Return of Capital Adequacy Ratio
MA(BS)3

Summary of Proposed Changes

1. Specified instruments
(Completion instructions - Section B item 14; Section C Part II items 9-10)

(a) The list of the issuers of the specified instruments is updated to reflect change in name and changes in Schedule 1 of the Sale and Repurchase Agreement with the HKMA.
(b) Clarification is also made in respect of the specified instruments that are allowed for offsetting purposes.

2. Repo and reverse repo where all the risks and rewards of ownership are substantially transferred to the buyer
(Completion instructions - Section B item 22; Section C Part III item 4)

Guidance is now given for the reporting of such repos/reverse repos, in line with the accounting treatment under the SSAP24.

3. "Euroclear" and "Cedel"
(Completion instructions - Section B item 23)

To reflect the change of names to "Euroclear Bank" and "Clearstream Banking" respectively.

4. Deviation from the Third Schedule
(Return - Part I Deductions from total capital base item (C); Completion instructions - Section C Part I Deductions from capital base item (C))

The existing return and completion instructions for the deduction of equity investments in non-subsidiary companies are slightly inconsistent with the requirements under the Third Schedule. Changes to the return and completion instructions are proposed to eliminate the inconsistency.

July 2002

R

SECRET

CO. NO. M M Y Y CAT.

(For Official Use Only)

under the Banking Ordinance

CAPITAL ADEQUACY RATIO OF AN AUTHORIZED INSTITUTION INCORPORATED IN HONG KONG

*COMBINED / CONSOLIDATED RETURN

AS AT ……

* Delete which is not appropriate. Combined and consolidated return are defined in the Completion Instructions.

Name of Authorized Institution	Date of submission

THE BANKING ORDINANCE

Return required under Section 63(2) of the Banking Ordinance to be submitted to the Monetary Authority not later than 1 month after the end of each period, unless otherwise advised by the Monetary Authority.

Note: This Return is to be prepared in accordance with the Completion Instructions issued by the Monetary Authority.

We certify that:

1. This return is, to the best of our knowledge and belief, correct.
2. The capital adequacy ratio, was at any time not less than that specified under section 98, as varied under section 101.

…… ……

Chief Accountant *Chief Executive*

…… ……

Name *Name*

Name and telephone number of responsible person who may be contacted by the Monetary Authority in case of any query.

…… ……

Name *Telephone Number*

Part I: Capital Base

Item	Nature of item	HK$'000	HK$'000
Category I	**Core Capital**		
(a)	Paid up ordinary share capital		
(b)	Irredeemable non-cumulative preference shares		
(c)	Share premium		
(d)	Reserves		
(e)	Profit and loss account		
(f)	Minority interests (in core equity capital)		
	Deduct: Goodwill		
	TOTAL CORE CAPITAL		
Category II	**Supplementary Capital**		
(g)	Inner reserves		
(h)	Reserves on revaluation of land and interests in land		
(ha)	Reserves on revaluation of holding of securities not held for trading purposes		
(i)	Latent reserves on revaluation of long term holding of equity securities		
(j)	General provisions for doubtful debts		
(k)	Perpetual subordinated debt		
(l)	Irredeemable cumulative preference shares		
	Total hybrid capital instruments ((k) + (l))		
(m)	Term subordinated debt		
(n)	Term preference shares		
	Total term subordinated debt instruments ((m) + (n))		
	Eligible value of term subordinated debt instruments (limited to 50% of Core Capital)		
(o)	Minority interests (in supplementary equity capital)		
	TOTAL GROSS VALUE OF SUPPLEMENTARY CAPITAL		

Item	Nature of item	HK$'000
	ELIGIBLE VALUE OF SUPPLEMENTARY CAPITAL (limited to 100% of Core Capital)	
	TOTAL CAPITAL BASE (total of Core and Supplementary Capital)	
	Deductions from total capital base	
(A)	Shareholdings in subsidiaries or holding company	
(B)	Exposures to connected companies	
(C)	Equity investments of ***more than*** 20% ~~or more~~ in non-subsidiary companies	
(D)	Investments in the capital of other banks and financial institutions	
	TOTAL DEDUCTIONS	
	TOTAL CAPITAL BASE AFTER DEDUCTIONS	

Part II: Risk Weighted On-balance Sheets Assets

Item	Nature of item	Principal Amount HK$'000	x Risk Weight %	= Weighted Amount HK$'000
Category I	**Cash items**			
1.	Notes and coins		0	0
2.	Hong Kong Government certificates of indebtedness		0	0
3.	Gold bullion held in own vault or on an allocated basis, to the extent backed by gold liabilities		0	0
4.	Gold held not backed by gold liabilities		100	
5.	Claims collateralised by cash deposits		0	0
6.	Cash items in the course of collection		20	
6A.	Amounts due from the sale of securities, up to and including the fifth working day after the due settlement date		0	0
6B.	Amounts due from the purchase of securities on behalf of customers, up to and including the fifth working day after the due settlement date		0	0
	SUBTOTAL			
Category II	**Claims on central governments and central banks**			
7.	Loans to, or loans guaranteed by, the Exchange Fund		0	0
8.	Loans to, or loans guaranteed by, the central government or the central bank of any Tier 1 country (other than 7)		0	0
9.	Fixed interest securities with a residual maturity of under 1 year, or floating rate securities issued or guaranteed by the central government or the central bank of any Tier 1 country, or by the Exchange Fund, or claims collateralised by such securities		10	
10.	Fixed interest securities with a residual maturity of 1 year and over issued or guaranteed by the central government or the central bank of any Tier 1 country, or by the Exchange Fund, or claims collateralised by such securities		20	
11.	Loans to, or loans guaranteed by, the central government or the central bank of a Tier 2 country, where denominated and funded in the currency of that country		0	0

Item	Nature of item	Principal Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
12.	Fixed interest securities with a residual maturity of under 1 year**,** or floating rate securities issued or guaranteed by the central government or the central bank of a Tier 2 country, where denominated and funded in the currency of that country			10		
13.	Fixed interest securities with a residual maturity of 1 year and over issued or guaranteed by the central government or the central bank of a Tier 2 country, where denominated and funded in the currency of that country			20		
14.	Other claims on the central government or the central bank of a Tier 2 country			100		
	SUBTOTAL					
	Category III Claims on Public Sector Entities (P.S.E.s)					
15.	Claims on, or claims guaranteed by, or claims collateralised by securities issued by, P.S.E.s in Hong Kong			20		
16.	Claims on, or claims guaranteed by, or claims collateralised by securities issued by, P.S.E.s in any other Tier 1 country			20		
17.	Claims on P.S.E.s of a Tier 2 country			100		
	SUBTOTAL					
	Category IV Claims on Banks					
18.	Claims on, or claims guaranteed by, an authorized institution ~~in Hong Kong~~ or a bank incorporated in any other Tier 1 country			20		
19.	Claims on, or claims guaranteed or collateralised by securities issued by, a multilateral development bank			20		
20.	Claims on, or claims guaranteed by, any other bank with a residual maturity of under 1 year			20		
21.	Claims on, or claims guaranteed by, any other bank with a residual maturity of 1 year or over			100		
	SUBTOTAL					

Item	Nature of item	Principal Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
Category V	**Residential Mortgages**					
22.	Loans fully secured by a residential mortgage			50		
23.	Securities backed by residential mortgages and participations in residential mortgages			50		
	SUBTOTAL					
Category VI	**Other assets**					
24.	Claims on non-bank private sector			100		
25.	Investments in the equity or other capital instruments of other banks (other than where deducted from the capital base)			100		
26.	Premises, plant and equipment and other fixed assets for the authorized institution's own use			100		
27.	Other interests in land			100		
28.	All assets not elsewhere specified, other than items 29 to 33			100		
29.						
30.						
31.						
32.						
33.						
	SUBTOTAL					

