

# Regulatory Disclosures

## 30 September 2020



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## Introduction

In prior years, the Group adopted the foundation internal ratings-based (“FIRB”) approach to calculate the credit risk capital charge for the majority of its non-securitisation exposures and the internal models (“IMM”) approach to calculate the general market risk capital charge for foreign exchange and interest rate exposures respectively.

From 1 January 2020, the Group has migrated to the standardised (credit risk) (“STC”) approach to calculate the credit risk capital charge and the standardised (market risk) (“STM”) approach to calculate the market risk capital charge. The Group continues to adopt the standardised (operational risk) (“STO”) approach to calculate the operational risk capital charge.

As a result of the change in the basis of capital charge calculation, the amounts shown below are not directly comparable.

**KM1: Key prudential ratios**

		At 30 September 2020	At 30 June 2020	At 31 March 2020	At 31 December 2019	At 30 September 2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<b>Regulatory capital (amount)</b>					
1	Common Equity Tier 1 (CET1)	43,142,456	42,131,955	40,952,753	39,813,759	38,831,519
2	Tier 1	52,457,346	51,446,845	50,267,643	49,128,649	48,146,409
3	Total capital	64,833,017	63,696,709	62,566,034	59,345,916	52,867,274
	<b>RWA (amount)</b>					
4	Total RWA	330,482,971	318,440,326	324,039,939	273,125,594	262,752,628
	<b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>					
5	CET1 ratio (%)	13.05%	13.23%	12.64%	14.58%	14.78%
6	Tier 1 ratio (%)	15.87%	16.16%	15.51%	17.99%	18.32%
7	Total capital ratio (%)	19.62%	20.00%	19.31%	21.73%	20.12%
	<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>					
8	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical capital buffer requirement (%)	0.62%	0.63%	0.63%	1.11%	1.33%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	-	-	-	-	-
11	Total AI-specific CET1 buffer requirements (%)	3.12%	3.13%	3.13%	3.61%	3.83%
12	CET1 available after meeting the AI's minimum capital requirements (%)	8.55%	8.73%	8.14%	10.08%	10.28%
	<b>Basel III leverage ratio</b>					
13	Total leverage ratio (LR) exposure measure	507,920,400	498,847,697	492,849,199	512,744,692	480,324,461
14	LR (%)	10.33%	10.31%	10.20%	9.58%	10.02%
	<b>Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)</b>					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	67,437,447	65,988,015	69,226,714	73,600,109	74,736,968
16	Total net cash outflows	41,650,976	44,120,681	45,795,373	47,755,499	48,593,366
17	LCR (%)	162.49%	150.00%	151.34%	154.97%	154.48%
	Applicable to category 2 institution only:					
17a	LMR (%)	N/A	N/A	N/A	N/A	N/A
	<b>Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)</b>					
	Applicable to category 1 institution only:					
18	Total available stable funding	306,570,174	303,380,824	296,981,688	301,381,779	290,141,434
19	Total required stable funding	261,322,481	252,823,944	250,509,520	248,958,643	244,680,316
20	NSFR (%)	117.31%	120.00%	118.55%	121.06%	118.58%
	Applicable to category 2A institution only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

**OV1: Overview of RWA**

		RWA		Minimum capital requirements
		At 30 September 2020	At 30 June 2020	At 30 September 2020
		HK\$'000	HK\$'000	HK\$'000
1	Credit risk for non-securitization exposures	313,217,950	301,525,737	25,057,436
2	Of which STC approach	313,217,950	301,525,737	25,057,436
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	736,110	1,228,661	58,889
7	Of which SA-CCR	N/A	N/A	N/A
7a	Of which CEM	457,792	537,834	36,623
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	278,318	690,827	22,266
10	CVA risk	262,963	296,463	21,037
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	208,350	199,242	16,668
17	Of which SEC - IRBA	-	-	-
18	Of which SEC - ERBA (including IAA)	-	-	-
19	Of which SEC - SA	208,350	199,242	16,668
19a	Of which SEC - FBA	-	-	-
20	Market risk	4,093,738	3,245,375	327,499
21	Of which STM approach	4,093,738	3,245,375	327,499
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	15,711,075	15,704,725	1,256,886
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	15,250	15,250	1,220
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	3,762,465	3,775,127	300,997
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	20,095	-
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	3,762,465	3,755,032	300,997
27	<b>Total</b>	<b>330,482,971</b>	<b>318,440,326</b>	<b>26,438,638</b>

