

Completion Instructions

Quarterly Analysis of Loans and Advances and Provisions (Form MA(BS)2A)

Introduction

1. This return analyses, by economic sector, an authorized institution's loans and advances for use in Hong Kong. It also analyses the performance of an institution's selected assets (mainly loans and advances) and off-balance sheet exposures according to the classification methods defined in these instructions. Information on provisions set aside for each category of classified assets is also included.

Section A : General Instructions

2. This return consists of 2 parts and 3 supplementary items. It should be completed by authorized institutions in the following manner:

	<u>For Part I and Notes (1) & (2)</u>	<u>For Part II and Notes (3), (4), (5), (6) & (7)</u>
Institutions incorporated in HK without overseas branches / institutions incorporated outside HK	Report the aggregate positions of HK offices	Report the aggregate positions of HK offices
Institutions incorporated in HK with overseas branches	Same as above	Report the combined position of HK offices and overseas branches unless otherwise indicated

3. The return, showing the positions as at the last calendar day of each quarter, should be submitted no later than 14 days after the end of each quarter. In the case of an institution incorporated in Hong Kong with overseas branches, the information required under Part II and Notes (3), (4), (5), (6) & (7) of the return may be separately submitted within a period to be agreed with the Monetary Authority if that institution has difficulties in complying with the time limit. However, in no case should the information be submitted later than 6 weeks after the end of each quarter. If the submission deadline falls on a public holiday, it will be deferred to the next working day.

4. Amounts should be shown to the nearest thousands, in HK\$ or HK\$ equivalent 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.
5. Certain items reported under Parts I and II of this return should be reconciled with the amounts reported in relevant items in the Return of Assets and Liabilities (Form MA(BS)1 or MA(BS)1B) and the Return of Current Year's Profit & Loss Account (Form MA(BS)1C). Details are given in the specific instructions below and are summarised in Appendix 1.

Section B: Specific Instructions

6. Part I - Classification of Loans and Advances by Economic Sectors

6.1 Items A to I - Loans and advances for use in Hong Kong

Report loans and advances for use in Hong Kong, according to each economic sector, under items A to H. A loan is regarded as for use in Hong Kong if it finances or has a direct impact on the level of economic activity in Hong Kong. For most of the cases, this can be determined by whether the loan is made available or disbursed in Hong Kong and by the principal place of business of the customer.

A loan should be classified according to its usage. For example, if a loan is granted to a textile manufacturer to purchase a factory building for enhancing productive capacity, it should be allocated to "textiles" (item A1) rather than to "property investment" (item B2). But if the loan is granted to the manufacturer to purchase a commercial complex for investment purpose, it should be classified under "investment in commercial properties" (item B2c). Similarly, if a loan is granted to a property developer for purposes which are clearly unrelated to its principal activities, such as the running of a hotel, such loan should not be reported under "property development" (item B1) or "property investment" (item B2).

In cases where the usage of a loan cannot be identified with reasonable certainty, it should be classified according to the principal business activity of the borrower. For example, a loan to a property developer for general working capital purposes should be reported under the relevant sub-item of item B1 - Property development.

In cases where it may not be possible to categorise a loan, including a finance lease and a hire purchase loan, by reference to the use of the loan proceeds or the use of the asset financed by the loan, it may be categorised by reference to the asset financed. For example, a mechanical digger can be categorised under the construction industry (item B3). Lorries and vans, where the principal activity of the end-user is uncertain may be classified under item G5 - Other transport and transport equipment.

The classification of loans by economic sectors should be made irrespective of whether the borrower is a corporate, firm or individual except for item H5. For example, a loan granted to an individual for purchasing a taxi should be reported under "taxis" (item G3) while a loan granted to an individual for purchasing

residential property should be reported under “individuals - for the purchase of other residential properties” (item H5b).

Where a loan is known to be raised by an immediate borrower to finance another party (the ultimate beneficiary), it should be classified according to the usage of the loan deployed by the ultimate beneficiary. An exception to this rule is where the principal business activity of the immediate borrower is that of lending money and it has financed the ultimate beneficiary in the ordinary course of business.

