

Interest Rate Risk Exposures

Position of * Banking Book / Trading Book and Banking Book (Note (1))

Currency (Note (2)): _____

* Delete where inappropriate.

(In HK\$ Million or equivalent)

TIME BAND		INTEREST RATE-SENSITIVE ASSETS (Note (3))											
		1. Total interest rate-sensitive assets				2. Fixed rate assets				3. Floating rate assets		4. Managed rate assets	
		a. Total	b. Residential mortgage loans	c. Total weighted average yield	d. Weighted average yield (Residential mortgage loans)	a. Total	b. Residential mortgage loans	c. Retail loans subject to prepayment risk	d. Non-retail loans subject to prepayment risk	a. Total	b. Residential mortgage loans	a. Total	b. Residential mortgage loans
		2a+3a+4a	2b+3b+4b	%	%								
Next day or less	(A)			%	%								
2 days to 1 month	(B)			%	%								
1 to 3 months	(C)			%	%								
3 to 6 months	(D)			%	%								
6 to 9 months	(E)			%	%								
9 to 12 months	(F)			%	%								
1 to 1.5 years	(G)			%	%								
1.5 to 2 years	(H)			%	%								
2 to 3 years	(I)			%	%								
3 to 4 years	(J)			%	%								
4 to 5 years	(K)			%	%								
5 to 6 years	(L)			%	%								
6 to 7 years	(M)			%	%								
7 to 8 years	(N)			%	%								
8 to 9 years	(O)			%	%								
9 to 10 years	(P)			%	%								
10 to 15 years	(Q)			%	%								
15 to 20 years	(R)			%	%								
More than 20 years	(S)			%	%								
Total interest rate-sensitive assets	Total (A to S)												
Non-interest rate-sensitive assets	(T)												
Total assets	Total (A to T)												

Notes:

- (1) Locally incorporated authorized institutions subject to the market risk capital adequacy regime are required to report positions in the banking book only. Other locally incorporated institutions exempted from the market risk capital adequacy regime and overseas incorporated institutions are required to report aggregate positions in the banking book and trading book.
- (2) Report interest rate risk exposures in major currencies as defined in the Completion Instructions, including at least Hong Kong dollar and US dollar (nil returns are required for these two currencies). Use the same return form for each currency.
- (3) Report items under different time bands based on the earliest interest repricing date as specified in the Completion Instructions.

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 Position of * Banking Book / Trading Book and Banking Book (Note (1))
 Currency (Note (2)): _____

* Delete where inappropriate.

(In HK\$ Million or equivalent)

TIME BAND	INTEREST RATE-SENSITIVE LIABILITIES (Note (3))											
	5. Total interest rate-sensitive liabilities				6. Fixed rate liabilities				7. Floating rate liabilities		8. Managed rate liabilities	
	a. Total	b. Deposits	c. Total weighted average interest costs	d. Weighted average interest costs (Deposits)	a. Total	b. Deposits	c. Retail deposits subject to early redemption risk	d. Non-retail liabilities subject to early redemption risk	a. Total	b. Deposits	a. Total	b. Deposits
6a+7a+8a		6b+7b+8b										
Next day or less (A)			%	%								
2 days to 1 month (B)			%	%								
1 to 3 months (C)			%	%								
3 to 6 months (D)			%	%								
6 to 9 months (E)			%	%								
9 to 12 months (F)			%	%								
1 to 1.5 years (G)			%	%								
1.5 to 2 years (H)			%	%								
2 to 3 years (I)			%	%								
3 to 4 years (J)			%	%								
4 to 5 years (K)			%	%								
5 to 6 years (L)			%	%								
6 to 7 years (M)			%	%								
7 to 8 years (N)			%	%								
8 to 9 years (O)			%	%								
9 to 10 years (P)			%	%								
10 to 15 years (Q)			%	%								
15 to 20 years (R)			%	%								
More than 20 years (S)			%	%								
Total interest rate-sensitive liabilities Total (A to S)												
Non-interest rate-sensitive liabilities (T)+(U)												
Equity capital (T)												
Others (U)												
Total liabilities Total (A to U)												

Notes:

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- (2) Report interest rate risk exposures in major currencies as defined in the Completion Instructions, including at least Hong Kong dollar and US dollar (nil returns are required for these two currencies). Use the same return form for each currency.
- (3) Report items under different time bands based on the earliest interest repricing date as specified in the Completion Instructions.



Interest Rate Risk Exposures

Position of * Banking Book / Trading Book and Banking Book (Note (1))

Currency (Note (2)): _____

* Delete where inappropriate.

(In HK\$ Million or equivalent)

TIME BAND		OFF-BALANCE SHEET POSITIONS (Note (3))													
		9. Total		10. Forward foreign exchange contracts		11. Interest rate swaps		12. Cross currency swaps		13. Futures / FRAs		14. Options		15. Others	
		a. Long	b. Short	a. Long	b. Short	a. Long	b. Short	a. Long	b. Short	a. Long	b. Short	a. Long	b. Short	a. Long	b. Short
		10a+11a+12a+13a+14a+15a	10b+11b+12b+13b+14b+15b												
Next day or less	(A)														
2 days to 1 month	(B)														
1 to 3 months	(C)														
3 to 6 months	(D)														
6 to 9 months	(E)														
9 to 12 months	(F)														
1 to 1.5 years	(G)														
1.5 to 2 years	(H)														
2 to 3 years	(I)														
3 to 4 years	(J)														
4 to 5 years	(K)														
5 to 6 years	(L)														
6 to 7 years	(M)														
7 to 8 years	(N)														
8 to 9 years	(O)														
9 to 10 years	(P)														
10 to 15 years	(Q)														
15 to 20 years	(R)														
More than 20 years	(S)														
Total Options	(T)														
Total off-balance sheet positions	Total (A to ST)														

Notes:

- (1) Locally incorporated authorized institutions subject to the market risk capital adequacy regime are required to report positions in the banking book only. Other locally incorporated institutions exempted from the market risk capital adequacy regime and overseas incorporated institutions are required to report aggregate positions in the banking book and trading book.
- (2) Report interest rate risk exposures in major currencies as defined in the Completion Instructions, including at least Hong Kong dollar and US dollar (nil returns are required for these two currencies). Use the same return form for each currency.
- (3) Report items under different time bands based on the earliest interest repricing date as specified in the Completion Instructions.

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Position of * Banking Book / Trading Book and Banking Book (Note (1))
Currency (Note (2)): _____

* Delete where inappropriate.

