



**永隆銀行**  
WING LUNG BANK

**Pillar 3 Disclosure – Composition of Regulatory Capital**

**As at 30 June 2018**

## **Composition of Regulatory Capital**

The following disclosures are made in accordance with Sections 16FB and 16FC of the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (“HKMA”).

1. Composition of regulatory capital
2. Reconciliation of regulatory capital to balance sheet

**1. Composition of regulatory capital**  
**As at 30 June 2018**

	(a)	(b)
	Amount HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
<b>CET1 capital: instruments and reserves</b>		
1 Directly issued qualifying CET1 capital instruments plus any related share premium	1,160,951	[k]
2 Retained earnings	29,884,104	[r]
3 Disclosed reserves	1,184,656	[l] + [m] + [n] + [q]
4 <i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	Not applicable	Not applicable
5 Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6 <b>CET1 capital before regulatory adjustments</b>	32,229,711	
<b>CET1 capital: regulatory deductions</b>		
7 Valuation adjustments	-	
8 Goodwill (net of associated deferred tax liabilities)	-	
9 Other intangible assets (net of associated deferred tax liabilities)	-	
10 Deferred tax assets (net of associated deferred tax liabilities)	(38,484)	[g]
11 Cash flow hedge reserve	-	
12 Excess of total EL amount over total eligible provisions under the IRB approach	-	
13 Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14 Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15 Defined benefit pension fund net assets (net of associated deferred tax liabilities)	(90,664)	[d] - [j]
16 Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17 Reciprocal cross-holdings in CET1 capital instruments	-	
18 Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19 Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	(276,853)	[-a] - [c] - [e] - [f] - [o] - [p]
20 Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21 Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22 Amount exceeding the 15% threshold	Not applicable	Not applicable
23 of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24 of which: mortgage servicing rights	Not applicable	Not applicable
25 of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26 National specific regulatory adjustments applied to CET1 capital	(5,525,284)	
26a Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(4,057,361)	[m] + [s]
26b Regulatory reserve for general banking risks	(1,467,923)	[t]
26c Securitization exposures specified in a notice given by the MA	-	
26d Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e Capital shortfall of regulated non-bank subsidiaries	-	
26f Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27 Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28 <b>Total regulatory deductions to CET1 capital</b>	(5,931,285)	
29 <b>CET1 capital</b>	26,298,426	
<b>AT1 capital: instruments</b>		
30 Qualifying AT1 capital instruments plus any related share premium	4,573,230	[u]
31 of which: classified as equity under applicable accounting standards	4,573,230	
32 of which: classified as liabilities under applicable accounting standards	-	
33 <i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	-	
34 AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35 of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements	-	
36 <b>AT1 capital before regulatory deductions</b>	4,573,230	
<b>AT1 capital: regulatory deductions</b>		
37 Investments in own AT1 capital instruments	-	
38 Reciprocal cross-holdings in AT1 capital instruments	-	
39 Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40 Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41 National specific regulatory adjustments applied to AT1 capital	-	[o]
42 Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43 <b>Total regulatory deductions to AT1 capital</b>	-	
44 <b>AT1 capital</b>	4,573,230	
45 <b>Tier 1 capital (T1 = CET1 + AT1)</b>	30,871,656	

**1. Composition of regulatory capital**  
**As at 30 June 2018**

		(a)	(b)
		Amount HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	<b>Tier 2 capital: instruments and provisions</b>		
46	Qualifying Tier 2 capital instruments plus any related share premium	3,134,012	[h]
47	<i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,774,231	[-b] + [t]
51	<b>Tier 2 capital before regulatory deductions</b>	4,908,243	
	<b>Tier 2 capital: regulatory deductions</b>		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	1,825,813	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	1,825,813	45% of ([m] + [s])
57	<b>Total regulatory adjustments to Tier 2 capital</b>	1,825,813	
58	<b>Tier 2 capital (T2)</b>	6,734,056	
59	<b>Total regulatory capital (TC = T1 + T2)</b>	37,605,712	
60	<b>Total RWA</b>	211,734,816	
	<b>Capital ratios (as a percentage of RWA)</b>		
61	<b>CET1 capital ratio</b>	12.42%	
62	<b>Tier 1 capital ratio</b>	14.58%	
63	<b>Total capital ratio</b>	17.76%	
64	<b>Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)</b>	2.974%	
65	of which: capital conservation buffer requirement	1.875%	
66	of which: bank specific countercyclical capital buffer requirement	1.099%	
67	of which: higher loss absorbency requirement	0.00%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	7.92%	
	<b>National minima (if different from Basel 3 minimum)</b>		
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
	<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72	Insignificant capital investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	174,369	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	2,674,770	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
	<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	1,774,231	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	2,486,030	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
	<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>		
80	<i>Current cap on CET1 capital instruments subject to phase-out arrangements</i>	Not applicable	Not applicable
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	Not applicable	Not applicable
82	<i>Current cap on AT1 capital instruments subject to phase-out arrangements</i>	-	
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	-	
84	<i>Current cap on Tier 2 capital instruments subject to phase-out arrangements</i>	1,820,092	
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	-	

