Annex A

APPLICATION OF THE RECOMMENDATIONS TO RLBS AND DTCS

Paragraph 2.1 and 2.2 of the Best Practice Guide indicate that the recommendations in the Guide are intended to apply to RLBs and DTCs which currently have total assets of HK$1 billion or more or total customer deposits of HK$300 million or more. Any RLB or DTC which meets either one of the size criteria is recommended to adopt the recommendations in the Best Practice Guide.

The HKMA intends to use the figures which RLBs and DTCs report in respect of item ***25*** (Total assets less provisions) and item ***6.4*** (Total deposits from customers) of the "Return of Assets and Liabilities of an Authorized Institution" (MA(BS)1) to determine whether a RLB or DTC meets the above size criteria. To ensure that institutions know in advance whether or not they should adopt the recommendations in the Best Practice Guide and to avoid the effects of one-off fluctuations at the end of financial year, the average of the relevant figures reported in the twelve month period up to end-August will be adopted for this purpose.

Annex B

GUIDELINE ON RECOGNITION OF INTEREST

1. This guideline aims to achieve greater standardization of the policy on recognition of interest by authorized institutions in Hong Kong. This policy should be adopted by all authorized institutions for the purposes of reporting to the Hong Kong Monetary Authority ("HKMA") and by locally incorporated institutions for the purposes of their published financial statements.

Background

2. The financial condition and performance of a bank depends critically on the realistic valuation of its assets and the prudent recognition of its income. The general rule is that interest earned on loans should be brought into the profit and loss account as it accrues, provided that its collectibility is not subject to significant doubt. Doubtful interest should be excluded from the profit and loss account. For loans where there is still some prospect of ultimate recovery of interest, this is normally done by crediting the interest to a suspense account in the balance sheet rather than recognising it as income. For loans where it is considered that there is no prospect of ultimate recovery of interest, interest should cease to be accrued altogether. If such action is not taken, the profits of the bank and its capital will be overstated. Accrued interest previously credited to the profit and loss account on loans whose collectibility subsequently becomes doubtful should either be reversed from interest income or provided against to the extent necessary. Loans on which interest is no longer being taken to profit are termed either "Loans on which interest is being placed in suspense" or "Loans on which accrual has ceased". Any decision to cease interest accrual from an accounting perspective does not preclude continuing to accrue interest on a memorandum basis for legal enforcement purposes.

3. The problem is to identify the point at which the collectibility of interest becomes doubtful. To a large extent this must be a matter of judgment. However, it may be possible to use certain objective indicators such as the length of time that interest or principal is overdue to assist in arriving at the judgment.

Current practice in Hong Kong

4. Current practice on interest recognition in Hong Kong varies among different institutions. According to a survey conducted by the HKMA in 1997, a large proportion of locally incorporated banks will suspend accrual of interest on unsecured or partly secured loans which are overdue for 3 months or more. This is consistent with the approach in the US and in a number of other countries. Other banks use a more judgmental approach by suspending accrual of interest on loans which have been classified as "doubtful".

5. In view of this diversity of approach, the HKMA considers it necessary to achieve greater standardization in the approach towards the recognition of interest in Hong Kong. This will further enhance the transparency of the banking system in Hong Kong and help to reduce market uncertainty. It will enable market analysts to make more meaningful comparisons of the published figures for loans on which interest is being placed in suspense or on which

accrual has ceased. This will be consistent with the recommendation for more specific guidelines on income recognition which was made by the IMF during the 1997 Article IV Consultation on Hong Kong.

6. It should be noted that these guidelines are not intended to prevent individual institutions from adopting more stringent policies for income recognition if they consider that to be appropriate, e.g. in terms of the choice of time period and treatment of collateral.

Criteria for determining loans on which interest no longer accrues to the profit and loss account

7. The criteria set out below combine a mixture of subjective and objective factors. It is recognized that the decision to place interest in suspense or cease to accrue it must be largely judgmental, based on whether there is reasonable doubt about the collectibility of the interest. However, there are a number of objective criteria that can assist in arriving at this judgment, relating in particular to the extent to which payments of principal and/or interest are in arrears. While the length of the period of arrears must inevitably be somewhat arbitrary, it is international best practice to use a period of 90 days or 3 months for this purpose. In developing these criteria, the HKMA has also had particular regard to the position in the US and Australia. The latter provides a particularly appropriate model because Australian and Hong Kong banks both use overdrafts as a mean of lending.