6.2 Item B1 - Property development

Report loans to finance property development, including those for building and construction, according to the type of properties being developed. In cases where a loan cannot be readily classified by type of properties, e.g. where a loan is extended to a property developer not specifically tied to a particular project or property or where the borrower is involved in more than one sector, such loans may be reported under item B1d - Other properties.

6.3 Item B2 - Property investment

Report loans to finance investments in properties, including uncompleted properties, according to the type of properties being invested in. These include loans to finance corporate customers purchasing residential properties for the use of their directors, shareholders or employees and also loans to shell companies through which individuals acquired properties. Loans to finance the purchase of residential properties by professional & private individuals should be reported under item H5a or H5b, as the case may be. Loans to finance the acquisition of properties, e.g. factories, for a borrower's own use should be classified according to the principal activities of that borrower rather than as a property investment in general.

6.4 Item D – Recreational activities

Report loans to companies engaging in motion picture, radio, television and other entertainment activities. The manufacturing of radios and televisions should, however, be reported under item A5 “Electrical & electronic”.

6.5 Item E1 - Telecommunications

Report loans to companies that provide telecommunication services, such as residential or commercial telephone lines, mobile phone lines, pager, IDD, fax, data lines for data transmission and communication via satellite. Include loans to internet service providers and companies setting up networks/platforms for the provision of services as internet service providers. Loans to companies engaging in the manufacture of telecommunication equipment and other related accessories should be reported under item A5a “Telecommunication equipment”.

6.6 Item E2 - Information technology - Others

These include loans to companies that engage in software or application development, data processing, system administration or maintenance and the provision of IT-related consultancy services. Loans to companies engaging in the manufacture of computer hardware and other peripherals should be reported under item A5 “Electrical and electronic”. Loans to companies engaging in the wholesale or retail business of IT-related products should be reported under item F “Wholesale and Retail Trade”.

6.7 Item H2 - Financial concerns

These include loans to investment companies, insurance companies, futures brokers, finance companies and any other persons in the financial sector not being authorized institutions or overseas banks. Investment companies include companies in the business of investment in commodity futures, foreign currencies, gold bullion, shares, funds and securities. They include also unit trusts, retirement funds and investment holding companies. Finance companies and others include companies in the business of leasing, factoring, bills discounting, hire purchase, mortgage, commercial and industrial finance. They include also gold bullion brokers, money-lenders, pawnshops and credit card companies.

6.8 Item H3a/H4a - Margin lending for stockbrokers and non-stockbroking companies and individuals

Margin lending is defined as lending for the purchase of shares against the market value of shares pledged, typically, the borrower of such lending is obliged to ensure, and the lending institution to monitor, that the amount of the loan would not exceed a predetermined ratio of the market value of the collateral pledged. In cases where a margin loan is secured partly by shares and partly by other securities, then only that part of the loan in excess of the value of the other securities should be reported as margin lending. For example, in respect of a loan of 10 which is secured by shares and other securities valued at 10 and 6 respectively, 4 being the part of the loan in excess of the value of other securities should be reported as margin lending. The remaining loan of 6 should be reported under item H3b or H4b, as the case may be. Loans for subscribing initial public offerings should be reported under items H3a and/or H4a, as the case may be. Non-stockbroking companies refer to companies other than investment companies.

6.9 Item H5b - Purchase of residential properties by professional and private individuals

Report loans to professional and private individuals for the purchase of residential properties, other than the purchase of flats under the Home Ownership Scheme (HOS), Private Sector Participation Scheme (PSPS) and Tenants Purchase Scheme (TPS), regardless of whether the properties are intended for occupation by the borrowers or for other purposes. As long as the loans for the purchase of flats under HOS, PSPS and TPS are covered by the guarantee issued by the Housing Authority, they should be reported under item H5a; otherwise, they should be reported under item H5b.

