Annex B

Revaluation of own premises

Illustration of the basis on which a revaluation of premises will be taken into account in the calculation of capital ratios

Assumptions:

Cost less accumulated depreciation - HK$100 million Professionally appraised value - HK$250 million Current revaluation surplus - HK$150 millions

Example I The bank decides to report the full amount of revaluation in the published accounts. The appraised value of the premises (HK$250 million) which includes the revaluation surplus (HK$150 million) will be risk-weighted at 100%. The revaluation surplus (HK$150 million) will be credited to the revaluation reserve in full However, for the purpose of calculating capital ratios, only 70% of the surplus (i.e. 70% of HK$150 million = HK$105 million) would qualify as part if Tier 2 capital.

Example II The bank takes a more conservative approach and decides not to take up the full amount of the reservation into the published accounts. Assume that the bank carried through HK$100 million revaluation to the balance sheet. In this case, the published value of the premises (HK$200 million) which includes the revaluation surplus taken up (HK$100 million) will be risk-weighted at 100%. The revaluation reserve account would be credited with an amount of HK$100 million representing the different between the revised and the old book value of the premises. Again, only 70% of that amount (i.e. HK$70 million) would qualify as Tier 2 capital adequacy purposes.

To be eligible for inclusion in the capital base, the revaluation of own premises must be formally carried through and reported on the balance sheets.