(In HK\$ Million or equivalent)

TIME BAND	IMPACT / SCENARIO ANALYSIS														
	16. Net positions		17. Earnings perspective			18. Economic value perspective							19. Basis risk		
	a. Excluding coupon cash flows 1a-5a +9a-9b	b. Including coupon cash flows	a. Time band mid- point (years)	b. Impact on earnings over the next 12 months (parallel up)	c. Impact on earnings over the next 12 months (parallel down)	a. Current EVE	b. Impact on EVE (parallel up)	c. Impact on EVE (parallel down)	d. Impact on EVE (steepener)	e. Impact on EVE (flattener)	f. Impact on EVE (short rates up)	g. Impact on EVE (short rates down)	Period for which changes in interest rates last	Scenario (i) All rates except for fixed and managed rates on interest rate- sensitive assets are subject to the parallel up shockrise by 200 bps	Scenario (ii) Managed rates on interest rate- sensitive assets are subject to the parallel down shockdrop by 200 bps while other rates remain unchanged
Next day or less (A)			0.0028										1 month		
2 days to 1 month (B)			0.0417										3 months		
1 to 3 months (C)			0.1667										6 months		
3 to 6 months (D)			0.375										12 months		
6 to 9 months (E)			0.625												
9 to 12 months (F)			0.875												
1 to 1.5 years (G)			1.25												
1.5 to 2 years (H)			1.75												
2 to 3 years (I)			2.5												
3 to 4 years (J)			3.5												
4 to 5 years (K)			4.5												
5 to 6 years (L)			5.5												
6 to 7 years (M)			6.5												
7 to 8 years (N)			7.5												
8 to 9 years (O)			8.5												
9 to 10 years (P)			9.5												
10 to 15 years (Q)			12.5												
15 to 20 years (R)			17.5												
More than 20 years (S)			25												
Options (T)															
Total (A to T)															
Tier 1 capital at reporting date (Note (3))						(U)									
Impact on EVE as % of Tier 1 capital						(A to T) / (U)	%	%	%	%	%	%			
Total positions as % of on-balance sheet assets across all currencies						(V)									%

Notes:

- (1) Locally incorporated authorized institutions subject to the market risk capital adequacy regime are required to report positions in the banking book only. Other locally incorporated institutions exempted from the market risk capital adequacy regime and overseas incorporated institutions are required to report aggregate positions in the banking book and trading book.
- (2) Report interest rate risk exposures in major currencies as defined in the Completion Instructions, including at least Hong Kong dollar and US dollar (nil returns are required for these two currencies). Use the same return form for each currency.
- (3) Report the Tier 1 capital for all currencies. Overseas incorporated institutions should refer to the Tier 1 capital of their head office.

Completion Instructions

Return of Interest Rate Risk Exposures (Form MA(BS)12)

Introduction

1. This return collects information on the interest rate risk exposures of authorized institutions and will be used to help assess the potential impact of movements in interest rates on institutions' earnings *and economic value*.
2. The Completion Instructions contain three sections. Section A describes the general reporting requirements. Section B provides definitions and clarification of certain items. Section C explains the specific reporting requirements for each item in the return form; ~~with an illustration at Annex 1.~~

Section A : General Instructions

3. *All authorized institutions are required to complete this return showing their positions as at the last calendar day of each quarter and submit the return to the HKMA not later than one month six 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.* Locally incorporated institutions should complete the return both on a solo basis, reporting the combined positions of their local and overseas offices (if any), and on a consolidated basis (where applicable), following the scope of consolidation used for the purpose of Capital Adequacy Ratio (CAR) requirements as defined in the Banking (Capital) Rules. Overseas incorporated institutions are required to report the positions of their Hong Kong operations only.
4. *This return captures both on- and off-balance sheet positions. Locally incorporated institutions subject to the market risk capital adequacy regime¹ (“non-exempted institutions”) are required to report positions of the banking book only. Other institutions, i.e. those locally incorporated and exempted from the market risk capital adequacy regime (“exempted institutions”) and those incorporated overseas, should report aggregate positions of the banking book and trading book.*
5. The interest rate risk positions for each selected currency should be reported separately using the same four-page return form. Transactions denominated in gold or composite currencies such as the SDR should be reported as separate currencies. Onshore Renminbi (CNY) and offshore Renminbi (CNH) should be treated as separate currencies.² ~~Positions in the Euro and the national currencies, if any, of the Euro participating countries are to be~~

¹ The details of the market risk capital adequacy regime, including the ~~de-de~~-minimis exemption criteria and other requirements relevant to exempted institutions, are set out in the statutory guideline “Maintenance of Adequate Capital Against Market Risk” (CA-G-2) in the Supervisory Policy Manual-Banking (Capital) Rules.

² Institutions should treat its assets or liabilities as denominated in CNH if the associated interest rates are priced (either directly or indirectly) based on offshore reference rates (such as CNH HIBOR), and vice versa.

~~treated as positions in the Euro.~~ Institutions should report all these positions in aggregate on one return form. As a basic requirement, institutions should complete at least two return forms, showing their interest rate risk exposures arising from assets and liabilities denominated in Hong Kong dollars and in US dollars respectively (nil returns are required for these two currencies). Institutions which have significant positions in other currencies should report such positions on separate return forms (see paragraph 8 below). The total positions in non-reported currencies could not exceed 10% of an institution's total on-balance assets in all currencies.^{3,4,5} *The submitted forms should be sequentially numbered.*

6. All the positions captured by this return should be slotted into the appropriate time bands according to the earliest interest repricing date (see paragraph 11 below). Each time band includes its upper limit but not its lower limit, e.g. the '3 to 4 years' time band can be expressed as $3y < t \leq 4y$. ~~Institutions that meet the criteria set out in Annex 2 may, subject to the HKMA's approval, slot their positions into different time bands based on their estimation of the respective behavioural maturity. Institutions are allowed to phase in the use of behavioural maturity on a product-by-product basis~~For retail fixed rate loans subject to prepayment risk and retail term deposits subject to early redemption risk, institutions should follow the steps in Section 5.2 of the Supervisory Policy Manual (SPM) IR-1 "Interest Rate Risk in the Banking Book" to determine the repricing maturities.
7. Unless otherwise stated, ~~book-notional~~ value should be used for reporting purposes. Amounts are to be shown to the nearest million, in Hong Kong dollars or Hong Kong dollar equivalent in the case of foreign currencies. The middle market T/T rates ruling as at the close of business on the reporting date should be adopted for conversion of foreign currencies to Hong Kong dollars.

Section B : Definitions and Clarification

8. An institution would be regarded as having a significant position in a currency if the sum of its on-balance sheet assets or liabilities, whichever is the larger, in that currency and its off-balance sheet positions (see paragraph 9 below) in the same currency is more than 5% of its total on-balance sheet assets in all currencies ~~(i.e. total amount of "Total assets" reported under item 23 of the Return of Assets and Liabilities (Form MA(BS)1) or item 22 of the Combined Return of Assets and Liabilities (Form MA(BS)1B), as the case may be).~~^{5,6}
9. The off-balance sheet positions are defined as the sum of the notional principal of each off-balance sheet contract that is to be included under items 10 to 15 of this return. For the avoidance of doubt, a foreign exchange contract which involves the simultaneous buying and selling of two currencies should be regarded as one contract under each of the

³ If an institution's total positions in non-reported currencies exceeded 10% of its total assets, the institution should report these positions, starting from the largest, until the remaining positions in non-reported currencies fall below 10% of its total assets.