8. Based on the above principles, the criteria for determining when interest should be placed in suspense or cease to be accrued are as follows:

(a) loans where there is reasonable doubt about the ultimate collectibility of principal or interest;

(b) loans against which specific provisions has been made;

(c) loans where contractual payments of principal and/or interest are more than 3 months[1] in arrears and where the "net realizable value" of security is insufficient to cover payment of principal and accrued interest;

(d) loans where contractual payments of principal and/or interest are more than 12 months[1] in arrears, irrespective of the net realizable value of collateral;

(e) overdrafts which have remained continuously outside approved limits that were advised to the customer for more than 3 months, and where the net realizable value of security is insufficient to cover payment of principal and accrued interest[2];

(f) overdrafts which have remained continuously outside approved limits that were advised to the customer for more than 12 months, irrespective of the net realizable value of collateral.

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1 Alternatively individual institutions may choose to adopt 90/360 days as the relevant periods provided that these are consistently applied.

2 The same principle applies to other types of flexible financing facilities without specific payment dates (such as bill lines).

9. It should be noted that the first of these criteria establishes the overriding principle. This means, for example, that a decision may be made to place the interest on a loan in suspense or cease to accrue it because there is reasonable doubt about the ultimate collectibility of principal or interest, even if it is not yet in breach of contractual requirements or if the period of arrears is not more than 3 months.

10. There may be instances of trade finance facilities which are overdue for more than 3 months due purely to technical irregularities rather than because of the inability of the borrower to pay. In such cases, interest may continue to be accrued to the profit and loss account provided that the irregularities are expected to be resolved within a short period of time and the appropriate internal approval has been obtained.

11. Although the criteria in paragraph 8 have been expressed in terms of "loans", they are applicable to all assets on which interest is accrued (such as debt securities, except those held for trading purposes).

Treatment of collateral

12. Given the efficiency and transparency of the asset markets in Hong Kong and the existence of a legal system which enables lenders to take possession of, and realize, security within a reasonable time-frame, it is appropriate to take the value of security into account in determining whether to place interest in suspense or cease to accrue it. However, the longer the loan is in arrears, the more "collateral dependent" it will become. That is, it will become increasingly clear that repayment of the debt will depend solely on realization of the underlying collateral. Moreover, to take to profit interest on non-performing loans for too long could progressively overstate the revenue of the institution. This is why there is a cut-off point of 12 months of arrears beyond which interest should be placed in suspense or cease to be accrued, regardless of the value of the collateral held.

13. In determining whether the value of tangible collateral is sufficient to cover payment of principal and accrued interest, reference should be made to the "net realizable value" of the collateral concerned. This is the current market value less any realization costs. Market value should be measured on the basis of up-to-date valuations and is defined in terms of the price at which an asset might be sold at the valuation date assuming:

    (a) a willing buyer and seller;

    (b) transaction is at arm's length;

    (c) a reasonable period has been allowed for the sale;

    (d) the asset was freely exposed to the market.

14. Other forms of collateral (e.g., guarantees) may be taken into account for the purpose of determining whether interest should continue to be accrued to the profit and loss account provided that the value of such collateral can be determined with reasonable certainty.

Treatment of overdrafts and similar facilities

15. It is recognized that it is difficult to apply the “3 month rule” to flexible financing facilities such as overdrafts and bill lines without specified payment dates. To cater for this, institutions should apply a test similar to the “3 month rule” to exposures which are in breach of agreed limits for a continuous period of more than 3 months (see paragraph 8(e)). However, institutions have the option to increase overdraft limits (or limits on similar facilities) to accommodate the increased financing needs of sound customers. This should only be done on the basis of a well-documented credit evaluation and after the appropriate internal approval has been obtained. An increase in the overdraft limit should not be sanctioned simply to avoid placing interest in suspense or ceasing to accrue it. Similarly, as a matter of principle, an institution should not extend short-term financing to borrowers solely to provide them with liquidity to service longer term debts with the aim of circumventing the criteria set out in paragraph 8.

