limited, a restricted licence bank

Unaudited Interim Disclosure Statement

For the six months ended 30 June 2018

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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 2018. 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 "Firm") 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 Firm, 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 Key prudential 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 leverage ratio ("LR") 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 liquidity maintenance ratio ("LMR") is calculated as the arithmetic mean of the average LMRs of the three calendar months within the quarter. The average LMR of each calendar month is the figure reported in MA(BS)1E Return of Liquidity Position submitted to the HKMA.

3 Key prudential ratios (continued)

Using the standard templates as specified by the HKMA, the details of the Company's key prudential ratios and an explanation of material changes in the ratios during quarterly reporting periods are set out below.

Template KM1: Key prudential ratios

		30 June 2018	31 March 2018	31 December 2017	30 September 2017	30 June 2017	Note
	Regulatory capital (US$ '000)						
1	Common Equity Tier 1 (CET1)	113,572	112,985	112,780	112,940	112,710	
2	Tier 1	113,572	112,985	112,780	112,940	112,710	
3	Total capital	113,572	112,985	112,780	112,940	112,710	
	RWA (US$ '000)						
4	Total RWA	70,795	54,772	56,269	63,168	56,073	
	Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	160.42%	206.28%	200.43%	178.79%	201.01%	
6	Tier 1 ratio (%)	160.42%	206.28%	200.43%	178.79%	201.01%	
7	Total capital ratio (%)	160.42%	206.28%	200.43%	178.79%	201.01%	(i)
	Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	1.875%	1.875%	1.250%	1.250%	1.250%	(ii)
9	Countercyclical capital buffer requirement (%)	1.729%	1.662%	1.018%	1.070%	1.177%	(iii)
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	-	-	-	-	-	
11	Total AI-specific CET1 buffer requirements (%)	3.604%	3.537%	2.268%	2.320%	2.427%	
12	CET1 available after meeting the AI's minimum capital requirements (%)	152.42%	198.28%	192.43%	170.79%	193.01%	
	Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure (US$ '000)	137,679	126,512	132,433	133,332	126,853	
14	LR (%)	82.49%	89.31%	85.16%	84.71%	88.85%	
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)						
	Applicable to category 1 institution only:						
15	Total high quality liquid assets (HQLA)	-	-	-	-	-	
16	Total net cash outflows	-	-	-	-	-	
17	LCR (%)	-	-	-	-	-	(iv)
	Applicable to category 2 institution only:						
17a	LMR (%)	160.00%	160.00%	160.00%	160.01%	159.99%	
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)						
18	Total available stable funding	-	-	-	-	-	
19	Total required stable funding	-	-	-	-	-	
20	NSFR (%)	-	-	-	-	-	(iv)
	Applicable to category 2A institution only:						
20a	CFR (%)	-	-	-	-	-	(iv)

3 Key prudential ratios (continued)

Template KM1: Key prudential ratios (continued)

(i) The decrease in the risk-based regulatory capital ratios in 30 June 2018 from the previous reporting period is mainly due to an increase in RWAs for credit risk from deposit placed with an external bank attracting a higher risk-weight and an increase in RWAs for operational risk mainly due to an increase in service fee income.

The increase in the risk-based regulatory capital ratios in 31 December 2017 from the previous reporting period is mainly due to a decrease in RWAs for credit risk from a change in credit rating for a bank counterparty and a decrease in counterparty credit risk RWAs due to lower derivative transaction volumes.

The decrease in the risk-based regulatory capital ratios in 30 September 2017 from the previous reporting period is mainly due to an increase in counterparty credit risk RWAs from higher derivative transaction volumes.

(ii) The capital conservation buffer requirement has increased from 1.250% in 2017 to 1.875% in 2018 as prescribed by section 3M of the BCR.

(iii) The increase in countercyclical capital buffer requirement in 31 March 2018 from the previous reporting period is mainly due to the increase in the jurisdictional countercyclical capital buffer requirement for Hong Kong from 1.250% in 2017 to 1.875% in 2018.

(iv) The Company is a category 2 institution (not designated as a category 2A institution) under the Banking (Liquidity) Rules. Hence the liquidity coverage ratio, net stable funding ratio and core funding ratio are not applicable.

4 Overview of RWA

The Company uses the Standardized (Credit Risk) Approach ("STC"), the Standardized (Market Risk) Approach ("STM") and the Basic Indicator Approach ("BIA"), 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 periods are set out below.