**1. Composition of regulatory capital**  
**As at 30 June 2018**

Description	Hong Kong basis	Basel III basis
<b>Other intangible assets (net of associated deferred tax liabilities)</b>	-	-
<u>Explanation</u>		
<p>9 As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights ("MSRs") may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</p>		
<b>Deferred tax assets (net of associated deferred tax liabilities)</b>	<b>(38,484)</b>	-
<u>Explanation</u>		
<p>10 As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</p>		
<b>Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	-	-
<u>Explanation</u>		
<p>18 For the purpose of determining the total amount of insignificant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p>		
<b>Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	<b>(276,853)</b>	<b>(270,160)</b>
<u>Explanation</u>		
<p>19 For the purpose of determining the total amount of significant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p>		
<b>Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	-	-
<u>Explanation</u>		
<p>39 The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in AT1 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 39 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p>		
<b>Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	-	-
<u>Explanation</u>		
<p>54 The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in Tier 2 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 54 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 54 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p>		
<p>Remarks:  The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.</p>		

**2. Reconciliation of regulatory capital to balance sheet**  
**As at 30 June 2018**

	(a)	(b)	(c)
	<b>Balance sheet as in published financial statements as at 30 June 2018 HK\$'000</b>	<b>Under regulatory scope of consolidation as at 30 June 2018 HK\$'000</b>	<b>Reference</b>
<b>Assets</b>			
Cash and short-term funds	49,505,672	49,366,345	
Placements with and loans and advances to banks	33,028,645	33,028,645	
Financial assets at mandatorily measured at fair value through profit or loss	2,568,578	2,056,342	
Derivative financial instruments	708,487	708,487	
Financial assets designated at fair value through profit or loss	4,468,407	4,468,407	
Financial investments at fair value through other comprehensive income	39,939,846	39,847,360	
of which:			
- significant capital investments in financial sector entities exceeding 10% threshold		68,206	[a]
Financial investments at amortised cost	1,112,210	187,905	
Advances and other accounts	164,172,297	163,439,745	
- Loans			
of which:			
- collective impairment allowances reflected in regulatory capital		(306,308)	[b]
- significant capital investments in financial sector entities exceeding 10% threshold		6,689	[c]
- Other assets			
of which:			
- Defined benefit pension fund net assets		108,580	[d]
Interests in subsidiaries	-	787,852	
of which:			
- significant capital investments in financial sector entities exceeding 10% threshold		75,366	[e]
Interests in jointly controlled entities	2,420,883	1,349,600	
of which:			
- significant capital investments in financial sector entities exceeding 10% threshold		126,592	[f]
Interest in an associate	2,860	-	
Investment properties	3,246,960	3,421,160	
Interests in leasehold land	165,352	119,669	
Other properties and equipment	1,322,082	1,116,685	
Tax recoverable	1,649	1,649	
Deferred tax assets	49,485	38,484	[g]
Assets classified as held for sale	152,736	-	
<b>Total assets</b>	<b>302,866,149</b>	<b>299,938,335</b>	
<b>Liabilities</b>			
Deposits and balances from banks	29,405,563	29,405,563	
Derivative financial instruments	963,050	963,050	
Deposits from customers	217,039,467	217,999,137	
Certificates of deposit issued	7,189,514	7,189,514	
Subordinated debt issued	3,134,012	3,134,012	
of which:			
- subordinated debt eligible for inclusion in regulatory capital		3,134,012	[h]
- subordinated debt not eligible for inclusion in regulatory capital		-	[i]
Current taxation	344,174	321,811	
Deferred tax liabilities	27,357	27,357	
of which:			
- Deferred tax liabilities on defined benefit pension fund net assets		17,916	[j]
Other accounts and accruals	6,169,811	4,094,950	
<b>Total liabilities</b>	<b>264,272,948</b>	<b>263,135,394</b>	

**2. Reconciliation of regulatory capital to balance sheet  
As at 30 June 2018**

	(a)	(b)	(c)
	<b>Balance sheet as in published financial statements as at 30 June 2018 HK\$'000</b>	<b>Under regulatory scope of consolidation as at 30 June 2018 HK\$'000</b>	<b>Reference</b>
<b>Shareholders' equity</b>			
Share capital	1,160,951	1,160,951	[k]
Reserves	32,826,238	31,068,760	
of which:			
- Capital reserve		20,000	[l]
- Bank premises revaluation reserve		388,969	[m]
- Investment revaluation reserve		(87,941)	[n]
- Other reserve		863,628	[q]
- Retained earnings		29,884,104	[r]
of which:			
- revaluation of land and buildings		3,668,392	[s]
- regulatory reserve for general banking risks		1,467,923	[t]
<b>Total equity attributable to shareholders of the Bank</b>	<b>33,987,189</b>	<b>32,229,711</b>	
Additional equity instruments	4,573,230	4,573,230	[u]
Non-controlling interests	32,782	-	
<b>Total equity</b>	<b>38,593,201</b>	<b>36,802,941</b>	
<b>Total equity and liabilities</b>	<b>302,866,149</b>	<b>299,938,335</b>	