⁴ The 10% limit applies at both the solo level and consolidated level.

⁵ Positions in a given currency and total on-balance sheet assets include banking book positions only for non-exempted institutions. For exempted institutions and overseas incorporated institutions, both the banking book and trading book should be included.

⁶ For reporting on a solo basis, total on-balance sheet assets should equal the total amount of "Total assets" reported under item 23 of the Return of Assets and Liabilities (Form MA(BS)1) or item 22 of the Combined Return of Assets and Liabilities (Form MA(BS)1B), as the case may be.

currencies concerned while a single currency interest rate swap which involves both the receipt and payment of interest in the same currency is counted once in the relevant currency.

10. All on-balance sheet interest bearingrate-sensitive assets⁷ and liabilities are to be classified into fixed rate items, variablefloating rate items and managed rate items. Fixed rate items are those assets and liabilities with interest rates fixed up to their final maturities. VariableFloating rate items are those which will automatically be repriced at the next repricing date during the life of the items in accordance with movements in the relevant "reference rates" (~~such as~~ e.g. HIBOR) and include those items for which the interest rates can be varied at the discretion of the counterparty (see also the definition of managed rate that follows). Managed rate items are those variable rate items for which there are no fixed repricing dates and the interest rates can be adjusted at any time at the discretion of the reporting institution. These would include, for example, savings-non-maturity deposits and mortgage loans.
11. In respect of different interest bearingrate-sensitive assets and liabilities, the earliest interest repricing date means:
 - (a) for fixed rate items, the maturity dates of the assets or liabilities concerned; in the case of retail fixed rate loans subject to prepayment risk⁸ and retail term deposits subject to early redemption risk⁹, institutions should follow the methodology in Section 5.2 of the SPM;
 - (b) for variablefloating rate items, the next repricing date of the assets and liabilities concerned; in the case of those items for which the interest rates can be varied at the discretion of the counterparty, the earliest date, ~~based on past experience~~, on which the interest rates ~~would~~ could be repriced assuming that the reference rates on which the interest rates are based are adjusted on the business day immediately following the reporting date; and
 - (c) for managed rate items, the earliest date on which it would be possible for the interest rates of the assets and liabilities concerned to be adjusted assuming that the reference rates (e.g. prime or *standard savings* rate) on which the interest rates are based are adjusted on the business day immediately following the reporting date. For non-maturity deposits¹⁰, institutions also have the option to slot them into different time bands based on the methodology in Section 5.2 of the SPM.
12. For the purpose of this return, interest bearingrate-sensitive assets and liabilities include those which do not involve any formal payment of interest but the values of which are sensitive to interest rate movements. Typically, these include financial instruments which are sold at a discount such as Exchange Fund Bills and zero coupon bonds. They should be reported as fixed rate items according to residual maturity.

⁷ Interest-bearingrate-sensitive assets exclude assets that are deducted from Common Equity Tier 1 (CET1) capital, fixed assets such as real estate or intangible assets, and equity exposures.

⁸ These are fixed rate loan products where the economic cost of prepayments cannot be charged, or charged only for prepayments above a certain threshold, to the borrower.

⁹ These are term deposits that can be withdrawn early at the discretion of the customer.

¹⁰ These are deposits without a set maturity date that can be withdrawn at any time without advance notice. Non-interest-bearing deposits (e.g. deposits in current accounts) are also included in non-maturity deposits.

13. In respect of on-balance sheet interest bearingrate-sensitive assets, institutions should report under items 1b to 4b a breakdown of the amount of residential mortgage loans pertaining to those items. Residential mortgage loans are loans to professional and private individuals for the purchase of residential properties, as defined under item H5b of the Quarterly Analysis of Loans and Advances and Provisions (Form MA(BS)2A). Institutions should also report under item 2c and 2d a breakdown of retail loans subject to prepayment risk and non-retail loans subject to prepayment risk, as defined in Section 5.2 of the SPM. Items 2b, 2c and 2d may overlap and may not add up to the total (item 2a). In respect of on-balance sheet interest bearingrate-sensitive liabilities, institutions should report under items 5b to 8b a breakdown of the amount of deposits pertaining to those items. Deposits are deposit liabilities due to non-bank customers, as defined under item 6 of Form MA(BS)1. Institutions should also report under item 6c and 6d a breakdown of retail deposits subject to early redemption risk and non-retail liabilities subject to early redemption risk, as defined in Section 5.2 of the SPM. Items 6b, 6c and 6d may overlap and may not add up to the total (item 6a).
14. *In respect of assets or liabilities with embedded options¹¹, institutions should decompose them into embedded options and underlying assets or liabilities. The embedded options should be reported under off-balance sheet positions (see paragraphs 37-38 below) and the underlying assets or liabilities should be slotted into the appropriate time bands according to their earliest interest repricing date (see paragraph 11 above). ~~In the case of assets or liabilities with an early redemption option (by either the reporting institution or its counterparty), and the institutions concerned cannot decompose them into the embedded option and underlying assets or liabilities, the reporting may be based on the institution's expectation of whether an early redemption will occur. Such assets or liabilities should then be slotted into the appropriate time bands according to their earliest interest rate repricing date or the redemption date, whichever is the earlier.~~*
15. Assets and liabilities which are repayable by instalments rather than by one lump sum at maturity should be broken down into individual tranches and slotted into the appropriate time bands according to the repricing date of each tranche. For example, a fixed rate loan of HK\$D100 million repayable by two semi-annual instalments of HK\$D50 million each should be regarded as two separate loans, one repayable in six months and the other one year, and slotted into the appropriate time bands according to their residual maturities. In the case of a variable-floating rate loan of HK\$D100 million repayable by two semi-annual instalments of HK\$D50 million each, it should also be regarded as two separate loans and be slotted into the appropriate time bands according to the next repricing date of each tranche.
16. In the case of a managed rate mortgage loan, the entire amount of such loan, less the amount of principal repayable before the earliest repricing date (see paragraph *II(c)* above), should

¹¹ These are explicitly embedded within the contractual terms of an otherwise standard financial instrument where the holder will almost certainly exercise the option if it is in ~~their~~his financial interest to do so. An example of a product with embedded options is a floating rate mortgage loan with embedded caps and/or floors. Prepayment options on non-retail loans (see paragraph 19) and early redemption options on non-retail deposits or bonds (see paragraph 25) should also be treated as embedded options. Options embedded in mortgage loans subject to prime rate (managed rate) caps do not have to be decomposed.

be reported in the appropriate time bands into which the repricing date falls. The principal amount repayable between the reporting date and the earliest repricing date should be slotted into the appropriate time bands according to the payment dates contracted for. For example, ~~consider~~ a mortgage loan of HK\$5 million ~~that~~ can be repriced in two months' time, ~~and HKD 0.02 million of~~ the principal amount ~~is~~ repayable between ~~eight-two~~ days and one month. ~~Then HKD 0.02 million (say HK\$0.02 million)~~ should be reported in row (~~CB~~) of item 4 and the balance of the loan (i.e. HK\$4.98 million) should be reported in row (~~DC~~) of the same item.