Part III: Risk Weighted Off-balance Sheet Exposures

Item	Nature of item	Principal Amount HK$'000	x	Credit Conversion Factor %	x	Risk Weight %	=	Weighted Amount HK$'000
1.	Direct credit substitutes							
1.1				100		0		0
1.2				100		10		
1.3				100		20		
1.4				100		50		
1.5				100		100		
	SUBTOTAL							
2.	Transaction-related contingencies							
2.1				50		0		0
2.2				50		10		
2.3				50		20		
2.4				50		50		
2.5				50		100		
	SUBTOTAL							
3.	Trade-related contingencies							
3.1				20		0		0
3.2				20		10		
3.3				20		20		
3.4				20		50		
3.5				20		100		
	SUBTOTAL							

Item	Nature of item	Principal Amount HK$'000	x	Credit Conversion Factor %	x	Risk Weight %	=	Weighted Amount HK$'000
4.	Sale and repurchase agreements							
4.1				100		0		0
4.2				100		10		
4.3				100		20		
4.4				100		50		
4.5				100		100		
	SUBTOTAL							
5.	Assets sales or other transactions with recourse							
5.1				100		0		0
5.2				100		10		
5.3				100		20		
5.4				100		50		
5.5				100		100		
	SUBTOTAL							
6.	Forward asset purchases							
6.1				100		0		0
6.2				100		10		
6.3				100		20		
6.4				100		50		
6.5				100		100		
	SUBTOTAL							

Item	Nature of item	Principal Amount HK$'000	x	Credit Conversion Factor %	x	Risk Weight %	=	Weighted Amount HK$'000
7.	Partly paid shares and securities							
7.1				100		0		0
7.2				100		10		
7.3				100		20		
7.4				100		50		
7.5				100		100		
	SUBTOTAL							
8.	Forward forward deposits placed							
8.1				100		0		0
8.2				100		10		
8.3				100		20		
8.4				100		50		
8.5				100		100		
	SUBTOTAL							
9.	Note issuance and revolving underwriting facilities							
9.1				50		0		0
9.2				50		10		
9.3				50		20		
9.4				50		50		
9.5				50		100		
	SUBTOTAL							

Item	Nature of item	Principal Amount HK$'000	x	Credit Conversion Factor %	x	Risk Weight %	=	Weighted Amount HK$'000
10.	Other commitments with an original maturity of under 1 year or unconditionally cancellable			0		0		0
11.	Other commitments with an original maturity of 1 year and over							
11.1				50		0		0
11.2				50		10		
11.3				50		20		
11.4				50		50		
11.5				50		100		
	SUBTOTAL							

Only authorized institutions which are allowed to weight their exchange rate, gold and interest rate contracts under the **Original Exposure Method** should complete Items 12(a) and 13(a).

Item	Nature of item

12a Exchange rate and gold contracts

Exchange rate and gold contracts with an original maturity of 1 year or less

	Principal Amount HK$'000	x	Credit Conversion Factor	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
12a.1			*				0		0
12a.2			*				10		
12a.3			*				20		
12a.4			*				50		
SUBTOTAL									

Exchange rate and gold contracts with an original maturity of over 1 year

	Principal Amount HK$'000	x	Credit Conversion Factor	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
12a.5			*				0		0
12a.6			*				10		
12a.7			*				20		
12a.8			*				50		
SUBTOTAL									

* Exchange rate and gold contracts not subject to bilateral netting arrangements:
Credit conversion factor for contracts with an original maturity of 1 year or less is 2%.
Apply an additional factor of 3% for each additional year of original maturity, e.g. for contracts with an original maturity of over 1 year to 2 years, the factor applicable is 5% (i.e. 2% + 3%)

Exchange rate and gold contracts subject to bilateral netting arrangements:
Credit conversion factor for contracts with an original maturity of 1 year or less is 1.5%.
Apply an additional factor of 2.25% for each additional year of original maturity, e.g. for contracts with an original maturity of over 1 year to 2 years, the factor applicable is 3.75% (i.e. 1.5% + 2.25%).

Only authorized institutions which are allowed to weight their exchange rate, gold and interest rate contracts under the **Current Exposure Method** should complete Items 12(b) and 13(b). For treatment of these contracts which are subject to bilateral netting agreements, please refer to relevant paragraphs of the completion instructions of this return.

Item	Nature of item

12b Exchange rate and gold contracts

Exchange rate and gold contracts with a residual maturity of 1 year or less

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
12b.1								0		0
12b.2								10		
12b.3								20		
12b.4								50		
SUBTOTAL										

* Apply the factor of 1% to exchange rate and gold contracts with a residual maturity of 1 year or less.

Exchange rate and gold contracts with a residual maturity of over 1 year to 5 years

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
12b.5								0		0
12b.6								10		
12b.7								20		
12b.8								50		
SUBTOTAL										

* Apply the factor of 5% to exchange rate and gold contracts with a residual maturity of over 1 year to 5 years.

Exchange rate and gold contracts with a residual maturity of over 5 years

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
12b.9								0		0
12b.10								10		
12b.11								20		
12b.12								50		
SUBTOTAL										

* Apply the factor of 7.5% to exchange rate and gold contracts with a residual maturity of over 5 years.

Item	Nature of item

13a Interest rate contracts

Interest rate contracts with an original maturity of 1 year or less

	Principal Amount HK$'000	x	Credit Conversion Factor	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
13a.1			*				0		0
13a.2			*				10		
13a.3			*				20		
13a.4			*				50		
SUBTOTAL									

Interest rate contracts with an original maturity of over 1 year

	Principal Amount HK$'000	x	Credit Conversion Factor	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
13a.5			*				0		0
13a.6			*				10		
13a.7			*				20		
13a.8			*				50		
SUBTOTAL									

* Interest rate contracts not subject to bilateral netting arrangements:
Credit conversion factor for contracts with an original maturity of 1 year or less is 0.5%.
A factor of 1% is applied to contracts with an original maturity of over 1 year to 2 years.
For any other contracts with an original maturity of over 2 years, an additional factor of 1% should be added for each additional year of maturity.

Interest rate contracts subject to bilateral netting arrangements:
Credit conversion factor for contracts with an original maturity of 1 year or less is 0.35%.
A factor of 0.75% is applied to contracts with an original maturity of over 1 year to 2 years.
For any other contracts with an original maturity of over 2 years, an additional factor of 0.75% should be added for each additional year of maturity.

Item	Nature of item

13b Interest rate contracts

Interest rate contracts with a residual maturity of 1 year or less

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
13b.1								0		0
13b.2								10		
13b.3								20		
13b.4								50		
SUBTOTAL										

* Apply the factor of 0% to interest rate contracts with a residual maturity of 1 year or less.

Interest rate contracts with a residual maturity of over 1 year to 5 years

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
13b.5								0		0
13b.6								10		
13b.7								20		
13b.8								50		
SUBTOTAL										

* Apply the factor of 0.5% to interest rate contracts with a residual maturity of over 1 year to 5 years.

Interest rate contracts with a residual maturity of over 5 years

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
13b.9								0		0
13b.10								10		
13b.11								20		
13b.12								50		
SUBTOTAL										

* Apply the factor of 1.5% to interest rate contracts with a residual maturity of over 5 years.

All authorized institutions are required to use the **Current Exposure Method** to weight their equity, precious metals and other commodities contracts reported under items 14 to 16. For treatment of these contracts which are subject to bilateral netting agreements, please refer to relevant paragraphs of the completion instructions of this return.

Item	Nature of item

14. Equity contracts

Equity contracts with a residual maturity of 1 year or less

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
14.1								0		0
14.2								10		
14.3								20		
14.4								50		
SUBTOTAL										

* Apply the factor of 6% to equity contracts with a residual maturity of 1 year or less.