This item includes refinancing loans and residential mortgage loans which have been transferred from other banks or companies.

6.10 Item H6 – All others

Report all loans and advances for use in Hong Kong that cannot be classified in the above economic sectors. Examples include “agriculture and fisheries” and “mining and quarrying”.

6.11 Item I - Loans and advances for use in Hong Kong

Report the sum of entries under items A to H under columns (1) to (6).

6.12 Item J - Trade financing

These are loans reported under items 15.1 and 15.2 of Form MA(BS)1 covering finance of imports to Hong Kong, exports and re-exports from Hong Kong and merchandising trade.

6.13 Item K - Other loans and advances

These are loans reported under items 15.4, 15.5 and 15.6 of Form MA(BS)1.

6.14 Item L - Total loans and advances

Report the sum of entries under items I, J, and K, columns (1) to (5). Entries under columns (1) to (4) should correspond to those reported under item 15.7g of Form MA(BS)1. The entry under column (4) should also correspond to that reported under item A1, column (6) in Part II.

6.15 Columns (1) to (3)

Report the principal amount of all loans which are outstanding as at the reporting date in the appropriate columns according to the currency in which they are denominated. Accrued interest which has been capitalised as loans should be included net of any interest in suspense. Accrued interest which has not been capitalised should be reported net of any interest in suspense under E1 in Part II. Interest in suspense refers to the interest that has been accrued to a suspense account instead of the profit and loss account.

6.16 Column (5)

Report the amount of specific provisions, other than country risk provisions, that have been set aside for each item. In the case of institutions incorporated in Hong Kong without overseas branches or institutions incorporated overseas, the total of this column as reported under item L should correspond to the entry under item A5, column (6) in Part II.

6.17 **Column (6)**

Report the amount of general provisions, if any, that have been set aside for the various economic sectors under items A to H.

7. **Part II - Asset Quality and Provisions**

7.1 For items A1, A2, B1, C1, C2, D1, D2, F1 and F2, classify and report loans and advances, balances due from banks, acceptances and bills of exchange held, investment debt securities and commitments and contingent liabilities of similar nature into the categories as listed out in this part according to the guidelines on Loan Classification System in Appendix 2.

7.2 **Item B1 - Balances due from banks**

This item refers to placements with authorized institutions in Hong Kong and other banks abroad (excluding overseas head office and branches of the reporting institution).

7.3 **Item C - Acceptances and bills of exchange held**

This item refers to acceptances and bills of exchange held (i.e. excluding those held as collateral for a loan or advance) by the institution.

7.4 **Item D – Investment debt securities**

Report the holding of investment debt securities (i.e. long-term investment and held-to-maturity) in items D1 to D2 according to the type of issuer and the category of classification.

7.5 **Item E1 - Accrued interest**

Report interest that has been accrued but not capitalised for those exposures classified as either substandard, doubtful or loss under items A3, B1, C3 and D3. Accrued interest should be reported net of any interest in suspense (i.e. any interest which has been accrued to a suspense account instead of the profit and loss account).

7.6 **Items F1 and F2 - Commitments and contingent liabilities**

Report commitments and contingent liabilities which subject the reporting institution to credit risk. These include direct credit substitutes (such as guarantees and standby letters of credit), trade-related contingent items (such as letters of credit and liabilities under acceptances) and irrevocable loan commitments. Guarantees and standby letters of credit are usually converted into on-balance sheet exposures if the counterparty they are supporting fails but there may be circumstances when the bank is reasonably certain that such instruments will be called upon at a future date because of uncertainty about the client. Loan commitments which are irrevocable should also be classified as impaired assets if the creditworthiness of the client has deteriorated to

an extent that makes repayment of any loan drawdown (or associated interest payments) doubtful.