17. ~~Institutions which have the practice of raising internal deals to record positions passed from one unit to another (e.g. Money Market Department to Foreign Exchange Department) within the same institution should not report these internal deals. However, this rule does not apply to an institution incorporated overseas, if the deals in question were executed between the institution's Hong Kong office and its overseas head office or branches. For the purpose of this return, internal deals are transactions between units within the relevant reporting scope (see paragraph 3 and 4 above) of the institution. Internal deals within the banking book should not be reported. For internal deals between the banking book and the trading book, **non-exempted institutions should report** the banking book leg of the internal deal ~~should be reported if and~~ only if the trading book leg of the deal is recognised under the market risk capital framework in the Banking (Capital) Rules; **exempted institutions and overseas incorporated institutions should not report such internal deals.**~~

Section C : Specific Instructions

18. Item 1 rows (A) to (~~OTS~~) – Total interest **bearingrate-sensitive** assets

Report the sum of items *2a, 3a and 4a* under item *1a* of the same row. *Regarding residential mortgage loans, report the sum of items 2b, 3b and 4b under item 1b of the same row. Report the sum of items 1a and 1b for all time bands in Total (A to ~~OTS~~) under the respective items.*

*Report the weighted average yield of total interest **bearingrate-sensitive** assets and residential mortgage loans under items 1c and 1d respectively of the same row. All the rates reported should be rounded to 2 decimal places. ~~An example showing the method of calculation is given at Annex 3.~~ Interest rates applicable at the reporting date should be used for the purpose of calculation.*

19. Item 2 - Fixed rate assets

~~These assets, such as fixed rate CDs or fixed rate term loans,~~ Fixed rate assets with no prepayment risk should be slotted into the appropriate time bands according to their residual maturities. Retail fixed rate loans subject to prepayment risk, as defined in Section 5.2 of the SPM, should be slotted into the appropriate time bands according to the methodology in Section 5.2 of the SPM. Where a non-retail loan is subject to prepayment risk, this should be treated as an asset with embedded options according to paragraph 14.¹²

¹² ~~After decomposition, the underlying asset should be reported as a standard fixed rate loan not subject to prepayment risk.~~

20. Item 3 - Variable Floating rate assets

These should be slotted into the appropriate time bands according to the next interest rate fixing date. Such assets include, for example, floating rate CDs/notes, and other loans which are automatically priced in accordance with movements in the relevant reference rates. During the period between the final repricing date and final maturity, these assets should continue to be reported as variable floating rate assets and slotted into the appropriate time bands according to their residual maturities.

21. Item 4 - Managed rate assets

These assets are those for which the interest rate does not change automatically in line with the movement in the reference rate but may be varied at the discretion of the reporting institution. Mortgage loans priced on prime are examples of managed rate assets. These assets should be slotted into the appropriate time bands according to the earliest date on which their interest rates can be adjusted assuming that the reference rate (e.g. prime) is adjusted on the business day immediately following the reporting date.

The optionality in managed rate products, that is floating rate assets subject to prime rate (managed rate) caps, should not be treated as embedded automatic interest rate options. The following is the reporting procedure for floating rate assets subject to prime rate caps:

- (i) report the asset as a managed rate asset if the prime rate cap is binding, and as a floating rate asset otherwise. The optionality can be ignored for the purpose of calculating the EVE impact.
- (ii) when reporting Item 19 on basis risk, AIs should take into account the effect of the prime rate cap – see paragraph 42 for details.

22. Item 1 row (PUT) – Non-interest bearing rate-sensitive assets

These include, for example, properties, shares, fixed assets and other receivables which are non-interest bearing rate-sensitive. ***Non-accruing assets on which interest is being placed in suspense or interest accrual has ceased should also be included.*** Properties and fixed assets should be reported net of depreciation.

23. Item 1 Total (A to PUT) – Total assets

Report the sum of ***total interest bearing rate-sensitive and non-interest bearing rate-sensitive assets***. The amount reported may not necessarily be the same as the amount of “Total liabilities” reported under item 5 Total (A to QVU). ~~Locally incorporated and exempted institutions without overseas branches and overseas incorporated institutions should note that the amounts reported under this item, in respect of the positions for Hong Kong dollars and US dollars, should be consistent with the amount of “Total assets” reported under the relevant columns of item 23 of Form MA(BS)1.~~

24. Item 5 rows (A) to (OTS) – Total interest bearing rate-sensitive liabilities

Report the sum of items 6a, 7a and 8a under item 5a of the same row. Regarding deposits, report the sum of items 6b, 7b and 8b under item 5b of the same row. Report the sum of items 5a and 5b for all time bands in Total (A to ~~OTS~~) under the respective items.

Report the weighted average costs of total interest ~~bearingrate-sensitive~~ liabilities and deposits under items 5c and 5d respectively of the same row. All the rates reported should be rounded to 2 decimal places. ~~An example showing the method of calculation is given at Annex 3.~~ Interest rates applicable at the reporting date should be used for the purpose of calculation.

25. Item 6 - Fixed rate liabilities

These liabilities, such as fixed rate CDs, money market deposits and term deposits are to be slotted into the appropriate time bands according to their residual maturities provided they are not subject to early redemption risk. Retail term deposits subject to early redemption risk, as defined in Section 5.2 of the SPM, should be slotted into the appropriate time bands according to the methodology in Section 5.2 of the SPM. Where a non-retail deposit or bond is subject to early redemption risk, this should be treated as a liability with embedded options according to paragraph 14.¹³

26. Item 7 - ~~VariableFloating~~ rate liabilities

These liabilities should be slotted into the appropriate time bands according to the next interest rate fixing date. They include, for example, floating rate debt instruments issued by the reporting institution where the interest rate is adjusted automatically on the repricing date in accordance with movements in the relevant reference rates. As with ~~variablefloating~~ rate assets, these liabilities should continue to be classified as ~~variablefloating~~ rate liabilities according to their residual maturities during the period between the final repricing date and the maturity date.

27. Item 8 - Managed rate liabilities

Such liabilities include, for example, deposits for which interest rates can be adjusted at the discretion of the deposit-taking institution. They should be slotted into the appropriate time bands according to the earliest date on which their interest rates can be adjusted assuming that the reference rates (e.g. *standard savings* rates) are adjusted on the business day immediately following the reporting date. For non-maturity deposits, institutions also have the option to slot them into different time bands based on the methodology in Section 5.2 of the SPM.