Equity contracts with a residual maturity of over 1 year to 5 years

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
14.5								0		0
14.6								10		
14.7								20		
14.8								50		
SUBTOTAL										

* Apply the factor of 8% to equity contracts with a residual maturity of over 1 year to 5 years.

Equity contracts with a residual maturity of over 5 years

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
14.9								0		0
14.10								10		
14.11								20		
14.12								50		
SUBTOTAL										

* Apply the factor of 10% to equity contracts with a residual maturity of over 5 years.

Item	Nature of item

15. Precious metals other than gold contracts

Precious metals contracts with a residual maturity of 1 year or less

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
15.1								0		0
15.2								10		
15.3								20		
15.4								50		
SUBTOTAL										

* Apply the factor of 7% to precious metals contracts with a residual maturity of 1 year or less.

Precious metals contracts with a residual maturity of over 1 year to 5 years

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
15.5								0		0
15.6								10		
15.7								20		
15.8								50		
SUBTOTAL										

* Apply the factor of 7% to precious metals contracts with a residual maturity of over 1 year to 5 years.

Precious metals contracts with a residual maturity of over 5 years

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
15.9								0		0
15.10								10		
15.11								20		
15.12								50		
SUBTOTAL										

* Apply the factor of 8% to precious metals contracts with a residual maturity of over 5 years.

Item	Nature of item

16. Commodities other than precious metals and gold contracts

Commodities contracts with a residual maturity of 1 year or less

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
16.1								0		0
16.2								10		
16.3								20		
16.4								50		
SUBTOTAL										

* Apply the factor of 10% to commodities contracts with a residual maturity of 1 year or less.

Commodities contracts with a residual maturity of over 1 year to 5 years

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
16.5								0		0
16.6								10		
16.7								20		
16.8								50		
SUBTOTAL										

* Apply the factor of 12% to commodities contracts with a residual maturity of over 1 year to 5 years.

Commodities contracts with a residual maturity of over 5 years

	Principal Amount HK$'000	Current Exposure HK$'000	+	* Potential Exposure HK$'000	=	Credit Equiv. Amount HK$'000	x	Risk Weight %	=	Weighted Amount HK$'000
16.9								0		0
16.10								10		
16.11								20		
16.12								50		
SUBTOTAL										

* Apply the factor of 15% to commodities contracts with a residual maturity of over 5 years.

17 - 20 Other off-balance sheet exposures

Item	Nature of item	Principal Amount HK$'000	Credit Equivalent Amount HK$'000	Weighted Amount HK$'000
17.				
18.				
19.				
20.				
	SUBTOTAL			

Part IV: Calculation of the Capital Adequacy Ratio

Item	Nature of item	HK$'000	HK$'000	
1.	**Total Capital Base After Deductions**			**(A)**
2.	**Calculation of Total Risk Weighted Exposures**			
2.1	Total risk weighted on-balance sheet assets (Total of weighted amounts of all items under Part II)			
2.2	Total risk weighted off-balance sheet exposures (Total of weighted amounts of all items under Part III)			
2.3	Sum of all Risk Weighted Exposures (2.3 = 2.1 + 2.2)			
2.4	Deductions:			
(i)	General Provisions in excess of the amount permitted to be included in Supplementary Capital			
(ii)	Reserves on revaluation of land and interests in land in excess of the book value of such reserves as at end-December 1998			
	Total deductions (i) + (ii)			
2.5	Total Net Risk Weighted Exposures (2.5 = 2.3 - 2.4)			**(B)**
3.	**Calculation of Capital Adequacy Ratio** (A / B x 100%) =		**%**	

Completion Instructions

Return of Capital Adequacy Ratio
(Form MA(BS)3)

Introduction

1. This return collects information on the capital adequacy position of authorized institutions incorporated in Hong Kong.

2. These completion instructions contain 3 sections. Section A gives instructions on the general reporting requirements. Section B provides definitions and clarification of certain items. Section C explains the reporting requirements for each individual item in the return.

Section A : General Instructions

3. Authorized institutions incorporated in Hong Kong are required to complete this return on a solo basis and also on a consolidated basis: in the former case, report the positions of the institution's local and overseas branches (if any) in one return (Combined return); in the latter case, report the positions of the institution and its subsidiaries in another return (Consolidated return).

4. The returns should show the position as at the last calendar day of each quarter and should be submitted as follows:

   (a) Combined return - within 1 month after the end of each quarter in the case of institutions without overseas branches or within 6 weeks in all other cases; and

   (b) Consolidated return - within 6 weeks after the end of each quarter unless otherwise advised by the Hong Kong Monetary Authority ("HKMA").

   (c) If the submission deadline falls on a public holiday, it will be deferred to the next working day.

5. Amounts should be shown to the nearest thousand, in HK$ or HK$ equivalents in the case of foreign currency items. The closing middle market T/T rates prevailing at the reporting date should be used for conversion purposes.

6. In completing this return, reference should be made to the Third Schedule to the Banking Ordinance regarding the statutory definitions of all items and the method of calculating the capital adequacy ratio.

7. Spot securities transactions are to be reported on "trade date" basis.

Section B: Definitions and clarification

8. Authorized institutions refer to institutions authorized under the Banking Ordinance and for the purposes of this return, the overseas head offices and branches of these institutions should also be included. For example, if a placement is made with a licensed bank's branch in a Tier 2 country, it should be classified as a claim on an authorized institution rather than a claim on a bank in a Tier 2 country.

9. Banks refer to institutions which are regarded by the appropriate supervisory authorities as banks in their place of incorporation. They include also authorized institutions. If a placement is made with a Tier 1 country incorporated bank's branch in a Tier 2 country, it should be classified as a claim on a bank incorporated in Tier 1 country.

10. Tier 1 countries comprise Hong Kong, countries belonging to the Organization For Economic Co-operation and Development (OECD) as listed below and those countries which have concluded special lending arrangements with the International Monetary Fund associated with the Fund's General Agreements to Borrow (at present only Saudi Arabia) but exclude any country which has rescheduled its external sovereign debt, whether to central government or non-central government creditors, within the previous 5 years. ***The European Central Bank shall be treated as a central bank of Tier 1 countries.***

OECD countries for the time being comprise:

Australia	Germany	Mexico	Sweden
Austria	Greece	Netherlands	Switzerland
Belgium	Hungary	New Zealand	Turkey
Canada	Iceland	Norway	U.S.A.
Czech Republic	Irish Republic	Poland	U.K.
Denmark	Italy	Portugal	
Finland	Japan	South Korea	
France	Luxembourg	Spain	

11. Tier 2 countries comprise all countries other than Tier 1 countries.

12. Principal Amount means the amount of any outstanding claim on, or contingent liability in respect of, the relevant counterparty.

13. Weighted Amount means, in the case of on-balance-sheet items, the value of principal amount multiplied by the risk weight assigned to that category of asset. The weighted amount of an off-balance-sheet item should be computed in accordance with the instructions given in paragraph 17 below. A summary list of the risk weights for particular on and off-balance-sheet items is shown in Annex 1.

14. "Specified Instruments" refer to those specified in Schedule 1 of the Sale and Repurchase Agreement with the HKMA - currently apply to notes issued by ~~Mass Transit Railway Corporation~~ ***MTR Corporation Limited***, Airport Authority and The Hong Kong Mortgage Corporation Limited ~~and The Kowloon-Canton Railway Corporation~~.

15. Accruals on a claim should be classified and risk weighted in the same way as the claim. Accruals which cannot be so classified should be reported under item 28 (all assets not elsewhere specified) of Part II.

16. Where a claim has reached final maturity, it should be treated as a sight asset (less any specific provision) and weighted in the normal way. In cases where interest on a claim is overdue but final maturity of the principal has not yet been reached, the claim should continue to be weighted according to its residual maturity.