4 Overview of RWA (continued)

Template OV1: Overview of RWA

		RWA		Minimum capital requirements (Note (i))	
		30 June 2018	31 March 2018	30 June 2018	
		US$ '000	US$ '000	US$ '000	Note
1	Credit risk for non-securitization exposures	47,571	33,890	3,806	(ii)
2	Of which STC approach	47,571	33,890	3,806	
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	840	1,469	67	
7	Of which SA-CCR*	Not applicable	Not applicable	Not applicable	
7a	Of which CEM	840	1,469	67	
8	Of which IMM(CCR) approach	-	-	-	
9	Of which others	-	-	-	
10	CVA risk	204	379	16	
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	Not applicable	
13	CIS exposures – MBA*	Not applicable	Not applicable	Not applicable	
14	CIS exposures – FBA*	Not applicable	Not applicable	Not applicable	
14a	CIS exposures – combination of approaches*	Not applicable	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	43	48	3	
21	Of which STM approach	43	48	3	
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	Not applicable	
24	Operational risk	22,137	18,986	1,771	
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	70,795	54,772	5,663	

Footnote:

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.

(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) The increase in RWAs for credit risk for non-securitization exposures from the previous reporting period is mainly due to the deposit placed with an external bank with a higher risk-weight.

5 Composition of regulatory capital

5.1 Template CC1: Composition of regulatory capital

The following table sets out the detailed composition of the Company's regulatory capital as at 30 June 2018 using the standard template as specified by the HKMA.

30 June 2018

		Amount (US$ '000)	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	114,010	(1)
2	Retained earnings	301	(2)
3	Disclosed reserves	-	
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	Not applicable	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 adjustments**	114,311	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	739	(3)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital 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 (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	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)	-	

5 Composition of regulatory capital (continued)

5.1 Template CC1: Composition of regulatory capital (continued)

		Amount (US$ '000)	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
26b	Regulatory reserve for general banking risks	-	
26c	Securitization exposures specified in a notice given by the MA	-	
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**	739	
29	**CET1 capital**	113,572	
	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	-	
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 (T1 = CET1 + AT1)**	113,572	
	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 provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	-	
51	**Tier 2 capital before regulatory deductions**	-	

5 Composition of regulatory capital (continued)

5.1 Template CC1: Composition of regulatory capital (continued)

		Amount (US$ '000)	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
	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 (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
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	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	-	
59	**Total regulatory capital (TC = T1 + T2)**	113,572	
60	**Total RWA**	70,795	
	Capital ratios (as a percentage of RWA)		
61	**CET1 capital ratio**	160.42%	
62	**Tier 1 capital ratio**	160.42%	
63	**Total capital ratio**	160.42%	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	3.604%	
65	of which: capital conservation buffer requirement	1.875%	
66	of which: bank specific countercyclical capital buffer requirement	1.729%	
67	of which: higher loss absorbency requirement	-	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	152.42%	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant capital investments in CET1, AT1 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 associated deferred tax liabilities)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	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 BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	-	

5 Composition of regulatory capital (continued)

5.1 Template CC1: Composition of regulatory capital (continued)

		Amount (US$ '000)	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	-	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	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)*	-	

Notes to the Template:

	Description	Hong Kong basis (US$ '000)	Basel III basis (US$ '000)
10	**Deferred tax assets (net of associated deferred tax liabilities)**	739	665
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs 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 or other credit exposures to connected companies) under Basel III.		

Remarks:

The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.

5 Composition of regulatory capital (continued)

5.2 Template CC2: Reconciliation of regulatory capital to balance sheet

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

<u>30 June 2018</u>

	Unaudited balance sheet	**Under regulatory scope of consolidation**	**Cross reference to composition of regulatory capital**
	US$ '000	**US$ '000**	
Assets			
Cash and cash equivalents	99,011	99,011	
Short-term bank deposits	15,000	15,000	
Financial instruments at fair value	5,739	5,739	
Trade and other receivables	17,257	17,257	
Deferred income tax assets	739	739	(3)
Total assets	**137,746**	**137,746**	
Liabilities			
Deposit from an affiliated customer	1,000	1,000	
Short-term loans payable	2,000	2,000	
Financial instruments at fair value	5,741	5,741	
Trade and other payables	14,227	14,227	
Current income tax liabilities	467	467	
Total liabilities	**23,435**	**23,435**	
Equity			
Share capital	114,010	114,010	(1)
Retained earnings	301	301	(2)
Total equity	**114,311**	**114,311**	
Total equity and liabilities	**137,746**	**137,746**	

5 Composition of regulatory capital (continued)

5.3 Table CCA: Main features of regulatory capital instruments

The following table shows the main features of regulatory capital instruments.

