Annex 2

Illustration of calculation of stable funding requirement ("SFR")

Calculation formula

Stable funding to be obtained =

(i) Total loans excluding IPO loans (previous quarter end) x (SFR ratio Note 1) - (Loans supported by matched-term funds Note 2) (current quarter end) - Available stable funding

If **[(70% of customer deposits) (current quarter end) - (Total loans excluding IPO loans) (current quarter end)] > 0**, the formula is:

(ii) Total loans excluding IPO loans (previous quarter end) x (SFR ratio) - (Loans supported by matched-term funds) (current quarter end) - **[(70% of customer deposits) (current quarter end) - (Total loans excluding IPO loans) (current quarter end)]** - Available stable funding

Note 1 Applicable SFR ratio is equivalent to individual authorized institution's latest quarter-on-quarter loan growth rate, subject to a cap of 100%.

Note 2 Loans with remaining maturity of ≦6 months and supported by matched-term funds from its HO or overseas offices on a back-to-back basis, subject to a cap of 25% of total loans

Illustrative examples

(HKD' bn)	2014				2013				2012
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Sample Bank A									
Total loans	25	24	18	18	22	21	20	18	20
Quarter-on-quarter (%)	4.2%	33.3%	0.0%	-18.2%	4.8%	5.0%	11.1%	-10.0%	
Average of latest 8 quarters (%) (Annualised)	**15.1%**								
Sample Bank B									
Total loans	23	24	18	21	23	22	21	15	20
Quarter-on-quarter (%)	-4.2%	33.3%	-14.3%	-8.7%	4.5%	4.8%	40.0%	-25.0%	
Average of latest 8 quarters (%) (Annualised)	**15.2%**								
Sample Bank C									
Total loans	23	22	18	21	23	22	21	15	20
Quarter-on-quarter (%)	4.5%	22.2%	-14.3%	-8.7%	4.5%	4.8%	40.0%	-25.0%	
Average of latest 8 quarters (%) (Annualised)	**14.0%**								

(HKD'mn)	Sample Bank A	Sample Bank B	Sample Bank C
(1) Total loans as at 31 Dec 2014	25,000	23,000	23,000
(a) of which IPO loans	0	0	0
(b) of which loans with remaining maturity of ≦6 months and supported by matched-term funds from its HO or overseas offices on a back-to-back basis, subject to a cap of 25% of total loans	0	0	0
(2) Total loans as at 30 Sep 2014	24,000	24,000	22,000
(a) of which IPO loans	0	0	0
(3) Total customer deposits as at 31 Dec 2014	10,000	10,000	10,000
(4) Loan growth as at 31 Dec 2014			
(a) quarter-on-quarter excluding IPO loans (equivalent to applicable SFR ratio, subject to a cap of 100%) [((1)-(1)(a) / (2)-(2)(a)) -1] x 100%	4.2%	**-4.2%**	4.5%
(b) average of latest 8 quarters (annualised and based on actual total loans)	15.1%	15.2%	**14.0%**
(5) Total stable funding required = [(2) - (2)(a)] x (4)(a) - (1)(b) ***If [(3) x70% - (1)+(1)(a)] is positive, then the formula for calculating total stable funding required is [(2) - (2)(a)] x (4)(a) - (1)(b) - [(3) x70% - (1) + (1)(a)]***	1,000	Not required since QoQ % change is zero or negative	Not required since average loan growth in latest 8 quarters ≦15%
(6) Available stable funding			
(a) ***Net due to / (from) Head Office, overseas offices and related banks repayable later than 6 months***	***(6,000)***	***(6,000)***	***6,000***
(b) ***Other stable funding:***	***3,000***	***0***	***3,000***
(i) Capital base (less interests in land and buildings and fixed assets)	2,000	0	2,000
(ii) 50% of net due to other banks with remaining maturities over 6 months	1,000	0	1,000
(iii) 50% of term funding (e.g. NDIs issued) with remaining maturities over 6 months	0	0	0
(iv) Others (subject to the HKMA's consent)	0	0	0
(c) ***Other funding support from Head Office*** *(subject to the HKMA's consent)*	***0***	***0***	***0***
(i) Head Office's irrevocable committed liquidity facility (subject to a cap of 25% of total loans)	0	0	0
(ii) NDIs held by Head Office placed at Central Moneymarkets Unit	0	0	0
(7) **Stable funding to be obtained [(5) - 6(a) - 6(b) - 6(c)]**	**4,000**	**Not required**	**Not required**
(8) Deadline to obtain the stable funding	28 Feb 2015	Not applicable	Not applicable

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