17. Where claims on a counterparty are collateralised by cash or covered by a right of set off, or are secured against securities issued by, or guaranteed by the parties listed below, institutions may choose to weight the claims according to the risk weight appropriate to the collateral or the guarantor as follow:

	Risk Weight
collateralised by cash deposit (or covered by a right of set-off on credit balances).	0%
guaranteed by the central governments and central banks of Tier 1 countries.	0%
collateralised by securities issued by the central governments and central banks of Tier 1 countries.	10%*/20%*
guaranteed by the central governments and central banks of Tier 2 countries, where the claims (loan or securities) are denominated and funded in the local currency	
• for claims in the form of a loan	0%
• for claims in the form of securities	10%*/20%*
guaranteed by the public sector entities of Tier 1 countries.	20%
collateralised by securities issued by the public sector entities of Tier 1 countries.	20%
guaranteed by, or secured by securities issued by, multilateral development banks.	20%
guaranteed by authorized institutions or banks incorporated in Tier 1 countries.	20%
guaranteed by all other banks for claims with a residual maturity of under 1 year.	20%

(* depending on the interest rate structure of the securities as well as the residual maturities of these instruments.)

In case where a loan is partially guaranteed or collateralised, only that part of the loan which is fully covered or collateralised will qualify for a lower risk weight. The remainder of the claim should be weighted according to the risk weight appropriate to the counterparty. Guaranteed claims should not include those which are guaranteed by other offices of the reporting institution.

18. Specific provisions for bad and doubtful debts including provisions against country ~~debts~~ ***risk*** and interest in suspense should be deducted from the gross amount of the relevant exposures. Similarly, provision for depreciation of fixed assets should also be deducted from the book value of the assets. General provisions for doubtful debts in excess of the amount permitted to be included in capital base (i.e. a maximum of 1.25% of the sum of all weighted risk exposures) should be reported under item 2.4(i) of Part IV.

19. The book value of reserves arising from the revaluation of land and interest in land owned by the reporting institution in excess of the book value of such reserves as at end-December 1998 should be deducted from the sum of all risk weighted exposures under item 2.4(ii) of Part IV. To be eligible for inclusion in this item, the revaluation must be formally carried through in the accounts and shown on the balance sheet.

20. The weighted amount of off-balance-sheet items should be calculated by means of a two-step process:

    First, the principal amount of an item should be converted into a credit equivalent amount by multiplying it with a specified credit conversion factor.

    Secondly, the credit equivalent amount should be multiplied by the risk weight applicable to the type of assets and the counterparty or where applicable, the guarantor or collateral security. References should be made to Part II of the Form for determining the risk weight applicable to a counterparty, guarantor or collateral security.

21. Items should be reported so as to avoid the double-counting of exposures arising from the same contract or transaction. For example, only the undrawn portion of a loan commitment should be reported as off-balance-sheet item in item 10 or 11 of Part III of the Form while the actual amount which has been lent will be reported as an on-balance-sheet item in Part II. Trade related contingencies such as trust receipts and shipping guarantees for which the exposures have already been reported as letters of credit issued or loans against import bills etc. are not required to be reported under item 3 of Part III. Items that are subject to deduction from total capital base in Part I should not be reported in Part II ***or Part III, as the case may be.***

    In certain cases, credit exposures arising from derivatives contracts may already be reflected, in part, on the balance sheet. For example, some institutions may record current counterparty credit exposures (mark-to-market values) on foreign exchange and interest rate related contracts on the balance sheet, typically as either sundry debtors or sundry creditors. To avoid double counting, such counterparty credit exposures would need to be excluded from the on-balance-sheet items and treated as off-balance-sheet exposures for the purposes of this return.

22. Repo & Reverse Repo

"Repo" means "sale & repurchase agreement". It is an arrangement whereby an institution sells an asset to a third party with a commitment to repurchase it at an agreed price on an agreed future date. "Reverse repo" means "purchase and resale agreement": it is a reverse of repo.

For reporting purposes, an institution which has sold securities under repo agreements or acquired securities under reverse repo agreements should adopt the "economic substance" approach. Under this approach, the reporting institution should continue to report the securities sold under repo agreement on the balance sheet and report the reverse repo transaction as a collateralised loan. The collateralised loan should be measured as an exposure to the counterparty unless the underlying collateral is one included in item 17 under Section B. In that case, the reduced weight of the underlying collateral may be used.

Where a security is sold subject to a repurchase agreement, the terms of which transfer substantially all risks and rewards of ownership to the buyer (and the transaction is separately accounted for as an outright sale plus a commitment to repurchase), the security sold under such an agreement should not be reported in this return. The commitment to repurchase should be reported in item 4 under Part III of the return according to the risk weight of the issuer or, subject to item 17 under Section B, the guarantor of the security. Where the price for the commitment to repurchase has not been determined, the fair value (i.e. current market price) as of the reporting date should be used.

Where a security is purchased subject to a resale agreement, the terms of which transfer substantially all risks and rewards of ownership to the reporting institution (and the transaction is separately accounted for as an outright purchase plus a commitment to sell back), the security purchased under such an agreement should be reported under Part II of the return according to the risk weight of the issuer or, subject to item 17 under Section B, the guarantor of the security.

23. Stock lending and stock borrowing

"Stock lending" - a reporting institution entering into a stock lending transaction as principal should continue report the stock lent as an asset on its balance sheet. No exposure in respect of the counterparty in the transaction should be reported.

"Stock borrowing" - the reporting treatment of a reporting institution entering into a stock borrowing transaction as principal will depend on the type of collateral given.

"Collateral" - if the collateral given is cash, the exposure should be treated as a collateralised loan to the counterparty. If the securities borrowed by the reporting institution qualify as eligible collateral, then a lower risk weighting may be applied accordingly. If the collateral given is not cash, the reporting institution should continue to report the collateral given on its own balance sheet. No exposure to the counterparty should be reported.

"Counterparty" - where contractual agreement is made between the stock borrower/lender and the custodian (e.g. ~~Cedel or Euroclear~~ ***Clearstream Banking or Euroclear Bank***) and the stock borrower/lender has no knowledge as from/to whom the stock is borrowed/lent, the custodian becomes the "counterparty" of the stock borrower/lender.

Section C: Specific Instructions

Item	Nature of item
Part I	**Capital Base**
	For any capital instruments which are issued at a discount or in a partly-paid form, only the net proceeds of such an issue should be counted as capital. Shares issued through capitalising any property revaluation reserves referred to in Item Category II (h) should be excluded from Core Capital**.**
Category I	**Core Capital**
(c) & (d)	Share Premium and Reserves
	Report share premium accounts and reserves, including audited retained earnings and other published reserves but excluding those reserves which are included in items (h) to (i) of Category II of this part. For item (d), the amount to be included shall be net of any dividends proposed or declared by the institutions.
(e)	Profit and loss account
	Report here profits or losses of the current year and of the previous year pending audit completion. The amount to be included shall be net of any dividends proposed or declared by the institutions. Institutions are expected to set aside or earmark from the current year's profit and loss account provisions for major items such as bad and doubtful debts, tax, depreciation and audit fees at least on a quarterly basis.
(f)	Minority interests (in core equity capital)
	Report minority interests on consolidation of core capital items. The amount to be included shall be net of any dividends proposed or declared by the institutions' subsidiaries.
Deduction	Goodwill
	Report the amount of goodwill that is shown on the balance sheet.
Total	Total Core Capital
	This is the sum of items (a) to (f) minus goodwill.

Category II **Supplementary Capital**

(g) Inner reserves

Deleted in December 1999.

