DISCLOSURE GUIDELINES FOR OVERSEAS INCORPORATED AUTHORIZED INSTITUTIONS

Content of Key Financial Information Disclosure Statement

The Key Financial Information Disclosure Statement should contain:

Section A - Branch Information (Hong Kong offices only)

I. Profit and loss information

- Interest income
- Interest expense
- Other operating income
  - Gains less losses arising from dealing in foreign currencies
  - Gains less losses on securities held for dealing purposes
  - Gains less losses from other dealing activities
  - Others
- Operating expenses
- Charge for bad and doubtful debts
- Gains less losses from disposal of tangible fixed assets
- Profit before taxation
- Taxation charge
- Profit after taxation

Where institutions consider that the profit and loss information relating to the Hong Kong branch(es) does not give a full picture of the underlying performance of their business in Hong Kong, they are encouraged to provide an explanation that will put the performance into proper perspective.

II. Balance sheet information

Assets

- Cash and short term funds (except those included in amount due from overseas offices)

- Placements with banks and other financial institutions maturing between one and twelve months (except those included in amount due from overseas offices)
- Amount due from overseas offices of the institution
- Trade bills
- Certificates of deposit held
- Securities held for dealing purposes
- Advances and other accounts
- Investment securities
- Other investments
- Tangible fixed assets
- Total assets

Liabilities

- Deposits and balances of banks and other financial institutions (except those included in amount due to overseas offices)
- Current, fixed, savings and other deposits of customers
- Amount due to overseas offices of the institution
- Certificates of deposit issued
- Issued debt securities
- Other accounts and provisions
- Total liabilities

III. Additional balance sheet information

(i) Advances and other accounts

- Advances to customers
- Advances to banks and other financial institutions
- Accrued interest and other accounts (analyse where material)

- Provisions for bad and doubtful debts (analyse between those against advances to customers, advances to banks and other financial institutions, accrued interest and other accounts if material)

    - General
    - Specific

  There may be instances where provisions for loans and advances or other exposures have been set aside and maintained at overseas head offices. In such cases, the institution should disclose the provisioning policy of its head office and the amount of any specific provisions allocated for exposures maintained in the Hong Kong offices.

(ii) The amount of advances to customers on which interest is being placed in suspense or on which interest accrual has ceased[1] (hereafter referred to as "non-performing loans[2]), the amount of such suspended interest, the amount of specific provisions made in respect of such advances and the percentage of such advances to total advances to customers. Similar information on advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased should also be disclosed. Where the specific provisions were made after taking into account the value of collateral in respect of such advances, an institution may wish to indicate this in order to put the level of provisioning in perspective.

(iii) The breakdown of the gross amount of advances to customers by industry sectors which are considered to be significant to the institution. In order to achieve consistency of reporting among authorized institutions, the information should be disclosed in accordance with the industry categories set out below. The types of advances that should be included in the respective categories should follow those contained in the return on "Quarterly Analysis of Loans and Advances and Provisions (MA(BS)2A)". Institutions may also break items down into more detailed sub-categories if they so wish. Institutions may also find that disclosing information about the extent to which the advances are backed by collateral or other security indicates better the extent of credit risk. Disclosure of any such additional information is encouraged.

[1] Guidance on recognition of interest is at Annex B.

[2] It is suggested that in the presentation of their Key Financial Information Disclosure Statements and press releases, institutions should adopt the same practice to avoid confusing differences in terminology. Non-performing loans should be distinguished from "overdue loans", "rescheduled loans" and "classified loans" (i.e. those which are substandard, doubtful or loss).

Loans for use in Hong Kong

Industrial, commercial and financial

- Property development
- Property investment
- Financial concerns
- Stockbrokers
- Wholesale and retail trade
- Manufacturing
- Transport and transport equipment
- Others

Individuals

- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme
- Loans for the purchase of other residential properties
- Credit card advances
- Others

Trade finance

Loans for use outside Hong Kong

While all institutions should use these categories, they may also break items down into more detailed sub-categories if they so wish. Institutions may also find that disclosing information about the extent to which the above advances are backed by collateral or other security indicates better the extent of credit risk. Disclosure of any such additional information is encouraged. In addition, the aggregate of this analysis should reconcile with the relevant figures provided in the balance sheet.