28. Item 5 (PUT)+(QVU) – Non-interest ~~bearingrate-sensitive~~ liabilities

Report the sum of *equity capital and others*.

29. Item 5 row (PUT) – equity capital

¹³ ~~After decomposition, the underlying liability should be reported as a standard term deposit not subject to early redemption risk.~~

These include the capital, reserves (including retained earnings) and profit and loss accounts of the reporting institution. They should be reported in the base currency of the reporting institution or in the currency in which the capital is denominated. Interest-bearingrate-sensitive capital items (e.g. preference shares and subordinated debts) should be reported under items *6a, 7a or 8a* as appropriate.

30. Item 5 row (QVU) - other non-interest bearingrate-sensitive liabilities

These include, for example, ~~deposits in current accounts and other~~ payables / liabilities which are non-interest bearingrate-sensitive, and loan loss provisions etc. Non-remunerated deposits (e.g. deposits in some current accounts) should be reported as non-maturity deposits (i.e. managed rate liabilities) under interest-bearingrate-sensitive liabilities.

General provisions should be reported in the base currency of the reporting institution. Other provisions should be reported in the currency of the underlying assets.

31. Item 5 Total (A to QVU) - Total liabilities

Report the sum of *total interest bearingrate-sensitive and non-interest bearingrate-sensitive liabilities*. The amount reported may not necessarily be the same as the amount of “Total assets” reported under item *1* Total (A to PUT). ~~Locally incorporated and exempted institutions without overseas branches and institutions incorporated overseas should note that the amounts reported under this item, in respect of the positions for Hong Kong dollars and US dollars, should be consistent with the sum of the amounts of “Total liabilities” and “Provisions” reported under the relevant columns of item 11 and item 24 of Form MA(BS)I respectively.~~

32. Item 9 – Total off-balance sheet positions

Report *in item 9a*, the sum of *all long positions reported under items 10a to 15a* of the same row.

Report *in item 9b*, the sum of *all short positions reported under items 10b to 15b* of the same row.

33. Item 10 - Forward foreign exchange contracts

Forward foreign exchange contracts include unmatured spot contracts that are for value not more than two business days after the transactions are contracted. They should be reported in the relevant page of the return for the currencies concerned and should be slotted into the appropriate time bands according to the residual maturity of the individual contracts. For example, a five-month forward contract to sell Hong Kong dollars for US dollars should be slotted in the return *for the Hong Kong currency* as a short position under item *10b* of row (ED) and in the return *for the US currency* as a long position under item *10a* of row (ED).

34. Item 11 - Interest rate swaps

An interest rate swap contract obligates an institution to both receive and remit interest payments that are based on the notional amount of the swap contract. Depending on the

contract, the institution may receive fixed rate and pay floating rate interest on the notional principal or vice versa. For example, an interest rate swap under which an institution is receiving floating rate interest and paying fixed rate would be treated as a long position in a floating rate instrument of maturity equivalent to the period until the next interest fixing date and a short position in a fixed rate instrument of maturity equivalent to the residual life of the swap. The two positions should then be slotted into the appropriate time bands according to their respective maturities.

35. Item 12 - Cross currency swaps

The reporting treatment of a cross currency swap is similar to that of an interest rate swap, except for the fact that its long and short positions should be reported in the relevant time bands of the currencies concerned.

36. Item 13 - Futures / Forward rate agreements (FRAs)

These should be treated in the same way as a combination of a long and a short position in government securities. The maturity of a future or an FRA would be the period until delivery or exercise of the contract, plus – where applicable – the life of the underlying instruments. For example, a long position in a June three-month interest rate future should be reported in April in the same way as a long position in a government security with a maturity of five months and a short position in a government security with a maturity of two months. Similarly, a seller of a 2 x 5 months FRA should report the transaction as a long position in a government security with a maturity of five months and a short position in a government security with a maturity of two months. In respect of a futures contract, where a range of deliverable instruments may be delivered to fulfil the contract, the institution would be free to elect which deliverable security goes into the maturity ladder.

37. Item 14 - Options

Report option contracts that are related to interest rate instruments and currencies.¹⁴ All bought and sold interest rate options should be reported. Embedded options that have been decomposed (see paragraph 14) should also be reported here. Report the estimated value of the option contracts ~~to~~from the perspective of the option holder, which ~~Option contracts should be reported by using the delta equivalent value of these contracts, which is calculated by multiplying the principal value of the underlying by the delta or, in the case of options on debt instruments, the market value of such debt instruments by the delta. (Such deltas are to be calculated according to the reporting institution's proprietary options pricing model.)~~ Bought options should be reported as a long position and sold options should be reported as a short position. Report the total value of options only, i.e. no need to slot cash flows into time bands, under Item 14 Total.

~~In slotting deltas into the time bands, a two legged approach should be used as for other derivatives – one entry at the time the underlying contract takes effect and the other at the time the underlying contract matures. For instance, a bought call option on a June~~

¹⁴ Currency options that are sensitive to interest rate movements in two currencies should be reported in the returns for both currencies. When calculating the value of the currency options under interest rate shock scenarios (paragraph 41), institutions only need to consider the direct impact of the new yield curve on the option value, but not the indirect impact via changes in foreign exchange rates or the increase in implicit volatility.

~~three-month interest rate future would in April be considered, on the basis of its "delta" equivalent value, to be a long position with a maturity of five months and a short position with a maturity of two months. A written option would be similarly included as a long position with a maturity of two months and a short position with a maturity of five months.~~

~~The two-legged approach also applies to reporting positions of interest rate swaptions. For example, a bought swaption of receiving (paying) fixed rate with an option maturity of two months and an underlying interest rate swap of three years is reported as a long (short) position with a maturity of three years and two months and a short (long) position with a maturity of two months. Similarly, a written swaption of receiving (paying) fixed rate with an option maturity of two months and an underlying interest rate swap of three years is reported as a short (long) position with a maturity of three years and two months and a long (short) position with a maturity of two months. The amounts of the positions are the deltas of the notional amount of the underlying interest rate swap in respect of the type of the swaption.~~

~~In the case of *an option that gives rise to foreign currency exposures* (e.g. currency option), the delta equivalent value of both the long and short positions should be reported in the time band corresponding to the exercise date of the contract. Report a long position in respect of the currency that the institution intends to take and a short position of the currency that the institution intends to deliver.~~

~~An institution purchasing options to a limited extent for the purposes of hedging may report only those option contracts that are in-the-money. Instead of reporting their delta equivalent values, it may report the notional value of the option contracts in *rows (A) to (O)* using the two-legged approach as mentioned above.~~

~~As the methods of reporting some option instruments (e.g. digital options and barrier options) are rather complicated, institutions with such transactions should discuss with the HKMA the reporting method concerned.~~

38. Item 15 - Others

Report ~~by using the two-legged approach~~, any other debt derivatives and off-balance sheet items the values of which are sensitive to changes in interest rates. This includes forward arrangements for fixed rate loans and fixed rate deposits which have been contracted but remain undrawn as at the reporting date. A forward loan should be reported as a long position at the time the loan matures and as a short position at the time when the loan is to be drawn. For forward deposits, the reporting method is the reverse.