Multiple extensions of credit to one borrower and loans to related companies

16. As a general principle, whether interest on an individual loan is placed in suspense or ceases to be accrued will depend on the application of the criteria set out in paragraph 8 to that particular loan. Thus, even if interest on one or more loans to a particular borrower is no longer accrued to the profit and loss account, this does not necessarily mean that all other outstanding loans to that borrower or to other related companies should be treated in the same manner. In particular, whether individual loans should be treated separately or collectively for interest accrual purposes will depend on how they are collateralised or guaranteed. If it is clear that there is sufficient security dedicated to a particular loan to cover payments of principal and interest on that loan, the interest may continue to be accrued to the profit and loss account (subject to the criteria in paragraph 8).

Loans managed on a portfolio basis

17. It is recognized that certain types of loan (e.g. credit cards) are managed on a portfolio basis. Such loans are typically high volume and relatively low value items which it may be impractical to analyse on an individual basis for interest recognition purposes.

18. For such loans which are more than 3 months in arrears or which have remained continuously outside approved limits for more than 3 months, institutions have two options (but institutions are required to make their decisions at the outset):

    (a) continue to accrue interest in the same manner as the performing loans in the portfolio, but establish a specific provision against the pool of loans that are overdue for more than 3 months to cover a suitably conservative amount of principal and interest. The outstanding balance of the loans in arrears should be fully provided for or written off at the latest when they are more than 6 months in arrears; or

    (b) subject the individual loans in the portfolio concerned to separate review on the basis of the criteria in paragraph 8.

19. Institutions which wish to use option (a) should establish written policies for the treatment of loans on a portfolio basis and should submit these to the HKMA for its approval. For reporting and disclosure purposes such loans should be regarded in the same manner as other loans on which interest is no longer accrued to the profit and loss account. This is because interest income has only been accrued on a conditional basis. That is, such loans would have normally met the criteria for ceasing to accrue interest to the profit and loss account set out in paragraph 8, but interest accrual has been allowed to continue because of the practical issues mentioned above.

Resuming accrual in the profit and loss account

20. Where interest has been placed in suspense or has ceased to be accrued, accrual of interest to the profit and loss account may be resumed if all arrears of principal and interest from the borrower have been cleared and it is probable that the customer is capable of fully servicing his obligations under the terms of the loan for the foreseeable future. This should be supported by a well-documented credit evaluation of the borrower's financial position and prospects for repayment. A loan which has been restructured may be restored to accrual status where it is probable that it will be serviced in accordance with the revised terms. Receipt of additional collateral should not, by itself, be sufficient to restore a loan to accrual status since, in the absence of payment of arrears, interest accrual to the profit and loss account would again cease by virtue of the "12 month rule" (see paragraph 8(d)).

Implementation of the guideline

21. This guideline should be adopted by authorized institutions for the purpose of reporting in the relevant Banking Returns (for example, "Return of Loans and Advances and Provisions" (MA(BS)2A)) and for financial disclosure purposes in compliance with the "Best Practice Guide on Financial Disclosure by Authorized Institutions". Authorized institutions are expected to apply the criteria set out in this guideline for identification of loans on which interest should be placed in suspense or cease to be accrued no later than 31 December 1998. However, authorized institutions that opt for early adoption of this guideline are encouraged to do so.

Annex C

GUIDANCE NOTES ON MATURITY CLASSIFICATION

1. Where an item is repayable by instalments, the repayments should be reported according to each instalment payment date and amount.

2. For items of a revolving nature, they should be reported according to:

   – The earliest date the asset will mature - if the institution has no notice of any intention of renewal by the borrower;

   – The next maturity date - if notice has been received on renewal of the loan or debt securities upon maturity; and

   – The final maturity date of the credit line - if the asset is to be renewed automatically on each rollover date.

3. Report any assets such as loans and debt securities which have been overdue for not more than one month as "Repayable on demand" and an asset which is non-performing or which is overdue for more than one month as "Undated". Any loan which is repayable on demand (e.g. demand loans and overdrafts) should be treated as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction and the loan has remained unpaid at the reporting date.

4. In case of an asset which is repayable by different payments or instalments, only that portion of the asset which is actually overdue should be reported according to the method indicated above. Any part of the asset which is not due should continue to be reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount should be reported as "Undated".