The definitions of direct credit substitutes and trade-related contingent items are the same as those given under items 1 and 3 in Table B of the Third Schedule to the Banking Ordinance. For further details, please refer to the completion instructions for Part VIII items (a) and (c) of the Return of Assets and Liabilities (MA(BS)1) or, Part III items 1 and 3 of the Return of Capital Adequacy Ratio (MA(BS)3). Commitments and contingent liabilities to overseas head office and branches of the reporting institution are excluded for the purposes of this item.

7.7 **Items A4 to A6, B2 to B4, C4 to C6, D4 to D5, E2, F4 to F6 - Provisions**

Provisions should be reported and classified according to their nature, i.e. for general, specific or country risk, and the categories of exposures (where appropriate) for which the provisions are set aside.

7.8 **Item G - Value of security**

Report in item G1 the value of security held by the reporting institution to support those exposures classified as either substandard, doubtful or loss under item A3, and in item G2 the value of security for those classified exposures under items B1, C3, D3, E1 and F3. However, for each counterparty, the aggregate value of the security reported here should not exceed the aggregate of all relevant principals and accrued interest (i.e. for each counterparty, the lower of the value of the total exposure and the value of the total security should be reported here.) If a security is held in support of different types of exposures to the same counterparty, the value should first apply to loans and advances. The following illustrates how value of security should be reported by institutions.

Counterparty	Net realisable value of security	Exposures		Value of security to be reported under	
		Loans	Others	HK\$'000	
				Item G(1)	Item G(2)
A	1,000	700	0	700	0
B	1,000	1,500	0	1,000	0
C	1,000	500	200	500	200
D	1,000	900	500	900	100
E	1,000	1,300	500	1,000	0

7.9 **Item H - Assets acquired through security enforcement**

Report in column (6) the net book value of any asset (e.g. shares, debt securities or real properties) the ownership of which has been transferred to the institution in settlement of all or part of a claim (e.g. by way of foreclosure). Such assets usually indicate a lack of demand which contributes to uncertainty about their actual value. They should therefore be closely monitored until sold.

This item does not include those assets, such as mortgaged properties, which have been taken possession of by the reporting institution but the ownership of which has yet to be transferred to the institution.

8. Note (1) - Loans to group companies of property developers

Indicate the amount of loans reported under items H2a (to investment companies) and H2d (to finance companies) in Part I the borrowers of which are connected with property developers (where the use of such loans is known to be related to property development or property investment activities, it should be reported under item B in accordance with the purpose explained above). A borrower is regarded as property-developer-connected if it is the holding company, sister company, subsidiary or associate of any property developer.

9. Note (2) - Margin lending

- (a) Report the closing market value of the shares which are pledged with the institution to support loans reported under items H3a and H4a of Part I.
- (b) Report the aggregate value of those individual loans in items H3a and H4a of Part I which are in excess of 50% of the closing market value of the underlying shares pledged as security.

10. Note (3) - Overdue and rescheduled assets

10.1 Report the book value (net of accrued interest that has been capitalised but accrued to a suspense account) of overdue or rescheduled assets under items (a) to (d) and (f). “Loans” include loans and advances to customers, and “other assets” include balances due from banks, acceptances & bills of exchange held and investment debt securities. Institutions incorporated in Hong Kong with overseas branches should report separately the aggregate positions of the Hong Kong Offices and overseas branches. Information on each individual country of the overseas branches should also be provided by completing pages 13 (for overdue and rescheduled loans) and 14 (for other overdue and rescheduled assets) of the return form. Supplementary sheets are to be used when necessary.

10.2 Sub-items (a) to (d)

The criteria for determining the overdue status of an asset are included in a separate guideline in Appendix 2.1.

All assets should be reported as and when they have been overdue for more than 1 month. However, consumer loans repayable by regular monthly instalments should be treated differently and should not be reported unless they have been overdue for more than three months. When such consumer loans qualify for reporting as overdue, the period overdue should be determined by reference to the earliest due date of any of the instalments. Similarly, demand loans (including overdrafts) which have exceeded the approved limit advised to the customer should not be reported unless they have remained continuously above the limit for more than three months. When such

demand loans qualify for reporting as overdue, the overdue period should be determined by reference to the whole of the period that the limits were exceeded.