Institutions should also include fixed rate loan and fixed rate deposit commitments¹⁵ under this item. Both retail and wholesale commitments should be included. Institutions should estimate the proportion of commitments that will be drawn down and the expected tenor, based on historical data and using a sound and prudent methodology. The estimated cash flows should be reported following the reporting method for forward arrangements for fixed rate loans and fixed rate deposits.

¹⁵ These are commitments by banks to allow customers to draw down a loan or place a deposit at a fixed rate within a limited future period.

Where securities are sold subject to a repurchase agreement, the terms of which transfer substantially all risks and rewards of ownership to the buyer, the transaction should be separately accounted for as an outright sale plus a commitment to repurchase. The securities sold under such an agreement should not be reported in this return but the commitment to repurchase should be reported as a forward purchase of the securities. Where the price for the commitment to repurchase has not been determined, the fair value (i.e. current market price) as of the reporting date should be used.

Where securities are purchased subject to a resale agreement, the terms of which transfer substantially all risks and rewards of ownership to the reporting institution, the transaction should be separately accounted for as an outright purchase plus a commitment to sell back. The securities purchased under such an agreement should be reported as an asset and the commitment to sell back as a forward sale of the securities. Where the price for the commitment to sell back has not been determined, the fair value (i.e. current market price) as of the reporting date should be used.

39. Item 16 - Net positions

This Item 16a (net positions excluding coupon cash flows) is the net amount of items 1a, 5a, 9a and 9b. Show figures in brackets to indicate a short position in any of the time bands.

Item 16b (net positions including coupon cash flows) is item 16a plus any scheduled coupon cash flows¹⁶. For fixed rate positions, coupon payments should be slotted into the appropriate time bands according to their payment schedule until the contractual maturity¹⁷. For floating and managed rate positions, coupon payments should be slotted into the appropriate time bands according to their payment schedule until the the next repricing date. Coupon cash flows on assets should be netted against coupon cash flows on liabilities if they are slotted into the same time band. Coupon cash flows from off-balance sheet positions should also be included.¹⁸

Regarding commercial margins and other spread components, institutions have an explicit choice to either include or exclude them in the cash flows.¹⁹ If institutions have chosen to include commercial margins and other spread components in the cash flows, the spread components must be slotted according to their payment schedule until the contractual maturity,²⁰ irrespective of whether the notional principal has been repriced or not, provided that the notional principal has not yet been repaid and that the spread components do not reprice.

The following example illustrates how coupon payments should be slotted for a floating rate loan with a notional amount of HKD 100 million. The loan expires after ten years and the

¹⁶ These include any interest payment on a tranche of principal that has not yet been repaid or repriced.

¹⁷ In the case of cash flows with optionality (see Section 5.2 of the SPM), the cash flows slotted to each time band should be adjusted to take into account the expected prepayment or early withdrawal behaviour.

¹⁸ For interest rate swaps, the coupon cash flows of the floating and fixed-rate positions should be slotted in a similar manner to those of floating and fixed-rate loans or deposits. For fixed-rate loan or deposit commitments, coupon cash flows only need to be slotted when commercial margins and spread components are included.

¹⁹ The choice should be consistent across all positions and currencies of the institution. However, for derivative positions, institutions can assume there are no commercial margins and other spread components.

²⁰ In the case of floating rate loans subject to prepayment risk, the spread components slotted to each time band should be adjusted to take into account the expected prepayment behaviour.

interest rate is HIBOR+3% (payable annually). The current HIBOR rate is 2% and the next repricing date is in one year's time. When including spread components, the total coupon cash flow should be slotted before the next repricing date, and only spread components should be slotted after the next repricing date. When excluding spread components, only the risk-free rate before the next repricing date should be slotted. Coupon cash flows of managed rate positions that are slotted according to the earliest repricing date should be slotted like floating rate positions.

	<u>Including spread components</u>	<u>Excluding spread components</u>
<u>Next day or less:</u>		
<u>2 to 7 days:</u>		
<u>28 days to 1 month:</u>		
<u>1 to 3 months:</u>		
<u>3 to 6 months:</u>		
<u>6 to 9 months:</u>		
<u>9 to 12 months</u>	<u>5</u>	<u>2</u>
<u>1 to 1.5 years</u>		
<u>1.5 to 2 years</u>	<u>3</u>	
<u>2 to 3 years</u>	<u>3</u>	
<u>3 to 4 years</u>	<u>3</u>	
<u>4 to 5 years</u>	<u>3</u>	
<u>5 to 6 years</u>	<u>3</u>	
<u>6 to 7 years</u>	<u>3</u>	
<u>7 to 8 years</u>	<u>3</u>	
<u>8 to 9 years</u>	<u>3</u>	
<u>9 to 10 years</u>	<u>3</u>	
<u>10 to 15 years</u>		
<u>15 to 20 years</u>		
<u>More than 20 years</u>		

The following example illustrates how coupon payments should be slotted for a fixed rate loan with a notional amount of HKD 100 million. The loan is issued today and expires after ten years. The interest rate on the loan, payable annually, is 5% ~~including spread components and 4% excluding spread components~~. The current 10-year risk-free interest rate is 4%. When including spread components, the total coupon cash flow should be slotted for the remaining life of the loan. When excluding spread components, the corresponding risk-free rate from the yield curve at the time the loan was issued, with the same maturity as the original maturity of the loan, should be slotted for the remaining life of the loan.

Coupon cash flows of non-maturity deposits that are slotted according to behavioural maturity should be slotted like fixed rate loans, however, (i) using only the overnight rate when slotting coupon payments excluding spread components, or, (ii) the prevailing non-maturity deposit rate when slotting coupon payments including spread components.