30 June 2018

1	Issuer	Goldman Sachs Asia Bank Limited
2	Unique identifier (e.g. 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[1]	Not applicable
5	Post-transitional Basel III rules[2]	Common Equity Tier 1
6	Eligible at solo / group / solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares (with voting rights)
8	Amount recognised in regulatory capital (currency in millions, 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	Non-cumulative or cumulative	Non-cumulative
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 in the insolvency creditor hierarchy of the legal entity concerned).	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Footnote:
1 Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the BCR.
2 Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the BCR.

5 Composition of regulatory capital (continued)

5.3 Table CCA: Main features of regulatory capital instruments (continued)

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

6 Macroprudential supervisory measures

6.1 Template CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer ("CCyB")

The geographical allocation of private sector credit exposures to the various jurisdictions is based on "ultimate risk basis". "Ultimate risk basis" means the allocation of exposures to the jurisdictions where the risk ultimately lies, as defined as the location where the "ultimate obligor" resides.

The geographical distribution of private sector credit exposures that are relevant in the calculation of CCyB ratio is set out below.

30 June 2018

	Geographical breakdown by Jurisdiction (J)	**Applicable JCCyB ratio in effect (%)**	**RWA used in computation of CCyB ratio (US$ '000)**	**AI-specific CCyB ratio (%)**	**CCyB amount (US$ '000)**	Note
1	Hong Kong SAR	1.875%	8,680			(i)
2	United Kingdom	0.500%	36			
3	Sum		8,716			
4	Total		9,419	1.729%	163	

(i) The decrease in RWA used in the computation of CCyB ratio from the previous reporting period is mainly due to the decrease in derivative transaction volumes.

7 Leverage ratio

7.1 Template LR1: Summary comparison of accounting assets against leverage ratio ("LR") exposure measure

The leverage ratio is calculated in accordance with the relevant provisions of the BCR.

30 June 2018

	Item	**Value under the LR framework** (US$ '000 equivalent)
1	Total consolidated assets as per published financial statements	137,746
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 applicable accounting standard but excluded from the LR exposure measure	-
4	Adjustments for derivative contracts	672
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	-

7 Leverage ratio (continued)

7.1 Template LR1: Summary comparison of accounting assets against leverage ratio ("LR") exposure measure (continued)

	Item	Value under the LR framework (US$ '000 equivalent)
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	-
7	Other adjustments	(739)
8	**Leverage ratio exposure measure**	137,679

7.2 Template LR2: Leverage ratio

30 June 2018

		US$ '000 equivalent	
		30 June 2018	31 March 2018
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	132,007	125,759
2	Less: Asset amounts deducted in determining Tier 1 capital	(739)	(750)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	131,268	125,009
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)	5,736	880
5	Add-on amounts for PFE associated with all derivative contracts	675	623
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	-	-
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**	6,411	1,503
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	-	-
18	Less: Adjustments for conversion to credit equivalent amounts	-	-

7 Leverage ratio (continued)

7.2 Template LR2: Leverage ratio (continued)

30 June 2018

		US$ '000 equivalent	
		30 June 2018	31 March 2018
19	**Off-balance sheet items**	-	-
Capital and total exposures			
20	**Tier 1 capital**	113,572	112,985
20a	**Total exposures before adjustments for specific and collective provisions**	137,679	126,512
20b	**Adjustments for specific and collective provisions**	-	-
21	**Total exposures after adjustments for specific and collective provisions**	137,679	126,512
Leverage ratio			
22	**Leverage ratio**	82.49%	89.31%

8 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 2018.

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

30 June 2018

		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$ '000	US$ '000	US$ '000	US$ '000	US$ '000	%	
1	Sovereign exposures	5	-	5	-	5	100	
2	PSE exposures	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	
4	Bank exposures	114,166	-	114,166	-	38,988	34	(i)
5	Securities firm exposures	17,037	-	17,037	-	8,518	50	(ii)
6	Corporate exposures	59	-	59	-	59	100	(iii)
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	-	-	-	-	-	-	

8 Credit risk for non-securitization exposures (continued)

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

30 June 2018

		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$ '000	US$ '000	US$ '000	US$ '000	US$ '000	%	
10	Regulatory retail exposures	-	-	-	-	-	-	
11	Residential mortgage loans	-	-	-	-	-	-	
12	Other exposures which are not past due exposures	1	-	1	-	1	100	
13	Past due exposures	-	-	-	-	-	-	
14	Significant exposures to commercial entities	-	-	-	-	-	-	
15	**Total**	131,268	-	131,268	-	47,571	36	

(i) The increase in bank exposures from 31 December 2017 is mainly due to the increase in bank deposits.