Institutions should disclose the breakdown of the gross amount of advances to customers by countries or geographical areas that are considered to be significant[3] to the institution according to the location of the counterparties. The basis of the country or geographical

[3] A country or geographical area should generally be reported where it constitutes 10% or more of the aggregate gross amount of advances to customers after taking into consideration of transfers of risks.

classification should be clearly stated, including whether any account has been taken of transfers of risk. In general, risk transfer should only be made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. A similar geographical breakdown should also be given for overdue and non-performing loans. Institutions are encouraged to disclose other types of credit exposure, including those arising from off-balance sheet transactions, according to the location of the counterparty.

(iv) An institution should disclose foreign currency exposures[4] arising from trading, non-trading and structural positions. The position in a particular foreign currency should be reported if its net position (regardless of sign) constitutes 10% or more of the total net position in all foreign currencies. The net options position reported should be calculated using either the "model user" or the "worst case" approach set out in the return "Foreign Currency Position" (MA(BS(6)) or using the institution's internal reporting method. The basis of calculating the net position in options should be clearly stated. The financial information to be disclosed in respect of each such currency should include:

- Spot assets;
- Spot liabilities;
- Forward purchases;
- Forward sales;
- Net options position; and
- Net long (short) position.

Similarly the net structural position (assets less liabilities) in a particular foreign currency (regardless of sign) should be reported if it constitutes 10% or more of the total net structural position in all foreign currencies.

An illustrative example of how currency risk should be disclosed is at Annex C.

(v) (a) The gross amount of advances (to customers[5], banks and other financial institutions) which have been overdue[6] ("overdue advances") for:

---

[4] Foreign currency exposures mean exposures in currencies other than the reporting currency of the institution.

[5] Total advances to customers should correspond to the total of loans for use in Hong Kong, trade finance and other loans for use outside Hong Kong disclosed under the analysis to customers by industry sectors.

[6] Guidance on overdue and rescheduled loans is given at Annex D.

- six months or less but over three months;
- one year or less but over six months; and
- over one year.

Both the absolute amount of overdue advances and the percentage of such advances to total advances to customers should be given for each maturity bracket. Similar information on overdue advances to banks and other financial institutions should also be disclosed. The amount of gross advances above should be shown net of any interest that has been capitalised but accrued to a suspense account.

Institutions may wish to disclose the value of collateral held against the overdue loans and the amount of specific provisions made. Where an institution opts to disclose the value of collateral held, it should disclose the split of overdue advances into those which are secured and those which are unsecured and the market value of collateral held against the secured loans based on the most recent estimate. At Annex E is an illustration recommending how an institution should make such disclosures.

(b) The amount of advances to customers and advances to banks and other financial institutions which:

(1) are overdue for more than three months and on which interest is still being accrued; and
(2) are overdue for three months or less or not yet overdue and on which interest is being placed in suspense or on which interest accrual has ceased.

(c) The amount of rescheduled advances[6] to customers (net of those which have been overdue for over three months and reported in item (iv) above) and the percentage of such advances to total advances to customers. Similar information on rescheduled advances to banks and other financial institutions should also be disclosed.

(d) The information disclosed on items (v)(a) to (v)(c) above should take the form of a reconciliation between overdue loans and non-performing loans. The reconciliation should comprise item (v)(a) less item (v)(b)(1) plus items (v)(b)(2) and (v)(c).

The non-performing loans reconciled under (v)(d) above should correspond with the relevant figures provided under Section A Part III paragraph (ii) above.

IV. Off-balance sheet exposures

(i) The contractual or notional amounts of each of the following class of off-balance sheet exposures outstanding:

Contingent liabilities and commitments

- Direct credit substitutes
- Transaction-related contingencies
- Trade-related contingencies
- Note issuance and revolving underwriting facilities
- Other commitments
- Others (including forward asset purchases, amounts owing on partly paid shares and securities, forward forward deposits placed, asset sales or other transactions with recourse) – analyse where material

Derivatives

- Exchange rate contracts (exclude forward foreign exchange contracts arising from swap deposit arrangements)
- Interest rate contracts
- Others

(ii) The contractual or notional amounts of off-balance sheet instruments provide only an indication of the volume of business outstanding at the balance sheet date and bear little relation to the underlying risks of the exposure. An institution should also provide risk exposure information on its off-balance sheet instruments. In particular, it should report the aggregate replacement costs[7] of its exchange rate contracts, interest rate contracts, and other derivatives, if any.

It should also indicate whether these amounts take into account the effects of bilateral netting arrangements.

[7] "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.

