INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED

中 國 工 商 銀 行（亞 洲）有 限 公 司

(Incorporated in Hong Kong with limited liability)

DISCLOSURES IN RELATION TO REVISED PILLAR 3

2018 3RD QUARTER

KM1: Key prudential ratios

		(HK$'000)				
		(a)	(b)	(c)	(d)	(e)
		30/09/18	30/06/18	31/03/18	31/12/17	30/09/17
	Regulatory capital (amount)					
1	Common Equity Tier 1 (CET1)	81,016,715	80,184,650	78,997,582	76,986,941	74,897,416
2	Tier 1	108,675,358	107,919,636	106,738,577	84,789,320	82,696,700
3	Total capital	123,832,810	123,282,400	121,982,515	100,642,230	98,638,042
	RWA (amount)					
4	Total RWA	641,201,309	673,325,490	649,923,036	607,311,255	608,282,584
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	12.64%	11.91%	12.15%	12.68%	12.31%
6	Tier 1 ratio (%)	16.95%	16.03%	16.42%	13.96%	13.60%
7	Total capital ratio (%)	19.31%	18.31%	18.77%	16.57%	16.22%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	1.88%	1.88%	1.88%	1.25%	1.25%
9	Countercyclical capital buffer requirement (%)	1.09%	1.08%	1.10%	0.75%	0.74%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	N/A	N/A	N/A	N/A	N/A
11	Total AI-specific CET1 buffer requirements (%)	2.97%	2.95%	2.98%	2.00%	1.99%
12	CET1 available after meeting the AI's minimum capital requirements (%)	7.00%	6.28%	6.52%	6.45%	6.09%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	983,523,454	1,041,366,278	979,721,132	1,002,966,737	956,910,826
14	LR (%)	11.05%	10.36%	10.89%	8.45%	8.64%
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	70,329,718	74,826,216	83,538,175	76,513,223	77,494,825
16	Total net cash outflows	43,507,385	50,127,499	51,800,139	53,418,733	61,684,863
17	LCR (%)	161.84%	150.74%	167.17%	144.58%	126.56%
	Applicable to category 2 institution only:					
17a	LMR (%)	N/A	N/A	N/A	N/A	N/A
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	531,644,002	552,428,403	529,535,446	-	-
19	Total required stable funding	443,864,921	449,835,014	430,466,360	-	-
20	NSFR (%)	119.78%	122.81%	123.01%	-	-
	Applicable to category 2A institution only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

OV1: Overview of RWA

		(HK$'000)		
		(a)	(b)	(c)
		RWA		Minimum capital requirements
		30/09/2018	30/06/2018	30/09/2018
1	Credit risk for non-securitization exposures	572,230,793	602,604,693	45,778,463
2	Of which STC approach	572,230,793	602,604,693	45,778,463
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	14,148,049	14,002,443	1,131,844
7	Of which SA-CCR	N/A	N/A	N/A
7a	Of which CEM	11,975,042	11,251,852	958,003
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	2,173,007	2,750,591	173,841
10	CVA risk	6,948,225	6,349,313	555,858
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA	N/A	N/A	N/A
13	CIS exposures – MBA	N/A	N/A	N/A
14	CIS exposures – FBA	N/A	N/A	N/A
14a	CIS exposures – combination of approaches	N/A	N/A	N/A
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which SEC-IRBA	-	-	-
18	Of which SEC-ERBA	-	-	-
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-
20	Market risk	22,512,700	25,215,650	1,801,016
21	Of which STM approach	22,512,700	25,215,650	1,801,016
22	Of which IMM approach	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	N/A	N/A	N/A
24	Operational risk	24,565,863	24,310,125	1,965,269
25	Amounts below the thresholds for deduction (subject to 250% RW)	1,107,915	1,151,723	88,633
26	Capital floor adjustment	-	-	-

OV1: Overview of RWA (continued)