(h) Reserves on revaluation of land and interest in land

This refers to the reserves arising from the revaluation of -

(i) the land and interests in land owned by the reporting institution other than any interest in land mortgaged to it to secure a debt; and

(ii) the share of the net asset value of any subsidiary to the extent that such value has changed as a result of a revaluation of such subsidiary's land and interests in land other than any interest in land mortgaged to such subsidiary to secure a debt.

To be eligible for inclusion in this item, the revaluation must be formally carried through in the accounts and shown on the balance sheet. For details please refer to Guideline 4.2.1 issued by the HKMA on 17 January 1990. The amount to be included shall not exceed 70% of the revaluation surplus and shall not exceed the amount included in this item as at end-December 1998.

All institutions are expected to have a policy on the frequency and method of revaluation of premises. Institutions should not depart from this policy without first discussing their intentions with the HKMA. Revaluation will normally be required to be undertaken by an independent professional valuer, although in certain circumstances an internal valuation may be accepted provided that an independent valuer's name has been added to it. Revaluation will also need to be approved by the institution's external auditors and explicitly reported in the audited accounts.

For the purpose of this item "reserves" includes any shares issued by the reporting institution through capitalising reserves arising from revaluations referred to in the first sub-paragraph.

(ha) Reserves on revaluation of holding of securities not held for trading purposes

The amount of reserves to be included in this item shall not exceed 70% of the overall surplus on revaluation of holding of securities not held for trading purposes. An overall deficit on revaluation of holding of securities not held for trading purposes should be deducted from Supplementary Capital and reported in this item with a negative sign.

(i) Latent reserves on revaluation of long-term holding of equity securities

Report reserves or deficits arising from a revaluation of long-term holding of listed equity securities where such reserves or deficits, calculated as the difference between the market value and book value, have not been incorporated into the accounts. The securities referred to here are those listed on the Unified Exchange or on any exchange referred to at Annex 2. The reserves to be included in this item, after deducting any revaluation deficit, are subject to a discount of 55%. Where the revaluation deficit is in excess of the surplus, the net deficit should be reported in this item with a negative sign for deduction from other supplementary capital items.

(j) General provisions for doubtful debts

Report general provisions for doubtful debts. Provisions against ~~country risks and identified loan losses~~ ***specific or identified loan losses (including country risk provisions)*** should not be included. The amount to be included in this item is limited to 1.25% of the sum of all risk weighted exposures as reported in item 2.3 of Part IV.

Hybrid capital instruments

(k) Perpetual subordinated debt
(l) Irredeemable cumulative preference shares

These are capital instruments which combine certain characteristics of equity capital and debt. To qualify as hybrid capital the instruments must satisfy the following conditions:

- they are unsecured, paid-up and, in the case of debt, fully subordinated to the interests of creditors;

- they are not redeemable at the initiative of the holder or without the prior consent of the Monetary Authority;

- they are available to participate in losses without the bank being obliged to cease trading;

- the obligation to pay interest must be able to be deferred in case the profitability of the bank could not support payment;

- they must have the approval of the Monetary Authority for inclusion in the capital base.

Term subordinated debt instruments

(m) Term subordinated debt

(n) Term preference shares

To be eligible as Supplementary Capital, these instruments must satisfy the Monetary Authority, inter alias, that:

- they have an original maturity of over 5 years (and notwithstanding that in the case of term subordinated debt, that period may be reduced with the prior consent of the Monetary Authority); and

- where a term subordinated debt is repaid prior to maturity or where the preference shares are redeemed, they are not repayable or redeemable prior to maturity without the prior consent of the Monetary Authority.

The amount counted as capital should be discounted by one-fifth each year during the four years preceding maturity. In addition, the total amount of these two items included in Supplementary Capital shall be limited to 50% of Core Capital as reported in Category I of Part I.

(o) Minority interests (in supplementary equity capital)

Report minority interests on consolidation of irredeemable cumulative preference shares and term preference shares of subsidiaries. The amount to be included shall be net of any dividends proposed or declared by the institutions' subsidiaries.

Total Total eligible value of Supplementary Capital

The amount to be included is limited to a maximum of 100% of Core Capital.

Deduction Deductions from total capital base

(A) Shareholdings in subsidiaries or holding company

Report shareholdings in any subsidiary or holding company of the reporting institution except where:

(i) The shareholding falls to be deducted under the deduction items (B), (C) or (D) below; or

(ii) in the case of a consolidated return, its shareholding in a subsidiary included in the consolidation; or

(iii) its reserves arising from the revaluation of the land and interest in land of any subsidiary not falling within the meaning of reserves under item (h).

(B) Exposures to connected companies

These include all exposures to connected companies which, in the opinion of the Monetary Authority, are not incurred in the ordinary course of business. "Exposures" here refer to loans, investments in shares or debentures, and liabilities arising from guarantees issued. "Connected companies" means any subsidiary or holding company of the reporting institution or any company falls within the meaning of section 64(1) of the Banking Ordinance.

(C) Equity investments of ***more than*** 20% ~~or more~~ in non-subsidiary companies

Report all direct and indirect equity investments (other than those already reported in (B) above) in any non-subsidiary company which ~~equal or exceed 20% of the total equity of the company in which the investment is made.~~ ***entitle the authorized institution to exercise, or control the exercise of, more than 20% of the voting power at general meeting of the company.***

(D) Investments in the capital of other banks and financial institutions

Report holdings of shares, stocks and debt securities issued by any other banks unless the Monetary Authority is satisfied that the holding is not the subject of a cross-holding or is not otherwise a strategic investment.

Item	Nature of item
Part II	**Risk Weighted on-balance-sheet Assets**
Category I	**Cash items**
1.	Notes and coins

Report all notes and coins held irrespective of country of issue, and sight balances with central banks.

2. Hong Kong Government certificates of indebtedness

Report holdings of Hong Kong Government certificates of indebtedness for note issue.

3. Gold bullion held (backed by gold bullion liabilities)

This includes all gold bullion held in the institution's own vaults or, on an allocated basis in the vaults of other institutions to the extent that, in both cases, it is backed by gold bullion liabilities. Gold held in safe custody for other institutions or customers should not be reported. Gold held for the reporting institution on an unallocated basis by third parties, though backed by gold liabilities, should be weighted as a claim on the counterparty.

4. Gold held (not backed by gold liabilities)

This relates to all other holdings of gold not included in item 3 above.

5. Claims collateralised by cash deposits

Report claims of the institution to the extent that they are formally secured by cash deposits placed with the reporting institution, irrespective of whether the cash collateral is held in a different branch or country. Report also claims to the extent that they are covered by a legal right of set-off against credit balances relating to the same customer. For reporting in this return, claims should be reported gross without offsetting with the cash collateral or credit balances. If a loan is partly secured by cash deposits, only the secured portion should be weighted at 0%. The unsecured portion should be weighted according to the appropriate counterparty risk.

6. Cash items in the course of collection

Report the amount of cheques, drafts and other items drawn on other authorized institutions or banks that are payable immediately upon presentation and that are in process of collection. Import and export trade bills held by the reporting institution that are in the process of collection should be excluded and weighted according to the counterparty of the claim.

6A & B Securities transactions in the course of settlement

Report all receivables arising from the sale of securities and from the purchase of securities on behalf of customers which are outstanding up to and including the fifth working day after the due settlement date. Any receivables outstanding for more than 5 working days after the due settlement date should be weighted according to the counterparty risk involved.

Category II Claims on central governments and central banks

7. Loans to, or loans guaranteed by the Exchange Fund

Report loans to, or loans guaranteed by the Exchange Fund irrespective of maturity. Holdings of securities issued by the Exchange Fund should be reported under items 9 or 10.