V. Liquidity

The average liquidity ratio for the financial period (i.e., 12 months for the end of year Disclosure Statement and 6 months for the half-year Disclosure Statement) should be disclosed. The average liquidity ratio should be the simple average of each calendar month's average ratio as reported in Part I (2) of the "Return of Liquidity Position of an Authorized Institution" (MA(BS)1E) calculated for the purposes of the Banking Ordinance.

Section B - Bank Information (consolidated basis)

The information set out below should be based on the most recent consolidated accounts for the institution as a whole as at the publication date of the Disclosure Statement, i.e. either the most recent annual accounts or interim accounts, whichever is available. Where the institution is owned by a holding company and does not itself publish consolidated accounts, the corresponding consolidated information for the group of which it is a part should be disclosed. Institutions which do not publish interim accounts or publish only unconsolidated information in their interim accounts, should disclose the consolidated information in the most recent annual accounts.

I. Capital and capital adequacy

The consolidated capital adequacy ratio of the institution computed in accordance with the Basle Capital Accord or the European Community's Capital Adequacy Directive ("CAD") (whichever is applicable) as at the end of the date of the most recent annual accounts or interim accounts, whichever is available. Institutions which do not observe the Basle Capital Accord or the CAD should disclose this fact.

Institutions should disclose the aggregate amount of shareholders' funds (i.e., capital and reserves) in their most recent annual accounts or interim accounts whichever is available.

The basis used for calculating the capital adequacy ratios (including whether or not they incorporate an allowance for market risk) should be clearly stated.

II. Other financial information

Information indicating the consolidated financial position as at the date of the most recent annual or interim accounts of the institution including:

- Total assets
- Total liabilities
- Total advances
- Total customer deposits (or total deposits)[8]
- Pre-tax profit

Institutions may also wish to include a statement to refer readers to the full annual accounts or interim accounts published by the institution (or the group of which it is a part) for further details.

Statement of compliance

The statement should include a declaration by the chief executive of the branch to certify that the information disclosed complies with the HKMA's recommendations. In cases of partial compliance, the statement should specify the areas of, and reasons for, non-compliance.

Materiality

Institutions are not required to disclose items which are not material. An item should be regarded as material to an institution if the omission or misstatement of that item could have changed or influenced the judgement or decision of a user relying on the relevant information.

Basis of preparation

To facilitate preparation of the Disclosure Statement and as a consistency check, the figures to be disclosed should, where appropriate, be reconciled to the relevant figures in the following returns:

- Assets and Liabilities (MA(BS)1)
- Profit and Loss Account (MA(BS)1C)
- Liquidity Position (MA(BS)1E)
- Maturity Profile (MA(BS)1G)
- Loans and Advances and Provisions (MA(BS)2A)

[8] Where total customer deposits are not separately disclosed in the annual accounts or interim accounts, the amount of total deposits (including those from banks and other financial institutions) of the institutions may be disclosed instead. The basis of reporting should be clearly stated.

Comparative figures

Section A – Branch Information (Hong Kong offices only)

Except in the case of the profit and loss information and liquidity ratio under Part I and Part V respectively, the corresponding figures for the immediately preceding financial period should be given (i.e. For the year-end Disclosure Statement, the interim figures should be disclosed as comparative figures and for the interim Disclosure Statement, the preceding year-end figures).

For the profit and loss information and liquidity ratio under Part I and Part V respectively, the profit and loss information and the average liquidity ratio for the corresponding period of the preceding financial year should be disclosed (i.e. For the year-end Disclosure Statement, the figures for the preceding financial year should be disclosed as comparative figures and for the interim Disclosure Statement, the figures for the interim period of the preceding financial year).

Section B – Bank Information (consolidated basis)

Except for the pre-tax profit under Part II, the corresponding figures for the immediately preceding financial period should be given for the disclosures (i.e. For the year-end Disclosure Statement, the interim figures should be disclosed as comparative figures and for the interim Disclosure Statement, the preceding year-end figures).

For the pre-tax profit under Part II, the pre-tax profit for the corresponding period of the preceding financial year should be disclosed (i.e. For the year-end Disclosure Statement, the figures for the preceding financial year should be disclosed as comparative figures and for the interim Disclosure Statement, the figures for the interim period of the preceding financial year).

However, where interim consolidated information is not provided by the institution as a whole, the latest annual figures should be provided as comparatives.

Where the recommendations are applied for the first time, and it is impractical to apply the recommendations retrospectively, the recommendations in respect of the comparatives need not apply for the first reporting period.