	<u>Including spread components</u>	<u>Excluding spread components</u>
<u>Next day or less:</u>		
<u>2 to 7 days:</u>		
<u>82 days to 1 month:</u>		
<u>1 to 3 months:</u>		
<u>3 to 6 months:</u>		
<u>6 to 9 months:</u>		
<u>9 to 12 months</u>	<u>5</u>	<u>4</u>
<u>1 to 1.5 years</u>		
<u>1.5 to 2 years</u>	<u>5</u>	<u>4</u>
<u>2 to 3 years</u>	<u>5</u>	<u>4</u>
<u>3 to 4 years</u>	<u>5</u>	<u>4</u>
<u>4 to 5 years</u>	<u>5</u>	<u>4</u>
<u>5 to 6 years</u>	<u>5</u>	<u>4</u>
<u>6 to 7 years</u>	<u>5</u>	<u>4</u>
<u>7 to 8 years</u>	<u>5</u>	<u>4</u>
<u>8 to 9 years</u>	<u>5</u>	<u>4</u>
<u>9 to 10 years</u>	<u>5</u>	<u>4</u>
<u>10 to 15 years</u>		
<u>15 to 20 years</u>		
<u>More than 20 years</u>		

40. Item 17 – Earnings perspective (impact / scenario analysis)

The time weight on earnings under item 17a is used to measure the impact of an interest rate increase of **200 basis** points on the earnings of the reporting institution in a period of 12 months. For example, if an institution has a positive **position** of \$10 million in the **fourth (1 to 3 months)** time band, an increase in interest rates of **200 basis** points would produce additional interest income of approximately **\$166,667** ($\$10,000,000 \times 2\% \times 10/12$) during the 12 month period. This assumes that all positions are repriced at the mid point of each time band. Institutions should calculate the impact of the parallel up and parallel down scenario (see Section 5.3 of the SPM) on the earnings of the reporting institution in a period of 12 months. For a given currency c and under scenario i , institutions should calculate the new net position (excluding coupon cash flows), as net positions under interest rate shock scenarios may vary depending on the way cash flows with optionality are slotted (the net positions should be consistent with those used for economic value impact – see Section 5.2 of the SPM). The new net position $N_{i,c}(k)$ at each time band k should be weighted by a time weight $(1 - t_k) \cdot \Delta r_{i,c}(k)$, where $\Delta r_{i,c}(k)$ denotes the change in interest rates under scenario i and t_k denotes the mid-point of each time band (under Item 17a). For example, for a parallel increase of **200 basis points** across the yield curve, the time weights of individual time bands ~~are thus~~ should be computed as follows:²¹

²¹ Institutions may also use 365 days to calculate the time weights.

Next day or less:	$(1 - 1/360) \cdot 2\%$	(364.5 / 365) x 2%	= 1.994%	= 1.997%
2 to 7 days:	$(1 - 4.5/360) \cdot 2\%$	(360.5 / 365) x 2%	= 1.975%	= 1.975%
<u>8-2 days to 1 month:</u>	$(1 - 159/360) \cdot 2\%$	(346 / 365) x 2%	= 1.894917%	= 1.896%
1 to 3 months:	$(1 - 60/360) \cdot 2\%$	(10 / 12) x 2%	= 1.667%	= 1.667%
3 to 6 months:	$(1 - 135/360) \cdot 2\%$	(7.5 / 12) x 2%	= 1.250%	= 1.250%
6 to 12-9 months:	$(1 - 225/360) \cdot 2\%$	(3 / 12) x 2%	= 0.750%	= 0.500%
<u>9 to 12 months</u>	$(1 - 315/360) \cdot 2\%$		= 0.250%	

Report the weighted net position $N_{i,c}(k) \cdot (1 - t_k) \cdot \Delta r_{i,c}(k)$ under items **17b** and **17c** of each time band. The total impact on earnings over the next 12 months should be calculated by summing the weighted positions in different time bands up to 12 months, as computed by multiplying the net position in each time band reported under item **16** by the corresponding time weight specified under item **17a**, reported under Item **17**. The amounts reported, with short positions shown in brackets, should be rounded to the nearest HK\$-D Million without decimal place.

41. Item 18 – Economic value perspective (impact / scenario analysis)

Institutions should calculate the impact of the six interest rate shock scenarios (see Section 5.3 of the SPM) on economic value of equity (EVE). The HKMA applies a standardised 200-basis-point parallel rate shock to institutions' interest rate risk exposures to measure the economic value impact of the shock. For each given currency c , the impact of the shock is calculated as follows:

- identify the current risk-free rate²², denoted by $r_{0,c}(k)$, at the mid-point of each time band k ;
- multiply the net position reported under item 16 by the corresponding weighting factor²³ under item 18a to obtain a weighted position in each time band report under Item **18a** the current EVE ($E_{0,c}(k)$) for each time band k (with mid-point t_k under item **17a**), by multiplying the net position $CF_{0,c}(k)$ reported under item **16b** by a continuously compounded discount factor.^{24,25}

²² This may be determined, for example, based on a secured interest rate swap curve. Institutions may include commercial margin and other spread components in the risk-free rate only if they have been included in the cash flows (see paragraph 39).

²³ Adopted from the Basel Committee's consultative paper on "Principles for the Management and Supervision of Interest Rate Risk" issued in January 2001, the weighting factors are designed to reflect the sensitivity of positions in different time bands to an assumed parallel shift of 200 basis points throughout the time spectrum. The factors are based on a proxy of modified duration of positions situated at the middle of each time band and yielding 5%, and have been found to be in line with the term structure of Hong Kong dollar interest rates.

²⁴ For the purpose of calculating the EVE impact only, institutions also have the option to slot cash flows onto time band mid-points (under Item **17a**) rather than time bands. This option requires splitting up notional repricing cash

$$E_{0,c}(k) = CF_{0,c}(k) \cdot \exp(-r_{0,c}(k) \cdot t_k);$$

- report in row (UT) under Item 18a the net value of interest rate options (the net amount of Item 14a Total and Item 14b Total).
- for each scenario i , identify the new interest rate $r_{i,c}(k)$ at the mid-point of each time band k , calculate the new net position $CF_{i,c}(k)$ (as net positions under interest rate shock scenarios may vary depending on the way cash flows with optionality are slotted), and calculate the impact on EVE as

$$\Delta E_{i,c}(k) = E_{0,c}(k) - CF_{i,c}(k) \cdot \exp(-r_{i,c}(k) \cdot t_k);$$

- report the amount (with short positions shown in brackets) under item 18b of each time band and round the amount to the nearest HK\$-D Million without decimal place;
- calculate the net value of interest rate options $VAO_{i,c}$ using the new yield curve under each interest rate shock scenario i , and assuming a relative increase in the implicit volatility of 25%;
- report in row (UT) under Item 18 the interest rate option risk measure $KAO_{i,c}$ under each scenario i , calculated as $KAO_{i,c} = VAO_{0,c} - VAO_{i,c}$, where $VAO_{0,c}$ denotes the current net value of interest rate options (as reported in row (UT) under Item 18a);
- report the sum of the weighted positions of all time bands in Total (A to OUT) under item 18; report zero if the sum is less than zero, i.e.

$$\Delta E_{i,c} = \max(0, \sum_k \Delta E_{i,c}(k) + KAO_{i,c});$$

- report the ~~total capital base~~ Tier 1 capital of the institution at the reporting date in row (PVU) under item 18b. The amount reported should be consistent with the amount of “Tier 1 Capital After Deductions” reported in the Form MA(BS)3. For overseas incorporated institutions, they should report the ~~total capital base~~ Tier 1 capital of their head office; and
- express the impact on ~~economic value~~ EVE as a percentage of ~~total capital base~~ Tier 1 capital under item 18b.
- report the total positions in the given currency as a percentage of on-balance sheet assets across all currencies (as defined in paragraph 8), in row (V) under Item 18.

flows between two adjacent time band mid-points. Institutions using this option should re-calculate the net positions on this basis and then discount them using the relevant interest rates.