8. Loans to, or loans guaranteed by, central governments and central banks of Tier 1 countries

Report loans to, or loans guaranteed by the central government or central bank of Tier 1 countries irrespective of maturity. Exclude sight balances with central banks of Tier 1 countries which should be reported under item 1 of Category I of this part and loans to the Exchange Fund which should be reported under item 7 above.

9-10 Holdings of securities issued by or guaranteed by the central government or the central bank of a Tier 1 country, or by the Exchange Fund, or claims collateralised by such securities

Report holdings of securities, or claims collateralised by the securities issued by or guaranteed by the central government or central bank of any Tier 1 country, or by the Exchange Fund. These will attract a 10% or 20% risk weight depending on the interest rate structure or the residual maturity of the securities concerned.

Holdings of Exchange Fund Bills/Notes should also be reported here. Market makers who have short positions in Exchange Fund Bills/Notes and other Specified Instruments may report their net holdings of such instruments provided the short positions are covered by the Sale and Repurchase Agreements with the HKMA. The following steps should be taken in determining the amount to be reported:

(a) the long and short positions of fixed interest instruments with a residual maturity of under 1 year and floating rate instruments of any maturity may be offset with each other;

(b) the long and short positions of fixed interest instruments with a residual maturity of 1 year and over may be offset with each other;

(c) if the net positions of both (a) and (b) above are long, the positions should be reported in items 9, 10 and/or 15, as the case may be;

(d) if the net position in (a) is long and the net position in (b) is short, the positions can be netted with each other on a dollar for dollar basis. The resultant net long position, if any, should be reported in item 9 and/or 15, as the case may be; and

(e) if the net position in (a) is short and the net position in (b) is long, the positions can again be netted with each other on a dollar for dollar basis. The resultant net long position, if any, should be reported in item 10 and/or 15, as the case may be.

However, as the HKMA has ceased to be the Arranger for the respective Note Issuance Programmes of the organisations referred to under item 14 of Section B above since 1 September 2001, all instruments issued by such organisations on or after 1 September 2001 should not be allowed to be netted off.

11-13 Loans to, or loans guaranteed by, or securities issued by the central government or the central bank of a Tier 2 country, where such loans or securities are denominated and funded in the currency of that country

These include, e.g. a Malaysian Ringgit claim on the Malaysian government which is funded by Malaysian Ringgit liabilities. Exclude sight balances with central banks of Tier 2 countries which should be reported under item 1 of Category I of this part.

14. Other claims on the central government or on the central bank of a Tier 2 country

Report all exposures to the central government or the central bank of any Tier 2 country except those reported under items 11-13 above. Exclude also sight balances with central banks of Tier 2 countries which should be reported under item 1 of Category I of this part.

Category III **Claims on Public Sector Entities**

For the purposes of this category, a public sector entity does not include any commercial company which is owned by it. Such commercial company will be treated as a private-sector commercial enterprise and will attract a risk weight of 100%.

15. Claims on, claims guaranteed by, or claims collateralised by securities issued by, public sector entities in Hong Kong

Public sector entities in Hong Kong include the ~~Mass Transit Railway Corporation~~, ***MTR Corporation Limited***, the Kowloon-Canton Railway Corporation, the Hong Kong Housing Authority, the Hospital Authority, the Airport Authority, The Hong Kong Mortgage Corporation Limited and such other entities as may be specified by the HKMA from time to time.

16. Claims on, claims guaranteed by, or claims collateralised by securities issued by, public sector entities of any other Tier 1 country

Public sector entities in any other Tier 1 country include any entity which is regarded as such by the recognized banking supervisory authority in the place in which it is incorporated. In general, they may include the local governments, the local authorities and other bodies owned by the central or local governments or local authorities which perform administrative, executive, regulatory or other non-commercial functions. Institutions may refer to the Monetary Authority in case of doubt.

Mortgage backed securities (MBS) issued by Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae) should be reported under this item.

Category IV **Claims on Banks**

For the purposes of this category, export trade bills negotiated under other banks' letters of credit should be reported as claims on the LC issuing banks.

19. Claims on or claims guaranteed by or collateralised by securities issued by, a multilateral development bank

Multilateral development bank means the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Inter-American Investment Corporation, the Asian Development Bank, the African Development Bank, the European Investment Bank, the Nordic Investment Bank, the Caribbean Development Bank, the European Bank for Reconstruction and Development or the International Finance Corporation.

21 Claims on or claims guaranteed by, any other bank with a residual maturity of 1 year and over

Report claims on banks other than those reported under items 18 to 20.

Category V Residential Mortgages

22. Loans fully secured by a residential mortgage

Please refer to the Third Schedule to the Banking Ordinance for definition of a "residential mortgage".

23. Securities backed by residential mortgages and participations in residential mortgages

The underlying residential mortgage of the securities and of the participation reported in this item must satisfy all the criteria for residential mortgage specified in the Third Schedule to the Banking Ordinance. In addition, the holders of such securities must not absorb more than their pro rata share of losses in the event of arrears or default on payment of interest on, or principal of, the underlying mortgage loans.

Category VI Other Assets

24. Claims on non-bank private sector

Report all claims on non-bank private sector which have not been included elsewhere.

25. Investments in the equity or other capital of other banks

Report all investments in the equity or other capital instruments of other authorized institutions or banks, for which the Monetary Authority is satisfied that a deduction from capital base is not required.

26. Premises, plant and equipment and other fixed assets for the reporting institution's own use

Report all investments in premises, plant and equipment and all other fixed assets of the reporting institution which are held for own use. Report also any fixed asset which is held by the reporting institution as lessee under a finance lease in accordance with the Statement of Standard Accounting Practice (SSAP 14) issued by Hong Kong Society of Accountants.

27. Other interests in land

Report the institution's other interests in land which are not occupied or used in the operation of the institution's business.

28. All assets not elsewhere specified

Report all other investments or assets which are not classified elsewhere. This includes any fixed asset leased by the reporting institution under an operating lease. Valued but unsettled margin trading deals should be treated as exchange rate contracts under Part III. These deals refer to margin trading positions which the customer has not given instructions to close out. Assets which have been deducted from Capital Base in Part I need not be included.

29-33 Report any other on-balance-sheet items as instructed by the Monetary Authority.

Item	Nature of item
Part III	**Risk Weighted Off-balance-sheet Exposures**

See note 20 of Section A - General instructions for measurement of off-balance-sheet items.

For any off-balance-sheet exposures which give rise to credit risk but are not specifically identified in this part of the form, the reporting institution should consult the HKMA on the reporting arrangements. Items 17 to 20 of this Part are for reporting of off-balance-sheet items specified by the HKMA.

1. Direct credit substitutes

Direct credit substitutes are any irrevocable off-balance-sheet obligations which carry the same credit risk as a direct extension of credit. These include liabilities arising from issue of guarantees, confirmation of letters of credit and issue of standby letters of credit serving as financial guarantees for loans, securities and other financial liabilities. Include also liabilities arising from acceptances on accommodation bills but exclude any such bills which have been discounted by the reporting institution itself. Report also risk participations and any other similar commitments where the reporting institution has undertaken to repay the financial obligation of a customer on his failure to do so.

2. Transaction-related contingencies

Report contingent liabilities arising from an irrevocable obligation to pay to a third-party the non-financial obligation of a customer upon his failure to fulfill such obligation or terms under a contract or transaction, e.g. those arising from performance bonds, bid bonds, warranties and standby letters of credit related to a particular transaction.

3. Trade-related contingencies

Report contingent liabilities arising from trade related obligations, i.e. letters of credit issued, acceptances on trade bills, shipping guarantees issued and any other trade related contingencies. However, liabilities arising from confirmation of letters of credit issued by another bank should be regarded as direct credit substitutes and be reported under item 1 above.