		(HK$'000)		
		(a)	(b)	(c)
		RWA		Minimum capital requirements
		30/09/2018	30/06/2018	30/09/2018
26a	Deduction to RWA	312,236	308,457	24,979
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	312,236	308,457	24,979
27	Total	641,201,309	673,325,490	51,296,104

The Group is in compliance with the Banking (Capital) Rules to calculate the risk-weighted assets (RWA). The Group adopts the standardized (credit risk) approach (STC) for the non-securitization credit risk RWA (including equity exposure and CIS exposure) calculation, the current exposure method (CEM) for the counterparty credit risk RWA calculation, standardized CVA method for the CVA risk RWA calculation, the standardized (market risk) approach (STM) for the market risk RWA calculation, the basic indicator approach (BIA) for the operational risk RWA calculation. There was no settlement risk, nor securitization exposure RWA on the reporting date. There was neither regulatory reserve nor collective provision which needed to be deducted from RWA. There was no RWA capital floor adjustment. Compared with 30 June 2018, the RWA of "Counterparty default risk and default fund contribution of which others" decreased 21.0% on 30 September 2018 was mainly due to HKD 649 million decrease of securities financing transactions (SFTs)' RWA. The other RWA items only had small or moderate fluctuations as business development.

LR2: Leverage ratio ("LR")

		(a)	(b)
		(HK$'000)	
		30/09/2018	30/06/2018
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	869,310,080	910,085,043
2	Less: Asset amounts deducted in determining Tier 1 capital	(4,165,105)	(4,443,652)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	865,144,975	905,641,391
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	13,816,792	12,222,609
5	Add-on amounts for PFE associated with all derivative contracts	9,897,436	9,134,981
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	(3,445,986)	(1,953,072)
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	**Total exposures arising from derivative contracts**	20,268,242	19,404,518
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	41,796,538	58,852,720
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	4,823,947	5,564,096
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	46,620,485	64,416,816
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	249,571,266	235,771,542
18	Less: Adjustments for conversion to credit equivalent amounts	(192,685,994)	(178,581,218)
19	**Off-balance sheet items**	56,885,272	57,190,324
Capital and total exposures			
20	**Tier 1 capital**	108,675,358	107,919,636
20a	**Total exposures before adjustments for specific and collective provisions**	988,918,974	1,046,653,049
20b	**Adjustments for specific and collective provisions**	(5,395,520)	(5,286,771)
21	**Total exposures after adjustments for specific and collective provisions**	983,523,454	1,041,366,278
Leverage ratio			
22	**Leverage ratio**	11.05%	10.36%

LR2: Leverage ratio ("LR") (continued)

Compared with 30 June 2018, the exposure "Less: Deductions of receivables assets for cash variation margin provided under derivative contracts" increased 76% on 30 September 2018 was mainly due to HKD 1,493 million increase in variation margin. Also, there is a 29.0% decrease in Gross SFT assets on 30 September 2018, this is due to HKD 17.06 billion decrease in SFTs Principal. This has caused major changes in total exposures arising from SFTs decreased in HKD 17.8 billion. The other items only had small or moderate fluctuations as business development.

LIQ1: Liquidity Coverage Ratio ("LCR") – for category 1 institution

Number of data points used in calculating the average value of the LCR and related components set out in this template: (76)		(HK$'000)	
		(a)	(b)
Basis of disclosure: consolidated		**Unweighted value** (average)	**Weighted value** (average)
A.	**HQLA**		
1	Total HQLA		70,329,718
B.	**Cash outflows**		
2	Retail deposits and small business funding, of which:	150,914,223	14,406,577
3	*Stable retail deposits and stable small business funding*	9,786,003	293,755
4	*Less stable retail deposits and less stable small business funding*	141,128,220	14,112,822
4a	*Retail term deposits and small business term funding*	-	-
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	271,726,382	138,353,941
6	*Operational deposits*	30,116,849	7,450,332
7	*Unsecured wholesale funding (other than small business funding) not covered in row 6*	235,586,671	124,880,748
8	*Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period*	6,022,862	6,022,862
9	Secured funding transactions (including securities swap transactions)		8,645,350
10	Additional requirements, of which:	50,510,799	8,533,291
11	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	5,095,234	3,976,486
12	*Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	-	-
13	*Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	45,415,565	4,556,805
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	910,875	910,875
15	Other contingent funding obligations (whether contractual or non-contractual)	611,882,865	2,597,921
16	**Total Cash Outflows**		173,447,955
C.	**Cash Inflows**		
17	Secured lending transactions (including securities swap transactions)	408,202	4,602
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	191,836,808	158,724,852
19	Other cash inflows	69,963,827	6,583,641
20	**Total Cash Inflows**	262,208,836	165,313,094
D.	**Liquidity Coverage Ratio**		**Adjusted value**
21	**Total HQLA**		70,329,718
22	**Total Net Cash Outflows**		43,507,385
23	**LCR (%)**		161.84%