5. Unless otherwise indicated, liabilities should be classified according to their earliest maturity. In relation to deposits, this means the first roll-over date or the shortest period of notice required to effect a withdrawal.

6. Report demand, savings and current account deposits of customers as "Repayable on demand". Time, call and notice deposits of customers should be classified according to the earliest date on which these deposits may be withdrawn.

7. Negotiable debt instruments issued by the institution which are still outstanding and can be redeemed before maturity at the holder's option should be classified in the appropriate maturity bands according to the earliest date for redemption. Perpetual instruments should be reported as "Undated".

Annex D

NOTES ON SEGMENTAL REPORTING

Geographical segments

1. Depending on both the institution's activities and the nature of the markets concerned, reportable geographical segments may be based on continents, other regional areas, whether compatible for geographical or economic reasons, and/or individual countries. An institution's operations within Hong Kong are considered to be a separate geographical segment.

Intra-group items

2. Institutions will need to determine, in the light of their individual circumstances, whether it would be more meaningful to include or exclude intra-group items when preparing segmental information. Where the individual segmental analysis is shown inclusive of intra-group transactions, it will be necessary to show separately the aggregate of intra-group items deducted in order to reconcile with the consolidated totals for profits and assets.

General

3. Where an institution operates predominantly in one geographical area, the institution need only indicate the geographical area in which the institution predominantly operates.

4. Where allocation of an item of revenue, expense, or assets cannot be made to segments on a reasonable basis, no allocation should be made and the unallocated amount should be adjusted against the revenue, expense, or assets of all segments. The unallocated amounts should be disclosed. Where allocation of an item involves a material judgement, the basis of allocation should be clearly stated.

5. In the event that segments are redefined in subsequent years, an institution should disclose the nature, reason for and the effects of such change, where the change has a material effect on the segment information.

6. When a particular segment is regarded as material and disclosed for the first time, comparative figures for the previous year should be provided. Conversely, when a segment falls below the material level in the year of reporting the segmental information should still be disclosed if the prior year comparatives were material and disclosed in the previous year.

Analysis of advances to customers by industry sectors

7. The allocation of advances to customers classified by industry sectors set out in the Guide should be made in accordance with the definitions in the completion instructions for the return of "Quarterly Analysis of Loans and Advances and Provisions" (MA(BS)2A) ("the return"). The completion instructions provide a detailed description of the types of advances that should be included in the respective items in the return. The relation between the industry sectors in the Guide and the items on the return is set out in the following table. It should however be noted that whilst Part I of the return deals only with the position of the Hong Kong office(s) of the institution, the analysis in the Guide should cover all advances to

customers on a consolidated basis where applicable.

Industry classification	**Advances included in the following item(s) of the return**
Loans for use in Hong Kong	
Industrial, commercial and financial	
– Property development	Item C1e
– Property investment	Item C2e
– Financial concerns	Item H2e
– Stockbrokers	Item H3c
– Wholesale and retail trade	Item E
– Manufacturing	Item A1 to A9
– Transport and transport equipment	Item G4
– Other	Items B, C3, D, F, H1, H4, H5d and H6
Individuals	
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme ***and Tenants Purchase Scheme***	Item H5a
– Loans for the purchase of other residential properties	Item H5b
– Credit card advances	Item H5c
– Other	Item H5e
Trade finance	*Item J*
Loans for use outside Hong Kong	*Item K*

Annex E

GUIDANCE NOTES ON OVERDUE AND RESCHEDULED ASSETS

1. Overdue advances can be broadly classified into the following types:

   a) Loans with a specific expiry date e.g. a term loan, inward bill loan, advance against trust receipt, packing loan and other loans of similar nature - these loans should be treated as overdue where the principal or interest on it is overdue and remains unpaid as at the end of the financial period.

   b) Loans repayable by regular instalments e.g. residential mortgage loans, hire purchase loans and personal loans - these loans should be treated as overdue when an instalment payment is overdue and remains unpaid as at the end of the financial period.

   c) Loans repayable on demand e.g. demand loans and overdrafts - these loans should be treated as overdue where one or both of the following conditions are met:

      – A demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction; and/or

      – The loan has remained continuously outside the approved limit that was advised to the borrower for more than the period in question (e.g. three months or six months).