4-7 The risk weights for these items should be determined according to the underlying assets or the issuer of the assets rather than the counterparty with whom the transaction has been entered into, e.g. if the reporting institution has contracted with a non-bank customer to purchase forward a specific sum of securities issued by the government of a Tier 1 country, the transaction should be weighted according to the issuer of the securities and not the customer.

4. Sale and repurchase agreements

~~Include only those repo agreements which do not involve securities. Repo agreements involving securities should be reported by adopting "economic substance approach" as set out under item 22 in Section B.~~

Sale and repurchase agreement ("Repo") is an arrangement whereby an institution sells an asset to a third party with a commitment to repurchase it at an agreed price on an agreed future date. For repo agreements which involve securities, please refer to the reporting instructions set out under item 22 in Section B.

5. Asset sales or other transactions with recourse

These include asset sales where the holder of the asset is entitled to 'put' the asset back to the reporting institution within an agreed period or under certain prescribed circumstances, e.g. deterioration in the value or credit quality of the asset concerned.

6. Forward asset purchases

These refer to commitments to purchase at a specified future date and on prearranged terms, a loan, security or other asset from another party, including those under a put option written by the reporting institution.

7. Partly paid shares and securities

Report the amount remains unpaid on these shares and securities where the issuer may call upon the reporting institution to pay at a predetermined or unspecified date in the future.

8. Forward forward deposits placed

A forward forward deposit is an agreement between two parties whereby one will place and the other will receive at a predetermined future date a deposit at an agreed rate of interest. A commitment to place a forward forward deposit should be reported under this item and weighted according to the risk weight appropriate to the counterparty.

For the institution which has contracted to receive the deposit, failure to deliver by the counterparty will result in an unanticipated change in its

interest rate exposure and may involve a replacement cost. Its exposure should therefore be accorded the same treatment as interest rate related transaction (see item 13 below).

9. Note issuance and revolving underwriting facilities

These are arrangements whereby a borrower may draw down funds up to a prescribed limit over a predefined period through the issue of notes which the reporting institution has committed to underwrite.

10-11 Other commitments

Other commitments include the undrawn portion of any binding arrangements which obligate the reporting institution to provide funds at some future date. Commitments with an original maturity of less than 1 year, or which can be unconditionally cancelled at any time by the reporting institution at its discretion, other than for "force majeure" reasons, should be reported under item 10. This also includes any revolving or undated/open-ended commitments, e.g. overdrafts or unused credit card lines, providing that they can be unconditionally cancelled at any time and subject to credit revision at least annually.

Commitments with an original maturity of 1 year and above should be reported under items 11.1 to 11.5 according to the relevant risk weight of the counterparty.

Original maturity is defined as the length of time between the date the commitment is made and the earliest date on which the reporting institution can, at its option, unconditionally cancel the commitment.

12 - 16 Exchange rate, interest rate, equity, precious metals and other commodities related contracts

Exchange rate contracts include cross-currency interest rate swaps, forward foreign exchange contracts, currency futures, currency options purchased and similar instruments. They include also contracts involving gold. For foreign exchange margin trading, the valued but unsettled transactions should be treated as outstanding exchange rate contracts. They are however exempted from capital weighting under (a) below. Any account receivables arising from these transactions should be excluded from the on-balance-sheet assets.

Interest rate contracts include single-currency interest rate swaps, forward rate agreements, interest rate futures, interest rate options purchased and similar instruments. Similar to exchange rate contracts, valued but unsettled margin trading deals in respect of interest rate contracts should be included but are exempted from capital weighting under (a) below**.**

Equity contracts include forwards, swaps, purchased options and similar derivative contracts based on individual equities or on equity indices.

Precious metal (other than gold) contracts include forwards, swaps, purchased options and similar derivative contracts that are based on precious metals such as silver, platinum and palladium.

Other commodity contracts include forwards, swaps, purchased options and similar derivative contracts based on energy contracts, agricultural contracts, base metals (such as aluminum, copper, and zinc) and any other non-precious metal commodity contracts.

Exemption from capital weighting will be permitted for:

(a) instruments traded on exchange or margin trading transactions which are subject to daily margining requirements;

(b) exchange rate (except gold) contracts which have an original maturity of 14 calendar days or less. When such contracts are covered by a valid bilateral netting agreement (as defined below), institutions may at their own discretion net the profit or loss on such contracts against those on other contracts covered by the same agreement in arriving at the net exposure for capital weighting purposes. The inclusion or exclusion of such contracts for netting purposes must however be done on a consistent basis; or

(c) forward exchange rate contracts arising from swap deposit arrangements. Under such contracts, the money deposited by the customer remains under the control of the institution at all times during the transaction. The institution concerned will therefore be in a position to ensure that the customer does not default on the settlement of the forward contract.

Exposures in respect of contracts covered by items 12-16 which are subject to a valid bilateral netting agreement may be reported on a net basis. A valid bilateral netting agreement is an agreement with a counterparty under which, in the event of the counterparty's failure to perform due to default, bankruptcy or liquidation, the institution's claim (or obligation) would be to receive (or pay) only the net sum of the mark-to-market values of included transactions. The institution concerned must be able to demonstrate the legal enforceability of the netting agreement in all relevant jurisdictions, and its compliance with all the requirements set out in the HKMA's Policy Paper entitled "Amendment to the 1988 Capital Accord for bilateral netting".

Institutions should use either the current exposure method or, with the agreement of the Monetary Authority, the original exposure method to weight exchange rate and interest rate contracts. Institutions which have a significant volume of business in such contracts will normally be expected to adopt the current exposure method. Institutions with a small volume of such business may, however, choose either the original or current exposure method. ("Small" in this context means that the aggregate face value of

outstanding contracts does not exceed 10% of the reporting institution's capital base. Other factors may also apply on a case by case basis.) For contracts relating to equity, precious metals other than gold and other non-precious metal commodities, the current exposure method must be used.

Items 12a and 13a are for completion by authorized institutions which are allowed to weight their contracts under the original exposure method. The following two sets of credit conversion factors, used to calculate the credit equivalent amounts, are applicable to exchange rate and interest rate contracts of different original maturities:

Original maturity	Exchange rate contracts	Interest rate contracts
1 year or less	2.0%	0.5%
Over 1 year to 2 years	5.0% (i.e.2%+3%)	1.0%
For each additional year	3.0%	1.0%

For contracts covered by valid bilateral netting agreements, the credit conversion factors to be used when calculating the credit equivalent amounts of contracts of different original maturity are as follows:

Original maturity	Exchange rate contracts	Interest rate contracts
1 year or less	1.5%	0.35%
Over 1 year to 2 years	3.75% (i.e. 1.5%+2.25%)	0.75%
For each additional year	2.25%	0.75%

Items 12b and 13b are for completion by authorized institutions which are required to weight their exchange rate and interest rate contracts under the current exposure method. Items 14, 15 and 16 for other derivatives contracts which must be reported by using the current exposure method.

Under this method, the credit equivalent amount of these contracts should be the sum of:

(a) current exposure, which is the total replacement cost (obtained by "marking to market") of all contracts with a positive value, or where contracts are covered by valid bilateral netting agreements, the net amount of the sum of the positive and negative mark-to-market

values of the individual contracts covered by the bilateral netting agreement, if positive; and

(b) potential exposure (the add-on), which is derived by multiplying the principal amount of each contract by the credit conversion factor specified below. Where contracts are covered by valid bilateral netting agreements, the netted add-on (A_{Net}) is derived by adding 40% of the sum of the products derived by multiplying the principal amount of each of those contracts by the credit conversion factors and 60% of the Net/Gross Ratio (NGR) multiplied by the sum of the products derived by multiplying the principal amount of each of those contracts by the credit conversion factors. This is expressed through the following formula:

$$A_{Net} = 0.4 \times A_{Gross} + 0.6 \times NGR \times A_{Gross}$$

where

- A_{Gross} equals the sum of the individual add-on amounts (derived by multiplying the principal amount by the credit conversion factors) of all contracts covered by valid bilateral netting agreements with one counterparty.