(ii) The increase in securities firm exposures from 31 December 2017 is mainly due to the increase in receivable from an affiliate.

(iii) The decrease in corporate exposures from 31 December 2017 is mainly due to the decrease in receivable from an affiliate.

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

30 June 2018

	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$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	
1	Sovereign exposures	-	-	-	-	-	-	5	-	-	-	5	
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-	
4	Bank exposures	-	-	84,595	-	15,006	-	14,565	-	-	-	114,166	
5	Securities firm exposures	-	-	-	-	17,037	-	-	-	-	-	17,037	

8 Credit risk for non-securitization exposures (continued)

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

30 June 2018

	Exposure class \ Risk weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)	Note
		US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	
6	Corporate exposures	-	-	-	-	-	-	59	-	-	-	59	
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	-	-	-	-	-	-	1	-	-	-	1	
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-	
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-	
15	Total	-	-	84,595	-	32,043	-	14,630	-	-	-	131,268	

There were no material movements in the credit risk exposure by asset classes and by risk weight from 31 December 2017.

9 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 2018.

9 Counterparty credit risk (continued)

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

30 June 2018

		Replace-ment cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA	Note
		US$ '000	US$ '000	US$ '000		US$ '000	US$ '000	
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-	
1a	CEM	5,736	675		-	867	840	(i)
2	IMM (CCR) approach			-	-	-	-	
3	Simple Approach (for SFTs)					-	-	
4	Comprehensive Approach (for SFTs)					-	-	
5	VaR (for SFTs)					-	-	
6	**Total**						840	

(i) RWA calculated under the Current Exposure Method ("CEM") decreased from 31 December 2017 due to lower derivative transaction volumes.

9.2 Template CCR2: CVA capital charge

30 June 2018

		EAD post CRM	RWA	Note
		US$ '000	US$ '000	
	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	867	204	(i)
4	Total	867	204	

(i) CVA capital charge decreased from 31 December 2017 due to lower derivative transaction volumes.

9 Counterparty credit risk (continued)

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

<u>30 June 2018</u>

	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$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	
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	-	-	-	-	54	-	-	-	-	-	54	
6	Corporate exposures	-	-	-	-	-	-	813	-	-	-	813	(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	-	-	-	-	54	-	813	-	-	-	867	

(i) The decrease in corporate counterparty default risk exposures from 31 December 2017 is mainly due to lower derivative transaction volumes.

9 Counterparty credit risk (continued)

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

30 June 2018

	Derivative contracts				SFTs		Note
	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$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	
Cash - domestic currency	-	5,544	-	-	-	-	(i)
Cash - other currencies	-	-	-	-	-	-	
Domestic sovereign debt	-	-	-	-	-	-	
Other sovereign debt	-	-	-	-	-	-	
Government agency debt	-	-	-	-	-	-	
Corporate bonds	-	-	-	-	-	-	
Equity securities	-	-	-	-	-	-	
Other collateral	-	-	-	-	-	-	
Total	-	5,544	-	-	-	-	

(i) There was no collateral received in respect of counterparty default risk exposure for the previous reporting period.

10 Securitization exposures

There were no securitization exposures as at 30 June 2018.

11 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

30 June 2018

		RWA
		US$ '000
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	-
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	43
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	**Total**	43

11 Market risk (continued)

There were no material movements in the RWA for market risk from 31 December 2017.

12 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.

International claims by major countries or geographical segments are disclosed as follows.

30 June 2018

	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Major developed countries:					
United States	19,629	5	38	5,736	25,408
Australia	14,858	-	-	-	14,858
Canada	25,396	-	-	-	25,396
Total	59,883	5	38	5,736	65,662
Major offshore centres:					
Hong Kong	30,206	-	21,290	1	51,497

13 Loans and advances – sector information

There are no loans and advances to customers as at 30 June 2018.

14 Overdue and rescheduled assets

There are no impaired, rescheduled or overdue assets as at 30 June 2018.

15 Mainland activities

There are no Mainland exposures to non-bank counterparties as at 30 June 2018.

16 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:

USD currency	30 June 2018 US$ '000
Spot assets	140,035
Spot liabilities	(135,036)
Forward purchases	6,007
Forward sales	(9,948)
Net long position	1,058

As at 30 June 2018, the Company had no net currency position calculated on the basis of the delta-weighted position of its options contracts.

As at 30 June 2018, the Company had no foreign currency exposure arising from structural positions.

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

There are no off-balance sheet exposures (other than derivative transactions) as at 30 June 2018.