N/A: Not applicable until the respective policy frameworks take effect

**LR2: Leverage ratio**

		At 30 September 2020	At 30 June 2020
		HK\$'000	HK\$'000
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	477,064,179	461,845,720
2	Less: Asset amounts deducted in determining Tier 1 capital	(9,508,986)	(9,235,121)
3	<b>Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>	<b>467,555,193</b>	<b>452,610,599</b>
<b>Exposures arising from derivative contracts</b>			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	571,336	626,423
5	Add-on amounts for PFE associated with all derivative contracts	589,785	711,623
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	(2,093)	(8,913)
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	<b>Total exposures arising from derivative contracts</b>	<b>1,159,028</b>	<b>1,329,133</b>
<b>Exposures arising from SFTs</b>			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	6,662,957	12,614,644
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	365,511	913,211
15	Agent transaction exposures	-	-
16	<b>Total exposures arising from SFTs</b>	<b>7,028,468</b>	<b>13,527,855</b>
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	157,453,349	153,881,507
18	Less: Adjustments for conversion to credit equivalent amounts	(121,715,570)	(119,228,555)
19	<b>Off-balance sheet items</b>	<b>35,737,779</b>	<b>34,652,952</b>
<b>Capital and total exposures</b>			
20	<b>Tier 1 capital</b>	<b>52,457,346</b>	<b>51,446,845</b>
20a	<b>Total exposures before adjustments for specific and collective provisions</b>	<b>511,480,468</b>	<b>502,120,539</b>
20b	<b>Adjustments for specific and collective provisions</b>	<b>(3,560,068)</b>	<b>(3,272,842)</b>
21	<b>Total exposures after adjustments for specific and collective provisions</b>	<b>507,920,400</b>	<b>498,847,697</b>
<b>Leverage ratio</b>			
22	<b>Leverage ratio</b>	<b>10.33%</b>	<b>10.31%</b>

**LIQ1: Liquidity Coverage Ratio – 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: 78		For the quarter ended 30 September 2020	
		UNWEIGHTED VALUE (Average) HK\$'000	WEIGHTED VALUE (Average) HK\$'000
Basis of disclosure: consolidated			
<b>A. HQLA</b>			
1	Total HQLA		<b>67,437,447</b>
<b>B. CASH OUTFLOWS</b>			
2	Retail deposits and small business funding, of which:	149,042,777	10,050,876
3	<i>Stable retail deposits and stable small business funding</i>	28,843,598	865,308
4	<i>Less stable retail deposits and less stable small business funding</i>	55,740,488	5,574,049
4a	<i>Retail term deposits and small business term funding</i>	64,458,691	3,611,519
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	100,696,590	53,275,268
6	<i>Operational deposits</i>	13,967,991	3,291,251
7	<i>Unsecured wholesale funding (other than small business funding) not</i>	86,262,026	49,517,444
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	466,573	466,573
9	Secured funding transactions (including securities swap transactions)		2,562,658
10	Additional requirements, of which:	45,173,117	11,805,486
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	5,544,830	5,544,830
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	-	-
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	39,628,287	6,260,656
14	Contractual lending obligations (not otherwise covered in Section B) and	4,697,930	4,697,930
15	Other contingent funding obligations (whether contractual or non-contractual)	125,042,730	2,356,396
16	<b>TOTAL CASH OUTFLOWS</b>		<b>84,748,614</b>
<b>C. CASH INFLOWS</b>			
17	Secured lending transactions (including securities swap transactions)	792,123	792,123
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial	53,600,524	35,452,529
19	Other cash inflows	7,134,961	6,852,986
20	<b>TOTAL CASH INFLOWS</b>	<b>61,527,608</b>	<b>43,097,638</b>
<b>D. LIQUIDITY COVERAGE RATIO</b>			<b>ADJUSTED VALUE</b>
21	<b>TOTAL HQLA</b>		<b>67,437,447</b>
22	<b>TOTAL NET CASH OUTFLOWS</b>		<b>41,650,976</b>
23	<b>LCR (%)</b>		<b>162.49%</b>

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## **LIQ1: Liquidity Coverage Ratio – for category 1 institution (continued)**

Notes:

The weighted amount of HQLA is to be calculated as the amount after applying the haircuts as required under the Banking (Liquidity) Rules.

The unweighted amounts of cash inflows and cash outflows are to be calculated as the principal amounts in the calculation of the LCR as required under the Banking (Liquidity) Rules.

The weighted amounts of cash inflows and cash outflows are to be calculated as the amounts after applying the inflow and outflow rates as required under the Banking (Liquidity) Rules.

The adjusted value of total HQLA and the total net cash outflows have taken into account any applicable ceiling as required under the Banking (Liquidity) Rules.

In the third quarter of 2020, the Group has maintained a healthy liquidity position. The LCR remained stable and there was no material change compared with the last quarter. The average LCR of the third quarter of 2020 was 162.49%. The average HKD level 1 HQLA to HKD net cash outflow ratio of the third quarter of 2020 was 149.81%, well above the regulatory requirement of 20%. The ratios have maintained at stable and healthy levels.

The HQLA consists of cash, balances at central banks and high quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks and non-financial corporate debt securities.

In the third quarter of 2020, the majority of the HQLA was composed of Level 1 HQLA.

The net cash outflow was mainly from retail and corporate customer deposit which are the Group's primary source of funds, together with deposit and balance from bank and other financial institution. To ensure stable, sufficient and diversified source of funds, the Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market. Other cash outflow, such as commitment, cash outflow under derivative contract and potential collateral requirement, were minimal to the LCR.

Majority of the Group's customer deposits are denominated in HKD, USD and RMB. As the supply of HKD denominated HQLA in the market is relatively limited, the Group swaps surplus HKD funding into USD and other foreign currencies, part of funding are deployed to investment in HQLA.