- NGR means the ratio of net replacement cost to gross replacement cost for contracts covered by valid bilateral netting agreements. (The NGR can be calculated on a counterparty by counterparty or on an aggregate basis for all transactions covered by valid bilateral netting agreements. However, the basis chosen by the reporting institution should be used consistently. An illustration of the calculation of the NGR based on the two methods is given in Annex 3.)

The credit conversion factors applicable to contracts of different residual maturities are as indicated in the following table:

Residual maturity	Exchange rate and gold	Interest rate	Equity	Precious metals except gold	Other commodities
1 year or less	1.0%	Nil	6.0%	7.0%	10.0%
Over 1 year to 5 years	5.0%	0.5%	8.0%	7.0%	12.0%
Over 5 years	7.5%	1.5%	10.0%	8.0%	15.0%

For contracts with multiple exchanges of principal, the credit conversion factors are to be multiplied by the number of remaining payments in the contract. For contracts structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these dates, the residual maturity would be set equal to the time until the next reset date. In case of interest rate contracts with

remaining maturities of more than one year that meet this criteria, the credit conversion factor is subject to a floor of 0.5%.

Where a valid bilateral netting agreement covers more than one type of contracts such as both exchange rate and interest rate contracts, institutions should consult the HKMA in the reporting of the risk weighted positions under each contract type.

It is not necessary to calculate the potential exposure of single currency floating/floating interest rate swaps. The current exposures, i.e. replacement cost, of these contracts shall be taken as their credit equivalent amounts.

Forwards, swaps, purchased options and similar derivative contracts not covered by any of the columns of the above table should be treated as "other commodities". For all contracts the add-ons should be based on effective rather their apparent principal amounts. In the event that the stated principal amount is leveraged or enhanced by the structure of the transaction the effective principal amount must be used when determining the potential future exposure.

Once the credit equivalent amount of a derivative contract has been determined using either the original exposure method or the current exposure method, that amount should be weighted according to the risk weight of the counterparty, or if relevant, that of the guarantor or the collateral security. However, the maximum risk weight that will be applied is 50%.

Hong Kong Monetary Authority
~~November 2001~~ ***(MM/2003)***

Annex 1

Summary of risk categories

0% weight

Notes and coins

Hong Kong Government certificates of indebtedness

Gold bullion held in own vaults of the reporting institution or, on an allocated basis, by another institution, to the extent backed by gold liabilities

Claims to the extent that they are collateralised by cash deposits held by the reporting institution

Receivables arising from the sale of securities and, the purchase of securities on behalf of customers, which are outstanding up to and including the fifth working day after the due settlement date

Loans to, or loans to the extent that they are guaranteed by, the Exchange Fund, or the central government or the central bank of any Tier 1 country

Loans denominated in the currency of a Tier 2 country and funded in that currency to, or to the extent that they are guaranteed by, the central government or the central bank of that country

Off-balance-sheet commitments as specified under item 10 of Table B of the Third Schedule to the Banking Ordinance with an original maturity of under 1 year**,** or which may be cancelled at any time unconditionally by the reporting institution

10% weight

Fixed interest securities with a residual maturity of under 1 year**,** or floating rate securities of any maturity issued by or guaranteed by the central government or by the central bank of a Tier 1 country, or by the Exchange Fund, or claims to the extent that they are collateralised by such securities

Fixed interest securities with a residual maturity of under 1 year**,** or floating rate securities of any maturity issued by or guaranteed by the central government or by the central bank of a Tier 2 country, where such securities are denominated and funded in the currency of that country

20% weight

Cash items in the course of collection

Fixed interest securities with a residual maturity of 1 year and over issued by or guaranteed by the central government or by the central bank of a Tier 1 country, or by the Exchange Fund, or claims to the extent that they are collateralised by such securities

Fixed interest securities with a residual maturity of 1 year and over issued by or guaranteed by the central government or by the central bank of a Tier 2 country, where such securities are denominated and funded in the currency of that country

Claims on, or claims to the extent that they are guaranteed by, or to the extent that they are collateralised by securities issued by, public sector entities of Hong Kong and any other Tier 1 countries

Claims on, or claims to the extent that they are guaranteed by, authorized institutions or banks incorporated in Tier 1 countries

Claims on, or claims to the extent that they are guaranteed or collateralised by securities issued by, a multilateral development bank

Claims on, or claims to the extent that they are guaranteed by, any other bank which is incorporated in a Tier 2 country but which is not an authorized institution, with a residual maturity of under 1 year

50% weight

Loans fully secured by a residential mortgage

Securities backed by residential mortgages and participations in residential mortgages

100% weight

Gold held which is not backed by gold liabilities

Claims on the central government or on the central bank of a Tier 2 country which are not denominated and funded in local currency

Claims on public sector entities of a Tier 2 country

Claims on, or claims to the extent that they are guaranteed by, any bank which is incorporated in a Tier 2 country but which is not an authorized institution, with a residual maturity of 1 year and over

Claims on non-bank private sector entities

Investments in the equity or other capital instruments of other authorized institutions or banks other than those deducted from the capital base

Premises, plant and equipment and other fixed assets for the reporting institution's own use

Other interests in land

All assets not elsewhere specified

Annex 2

Recognized Stock Exchange

American Stock Exchange

Amsterdam Stock Exchange

Auckland Stock Exchange

Australian Stock Exchange Limited

Brussels Stock Exchange

Copenhagen Stock Exchange

Frankfurt Stock Exchange

Korea Stock Exchange

Kuala Lumpur Stock Exchange

London Stock Exchange

Luxembourg Stock Exchange

Manila Stock Exchange

Milan Stock Exchange

Montreal Stock exchange

National Association of Securities Dealers Automated Quotations - National Market System ("NASDAQ-NMS")

New York Stock Exchange

Osaka Stock Exchange

Oslo Stock Exchange

Paris Bourse

Securities Exchange of Thailand

Singapore Stock Exchange

Stockholm Stock Exchange

Tokyo Stock Exchange

Toronto Stock Exchange

Wellington Stock Exchange

Zurich Stock Exchange

Annex 3

Example of calculating the Net to Gross Ratio ("NGR")

The following table summarizes the calculation of the NGR under the per counterparty and the aggregate basis :

Transaction	Counterparty A		Counterparty B		Counterparty C	
	Notional amount	Mark to market value	Notional amount	Mark to market value	Notional amount	Mark to market value
Outstanding contract 1	100	10	50	8	30	-3
Outstanding contract 2	100	-5	50	2	30	1
Gross replacement cost (GR)		10		10		1
Net replacement cost (NR)		5		10		0
NGR (per counterparty)	0.5		1		0	
NGR (aggregate)	$\sum NR / \sum GR = 15 / 21 = 0.71$					

The gross replacement costs (GR) include only the sums of positive market values, they are therefore, 10, 10 and 1 respectively for counterparties A, B and C. The corresponding net replacement costs (NR) are the non-negative sums of both positive and negative market values, i.e. 5, 10 and 0 for A, B and C respectively. Accordingly, the NGR calculated in the per counterparty basis should be 5/10 = 0.5, 10/10 = 1 and 0/1 = 0 for A, B and C respectively. Based on the per counterparty NGR, the net add-on can be calculated by the given formula in the per counterparty basis. The aggregate net add-on would be the sum of per counterparty net add-ons.

In case the NGR is calculated in the aggregate basis, it would be the ratio of total net replacement costs to total gross replacement costs, i.e. 15/21 = 0.71. The aggregate net add-on is then calculated by applying this ratio to the given formula for the individual counterparty subject to valid bilateral netting agreement, i.e. A, B and C.