2. The period of overdue of a loan which has a determinable due date should be counted from the date following such due date.[*] The whole amount of a loan should be classified as overdue even if part of it is not yet due and the date used to determine whether it is overdue should be the earliest due date of such a loan. For example, if the longest overdue instalment of a loan repayable by monthly instalments has been overdue for more than six months as at the end of the financial period, the entire amount of the loan should be reported as overdue for more than six months.

3. Rescheduled advances refer to those that have been restructured or renegotiated because of a deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and include loans for which the revised repayment terms, either of interest or of loan repayment period, are “non-commercial' to the institution. Rescheduled advances do not include the following:

   – Loans rescheduled in response to the changes in market conditions provided that at the time of rescheduling, the loans have been serviced normally, the ***ability*** of the borrowers ***to service the loans according to the revised repayment terms*** is not in doubt and the rescheduled loans are priced at interest rates equal to the current market interest rates for new loans with similar risks; and

   – Rescheduled loans which have been serviced in compliance with the rescheduled terms for a continuous period of twelve months.

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[*] In the case of a loan repayable on demand, the period of overdue should be counted from the date following either the repayment date specified in the demand for repayment served on the borrower or the date on which the loan first exceeded, and thereafter remained continuously outside, the approved limit notified to the borrower, whichever is earlier.

4. Rescheduled advances which have been overdue for more than three months under the revised repayment terms should be included under overdue advances and not in rescheduled advances.

Annex F

DISCLOSURE OF VALUE OF COLLATERAL HELD AGAINST OVERDUE LOANS

The following illustrates how an institution should disclose the collateral value of its overdue loans and the split between secured and unsecured amounts.

HK$ million

Overdue loans	Outstanding loan amount	Market value of security	Secured amount	Unsecured amount
A	10	15	10	-
B	10	7	7	3
C	10	-	-	10
Total	30	22	17	13

Minimum information to be disclosed by the institution:

– Market value of security held against the secured overdue loans: HK$22 million;
– Secured overdue loans: HK$17 million; and
– Unsecured overdue loans: HK$13 million.

Where multiple loans extended to one borrower are in aggregate secured partially by the same collateral, and one of the loans has been overdue for more than 3 months, the proportion of the value of the collateral held against the overdue loan disclosed should be the same as the proportion of the value of the collateral held against the different loans in aggregate. For example, if the different loans to one borrower are in aggregate 80% secured by the same collateral, it is assumed that each of the loans, including the overdue loans, should also be 80% secured. The institution should therefore disclose as the value of the collateral held against the overdue loan 80% of the outstanding amount of the overdue loan. If, however, the market value of the collateral has fallen to below 80% of the aggregate outstanding amount of the loans, the value of the collateral held against the overdue loan should also be adjusted accordingly.

Annex G

GUIDANCE NOTE ON TERMINOLOGY

"Gains less losses arising from dealing in foreign currencies" refer to the profits less losses from foreign exchange transactions including those from foreign exchange derivatives.

"Gains less losses from other dealing activities" include profits less losses from dealing in instruments such as commodities, precious metals, derivatives based on these items and other derivatives such as interest-rate derivatives.

"Premises and equipment expense" include rents and rates, insurance of premises and equipment, lighting, heating, maintenance costs and Electronic Data Processing expenses.

"Charge for bad and doubtful debts" refers to the net amount charged or credited to the profit and loss account in respect of provisions for bad and doubtful debts and bad debt recoveries.

"Banks and *other* financial institutions" refer to institutions authorized under the Banking Ordinance and institutions which are regarded as banks by the appropriate supervisory authorities in their place of incorporation, and include central banks.

"Cash and balances with banks and *other* financial institutions" mean cash in the till and demand deposits with other banks and financial institutions.

"Money at call and short notice" refers to deposits of up to a maximum of one month to maturity.

"Treasury bills (including Exchange Fund Bills)" include all such bills regardless of maturity and including those held for dealing purposes.

"Trade bills" refer to all purchased bills of exchange in relation to trade transactions.

"Certificates of deposit" include all certificates of deposit regardless of maturity (including those held for dealing purposes).

"Advances to banks and *other* financial institutions" include placements with banks and financial institutions of more than one year.