²⁵ For the purpose of calculating the EVE impact only, institutions may also discount each cash flow using the interest rate that corresponds exactly to the timing of the cash flow, rather than slotting them into time bands.

42. Item 19 – Basis risk (impact / scenario analysis)

Impact on earnings of an institution due to basis risk is measured by the following two scenarios:

- (i) all rates except for fixed and managed rates on interest bearingrate-sensitive assets are subject to the parallel up shockrise by 200 basis points; and
- (ii) managed rates on interest bearingrate-sensitive assets are subject to the parallel down shockdrop by 200 basis points while other rates remain unchanged.

The impact on earnings is calculated under item **19** by assuming that the changes in interest rates last for different periods of time (one month, three months, six months and 12 months) under both scenarios. Both on- and off-balance sheet positions should be included. The calculation is similar to that under the earnings perspective (see ~~item 17~~paragraph 40 above) except that different types of interest rates are subject to different changes ~~and that the current net position (rather than new net positions under interest rate shock scenarios²⁶) should be used.~~ Nevertheless, for floating rate assets that are subject to prime rate (managed rate) caps, they should be re-classified as managed rate assets if the cap becomes binding under scenario (i) for the purpose of calculating the impact on earnings due to basis risk.

For example, assume an institution has a HKD 1 billion floating rate mortgage loan priced at HIBOR+200bps, to be repriced in 2 months, subject to a prime rate cap. The current HIBOR rate is 0.5% and the prime rate is at 4%. Under scenario (i), the prime rate cap on the mortgage loan would become binding. Assuming the scenario lasts for 3 months (assuming that all positions are repriced at the mid-point of each time band), the impact on earnings is HKD 1.25 million, calculated as:

$$1000 \cdot \frac{(90 - 60)}{360} \cdot (\min[4\%, 0.5\% + 2\% + 2\%] - 0.5\% - 2\%) = 1.25$$

~~For example~~Under scenario (ii), if an institution has total managed rate assets of \$HKD 50 million and \$HKD 950 million respectively in the second (2 to 7 days) days to 1 month) and the fourth-third (1 to 3 months) time bands, a drop of 200 basis points in managed rates for three months (assuming 90 days) would reduce interest income from the assets by approximately \$HKD 1.817—791 million during the period. The computation (assuming that all positions are repriced at the mid-point of each time band) is as follows:

<u>Time Band</u>	<u>Time Weight</u>	<u>Position</u>	<u>Impact on earnings</u>
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²⁶ Nevertheless, for floating rate assets that are subject to a cap based on a managed rate, e.g. a HIBOR-based mortgage subject to a cap based on prime, they should be re-classified as managed rate assets if the cap becomes binding under the relevant scenario for the purpose of calculating the impact on earnings due to basis risk.

	(for a drop of 90 days)	<u>\$-HKD</u> million	<u>\$-HKD</u> million
Next day or less:	$\frac{(90-11)}{360} \cdot -2\% = -0.494\%$ $\frac{(89.5-11)}{360} \cdot -2\% = -0.475\%$ 0.490%	0	0
2 to 7 days:	$\frac{(90-4.5)}{360} \cdot -2\% = -0.475\%$ $\frac{(85.5-4.5)}{360} \cdot -2\% = -0.468\%$	50	-0.234238
8 to 2 days to 1 month:	$\frac{(90-195)}{360} \cdot -2\% = -0.39417\%$ $\frac{(71-195)}{360} \cdot -2\% = -0.389\%$	50	-0.208
1 to 3 months:	$\frac{(90-60)}{360} \cdot -2\% = -0.167\%$ $\frac{(1-60)}{360} \cdot -2\% = -0.167\%$	950	-1.583
3 to 6 months:	NA	0	NA
6 to 12 months:	NA	0	NA
		Total =	<u>-1.817791</u>

Hong Kong Monetary Authority
 December 2003 ~~June 2017~~ May 2018

Annex 1

[whole section deleted]

Annex 2

Use of behavioural maturity for reporting interest rate risks

[whole section deleted]

Annex 31

Computation of weighted averaged yield / weighted average interest costs

The following is an example showing the method of calculating the weighted average yield / interest costs: (Please note that the rates used are for illustration only. Reporting institutions should use the actual rates that are applicable to their interest bearing rate-sensitive assets and liabilities.)

<u>Items 1a, 1b / Items 5a, 5b</u>	<u>Amount reported</u>	<u>Of which</u>
Row (A)	100	20 are priced at 2% <u>per month</u> and 80 are priced at 8% per annum
Row (B)	350	200 are priced at 10% and 150 are priced at 9% per annum
Row (C)	50	50 are priced at 12% per annum
Row (D)	0	
Row (E)	0	
Row (F)	0	
Row (G)	0	
Row (H)	0	
Row (I)	500	200 are priced at 13% and 300 are priced at 14% per annum
Row (J)	0	
Row (K)	0	
Row (L)	0	
Row (M)	0	
Row (N)	0	
Row (O)	0	
<u>Row (P)</u>	<u>0</u>	
<u>Row (Q)</u>	<u>0</u>	
<u>Row (R)</u>	<u>0</u>	
<u>Row (S)</u>	<u>0</u>	
Total (A to OS)	1000	

Weighted average yield / interest costs to be reported in items **1c, 1d** / items **5c, 5d** are calculated as follows:

- (i) for **row (A)**

$$(20 \times ((1 + 2\%)^{12} - 1) + 80 \times 8\%) \div 100 \times 100\% = 11.20\%$$
~~$$(20 \times 2\% \times 12 + 80 \times 8\%) \div 100 \times 100\% = 11.20\%$$~~
- (ii) for **row (B)**

$$(200 \times 10\% + 150 \times 9\%) \div 350 \times 100\% = 9.57\%$$
~~$$(200 \times 10\% + 150 \times 9\%) \div 350 \times 100\% = 9.57\%$$~~
- (iii) for **row (C)**

$$(50 \times 12\%) \div 50 \times 100\% = 12.00\%$$
~~$$(50 \times 12\%) \div 50 \times 100\% = 12.00\%$$~~

(iv) for row (I)

$$(200 \times 13\% + 300 \times 14\%) \div 500 \times 100\% = 13.60\%$$

~~$(200 \times 13\% + 300 \times 14\%) \div 500 \times 100\% = 13.60\%$~~