LIQ1: Liquidity Coverage Ratio ("LCR") – for category 1 institution (continued)

Liquidity Coverage Ratio

The Liquidity Coverage Ratio ("LCR") throughout the first three quarters of 2018 meets regulatory requirement and maintains at a high level.

(i) Main drivers of its LCR results

The Bank's LCR's change is mainly due to the HQLA change, as well as various kind of asset and liability matured. Currently, the high LCR level is due to less net cash outflow matured within 30-days range, which is resulting from outflow decrease and inflow decrease being capped at 75% of outflow amount.

(ii) Composition of High Quality Liquid Assets ("HQLA")

The Bank holds a portfolio of unencumbered HQLA which can be readily liquidated to meet cash flow obligations under stress scenarios, as defined in the LCR rules. These liquid assets consist primarily of Level 1 HQLA, such as the Hong Kong Exchange Fund bills and notes as well as the US Treasuries, supplemented by Level 2A and 2B HQLA, such as bonds issued by highly rated corporate issuers.

(iii) Concentration of funding sources

The Bank maintains a diversified funding base composed mainly by retail and corporate customer deposits, supplemented by wholesale funding including but not limited to issuance of certificates of deposit and term debts. Short-term interbank money market borrowing is also used from time to time to meet temporary funding need.

The Bank continues to expand and diversify its deposit base, and to increase the proportion of stable deposits in its overall funding pool.

(iv) Derivative Exposures

The Bank closely monitors all its exchange traded and over-the-counter derivative exposures arising from customer transactions and their corresponding hedging activities. Such derivative contracts comprise mainly of foreign exchange forwards, interest rate and cross currency swaps. Collateral may be required to be posted to counterparties depending on the marked-to-market of the derivative contracts.

(v) Currency mismatch

The Bank’s customer deposits are mainly denominated in HKD. To meet customer loan demand, the Bank swaps surplus HKD funding into USD and other foreign currencies. This represents the major currency mismatch of the Bank.

On the other hand, as the supply of HKD denominated HQLA is relatively limited, the Bank covers its HKD mismatch by holding HQLA denominated in USD when necessary. This is in line with the LCR alternative liquidity approach option elected by the HKMA.

(vi) Centralization of liquidity management

The Bank has a wholly owned subsidiary in the Mainland China, namely China Mercantile Bank ("CMB"), which has set up its own liquidity risk management policy and managed liquidity risk in accordance with its local regulatory requirements. CMB calculates its own LCR, which would then be consolidated with the Bank’s LCR to reflect the liquidity position on a Group basis.

(vii) Approach to liquidity risk management

The Bank has established a comprehensive liquidity risk management framework in accordance with the HKMA requirements and BCBS guidance. The Board is ultimately responsible for liquidity risk management, with the support from Board Risk Management Committee, senior management committees including the Senior Management Risk Management Committee and the Asset and Liability Management Committee. Policies and procedures are in place, with properly approved limits and indicators in order to identify, measure and monitor liquidity risk. Stress tests are conducted regularly, and the Bank has readied the Contingent Funding Plan which details the procedures in dealing with a potential liquidity crisis.