"Debt security" refers to any security representing a creditor relationship with an enterprise. It also includes preference shares that by their terms either must be redeemed by the issuer or are redeemable at the option of the investor. Thus, it includes, among other items, ***government securities, government agency securities,*** corporate bonds, convertible debt, commercial paper, and all securitized debt instruments ***such as mortgage backed securities and interest-only and principal-only strips***. Holdings of a bank's own debt securities should not be included, even if they are held on a market maker's book; they should be netted against the amount of issued debt securities shown on the liabilities side.

"Equity security" refers to any security representing an ownership interest in an enterprise (e.g. ***ordinary or*** preference shares). However, it does not include convertible debt or preference shares that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor.

"Loan capital" refers to subordinated liabilities such as loans, debentures, floating rate notes, etc.

"Deposits and balances of banks and *other* financial institutions" refer to all amounts (excluding those in the form of debt securities and certificates of deposits) arising out of banking transactions owed to other banks and financial institutions.

"Issued debt securities" refer to all negotiable securities other than stocks, shares, and certificates of deposit.

"Group companies" refer to the following categories: the ultimate holding company, any subsidiary of the ultimate holding company (including any intermediate holding company of the institution) and any subsidiary of the institution.

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

"Transaction-related contingencies" refer to contingent liabilities arising from an irrevocable obligation to pay a beneficiary when a customer fails to perform some contractual, non-financial obligation. They include those arising from performance bonds, bid bonds, warranties and standby letters of credit related to a particular transaction.

"Trade-related contingencies" are contingent liabilities arising from trade-related obligations. They include 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 credits issued by another institution should be regarded as direct credit substitutes.

"Note issuance and revolving underwriting facilities" are arrangements whereby a borrower may draw down funds up to a prescribed limit over a pre-defined period through the issue of notes which the institution has committed to underwrite.

"Other commitments" include the undrawn portion of any binding arrangements which obligate the institution to provide funds at some future date. Commitments with an original maturity of less than one year, or which can be unconditionally cancelled at any time by the institution at its discretion, other than for "force majeure" reasons, include 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 are subject to credit revision at least annually. Original maturity is defined as the length of time between the date the commitment is made and the earliest date on which the institution can, at its option, unconditionally cancel the commitment.

"Forward asset purchases" 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 institution.

"Amounts owing on partly paid shares and securities" refer to the unpaid portion of shares or securities which the issuer of such shares or securities may call for at a future date.

"Forward forward deposits placed" refer to agreements between the institution and another party whereby the institution will place a deposit at an agreed rate of interest with that party at some predetermined future date.

"Asset sales or other transactions with recourse" include asset sales where the holder of the asset is entitled to put the asset back to the institution within an agreed period or under certain prescribed circumstances e.g. deterioration in the value or credit quality of the asset concerned.

"Derivatives" refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

"Hedging" transactions are those entered into to reduce risk by taking a position which offsets existing or anticipated exposure to a change in market rates or prices other than those on the trading book, for example, those entered into to manage interest rate or foreign exchange risks.

"Trading" transactions means the institution's proprietary positions in financial instruments which are taken on with the intention of short-term resale or benefiting in the short term from actual or expected differences between the buying and selling prices or from other price or interest rate variations; positions which arise from the execution of trade orders from customers and market making; and positions taken in order to hedge other elements of the trading book.

"Replacement cost" is defined as the cost of replacing all contracts (including those traded on exchanges, margin trading transactions, foreign exchange contracts with original maturity of 14 calendar days or less, and the unmatured forward leg of foreign exchange swaps but excluding the forward foreign exchange contracts arising from swap deposit arrangements) which have a positive value when marked to market.

"Credit risk weighted amount" refers to the amount as computed in accordance with the Third Schedule of the Banking Ordinance.

"Market risk" is the risk of loss arising from adverse changes in value as a result of movements in market rates or prices.

"Trading book" includes the institution's proprietary positions in financial instruments which are taken on with the intention of short-term resale or benefiting in the short-term from actual or expected differences between the buying and selling prices or from other price or interest rate variations; positions which arise from the execution of trade orders from customers and market making; and positions taken in order to hedge other elements of the trading book. For the purpose of disclosure of market risk, money market transactions originated for funding purposes or to deploy surplus liquidity need not be included.