10.3 Sub-item (f)

All rescheduled assets (including those which have been reported under (a) - (d) above should be reported in item (f), except those specified under paragraph 9 of the “Guidelines on overdue and rescheduled assets” in Appendix 2.1.

The amount of those rescheduled assets which have also been reported as overdue under item (a) should be reported in item (f)(i) and those rescheduled assets which have been reported as overdue in items (b) to (d) should be reported in item (f)(ii).

The reporting treatment of a rescheduled asset taken up by a new obligor and the circumstances under which a rescheduled asset may be upgraded to “special mention” are provided under paragraphs 10 and 11 of Appendix 2.1.

11. Note (4) - Assets on which interest no longer accrues to profit and loss

Assets on which interest no longer accrues to the profit and loss refer to those assets in respect of which the interest has not been taken to the profit and loss account but credited to a suspense account or where the interest has ceased to be accrued. Report under item (a) the amount of loans and advances reported in Part II. Report under item (b) all those assets not included under item (a) above. The criteria on which institutions should cease to accrue interest on an asset to the profit and loss account are set out in CR-G-6 “Interest Recognition” of the Supervisory Policy Manual.

12. Note (5) - Interest in suspense

Interest in suspense refers to the accrued interest that has not been taken to the profit & loss account but credited to a suspense account. Report under (a) the amount that has been capitalised as the principal exposure and under (b) the amount that accrued to the interest receivable account. Accrued interest is deemed to be “capitalised” if it is treated indistinguishably from the principal exposure, rather than included within a suspense accrued interest account.

13. Note (6) – Non-bank China exposures

For the purpose of this part, non-bank China exposures refer to exposures to the following categories of non-bank counterparties:

(a) ITICs and their subsidiaries

“ITICs” stands for International Trust and Investment Corporations. It also includes Trust and Investment Corporations.

(b) Red-chip companies and their subsidiaries

“Red-chip companies” refer to companies incorporated outside the People’s Republic of China (“China”) where they are listed in Hong Kong and at least 35% of their shareholding is held directly by either:

- (i) Chinese entities, i.e. state-owned organisations, provincial or municipal authorities in China; or**
- (ii) Listed or privately-owned Hong Kong companies (Hong Kong or overseas incorporated) which are controlled by Chinese entities.**

(c) H-shares companies and their subsidiaries

“H-shares companies” refer to state-owned Chinese enterprises with its shares listed in Hong Kong.

(d) Other state, provincial or municipal government-owned entities and their subsidiaries

(e) Other entities incorporated or established in China

If the exposure has been reported in (a) to (d), it should not be reported here to avoid duplication.

(f) Companies and individuals outside China where the credit is granted for use in China

These are exposures to companies and individuals outside China where the funds are for use in China, e.g. loans to finance specific building projects or manufacturing plants on the Mainland, trade finance facilities known to be for imports to or exports from the Mainland. If a loan is granted to an entity for use as general working capital or if it is a revolving facility where the usage is not specified, it should be reported here if the borrower’s business is predominantly based on the Mainland (say, above 75% estimated by the reporting institution by reference to the borrower’s source of income or location of assets). This assessment is to be made by the reporting institution on a best effort basis, based on its current knowledge of the customer. The same principle applies to reporting under columns (3) to (5) if the usage is not specified. If the exposure has been reported in (a) to (e), it should not be reported here to avoid duplication.

(g) Other counterparties where the exposure is considered by the reporting institution to be non-bank China exposure

This is intended to be a residual item, where there are exposures treated by the reporting institution as non-bank China exposures for internal risk

management purpose but not otherwise captured under (a) to (f). Exposures to individuals located in China, for instance, should be reported under this item.

Memorandum item: Companies and individuals for purchasing properties in China

This category should include all loans made to companies and individuals for purchasing properties for self-use or investment on the Mainland, which have been reported under (a) to (g) above.

Items should be classified in order of priority in column (1). For example, a red-chip company owned by state-owned entity should be included in category (b), while its parent should be included in category (d). A red-chip company which is a subsidiary of ITIC should be included in category (a).

Columns (2) to (6) - Total direct exposures

“Direct exposure” refers to any exposure to a counterparty who is liable to the reporting institution as principal.

Column (2) - On-balance sheet exposure

Report the outstanding amount of on-balance sheet exposure (i.e. loans and advances, debt securities, shares, etc.) to non-bank Chinese entities.

Column (3) - Contingent liabilities

“Contingent liabilities” refer to any potential liabilities of the reporting institution that may arise from guarantees, letters of credit, etc, issued by it.

Column (4) - Irrevocable undrawn commitments

Enter in this column all the irrevocable undrawn commitments which the reporting institution is obliged to honour under all circumstances.

Column (5) - FX and derivatives contracts

Report only those FX and derivatives contracts with positive value to the reporting institution at replacement cost.

14. Note (7) - Ten largest criticised assets

Criticised assets refer to those that have been reported by the institution in Part II of this return as “special mention”, “substandard”, “doubtful” or “loss”. For the purpose of reporting under this Note, assets include on-balance sheet exposures such as loans and advances to non-bank customers, balances due from banks, acceptances and bills of exchange held, investment debt securities and accrued interest as reported under Items A3, B1, C3, D3 and E1 of Part II respectively. They also include commitments and contingent liabilities as reported under Item F3 of the same part of the return.

Criticised assets should be reported on a gross basis before provisions and in descending order by size. Specific provisions made against these assets, which include those made for country risk, should be reported under a separate column of the return.

Each reported item should be the aggregate of exposures to an individual counterparty or a group of related counterparties. In the latter case, the aggregate should be reported as one exposure and shown in the name(s) of the principal counterparty(ies). For the definition of “a group of related counterparties”, reference should be made to the completion instructions of the Return of Large Exposures. The full name of each counterparty or the principal counterparty in the case of a group of related parties should be reported.

Hong Kong Monetary Authority
September 2006

Appendix 1

Reconciliation with other returns

<u>Item in this return</u>	<u>Return of Assets and Liabilities</u>		<u>Return of Profit and Loss</u>
	<u>Form MA(BS)1</u> (For position of HK offices)	<u>Form MA(BS)1B</u> (For combined position)	<u>Form MA(BS)1C</u> (For both cases)
<u>Part I,</u> <u>columns (1),(2),(3) and (4)</u>			
I	Part II 15.3	N.A.	N.A.
J	Part II 15.1 + 15.2	N.A.	N.A.
K	Part II 15.4 + 15.5 + 15.6	N.A.	N.A.
L	Part II 15.7g	N.A.	N.A.
<u>Part II, column (6)</u>			
A1	Part II 15.7g	N.A.	N.A.
A3	N.A.	Part II 15	N.A.
A4+B2+C4	N.A.	N.A.	≤ Part II 1.8 (b)
A5+B3+C5	N.A.	N.A.	≤ Part II 1.8 (a)
A6+B4+C6	N.A.	N.A.	≤ Part II 1.8 (c)
B1	Part II 17.1 + 17.2 + 17.4	Part II 17.3	N.A.
C1	Part II 19.2b(1+2))	≤ Part II 18.2	N.A.
C2	Part II 19.2a(1+2))		
F3	≤ Part VIII(a) + (c) + (f) [@]	N.A.	N.A.
A7+B5+C7+D6 +E2 (col.3+4+5) + F7	≤ Part II 24	≤ Part II 23	≤ Part II 3

Notes:

- [@] apply to institutions incorporated outside HK only. For institutions incorporated in Hong Kong, references should be made to the Return of Capital Adequacy Ratio (MA(BS)3): the amount reported should be equal to or less than the sum of those figures reported under the "Principal Amount" column of Part III 1, 3, 10 and 11.