Regulatory Disclosures

31 December 2020

中國銀行(香港)有限公司
BANK OF CHINA (HONG KONG) LIMITED

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1. Key prudential ratios, key metrics, overview of risk management and RWA

KM1: Key prudential ratios

		(a) At 31 December 2020 HK$'m	(b) At 30 September 2020 HK$'m	(c) At 30 June 2020 HK$'m	(d) At 31 March 2020 HK$'m	(e) At 31 December 2019 HK$'m
	Regulatory capital					
1	Common Equity Tier 1 (CET1)	216,542	216,426	216,560	201,094	195,039
2	Tier 1	240,018	239,902	240,036	224,570	218,515
3	Total capital	269,576	270,581	270,258	255,360	251,370
	RWA					
4	Total RWA	1,220,000	1,347,574	1,169,600	1,165,836	1,098,018
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	17.75%	16.06%	18.52%	17.25%	17.76%
6	Tier 1 ratio (%)	19.67%	17.80%	20.52%	19.26%	19.90%
7	Total capital ratio (%)	22.10%	20.08%	23.11%	21.90%	22.89%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.500%	2.500%	2.500%	2.500%	2.500%
9	Countercyclical capital buffer requirement (%)	0.790%	0.809%	0.778%	0.780%	1.552%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	1.500%	1.500%	1.500%	1.500%	1.500%
11	Total AI-specific CET1 buffer requirements (%)	4.790%	4.809%	4.778%	4.780%	5.552%
12	CET1 available after meeting the AI's minimum capital requirements (%)	13.25%	11.56%	14.02%	12.75%	13.26%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	3,036,425	3,438,516	2,960,539	2,866,862	2,799,606
14	LR (%)	7.90%	6.98%	8.11%	7.83%	7.81%
	Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	829,430	704,240	629,778	655,935	645,105
16	Total net cash outflows	648,810	550,321	487,193	451,052	452,123
17	LCR (%)	129.65%	128.55%	129.63%	146.14%	143.00%
	Applicable to category 2 institution only:					
17a	LMR (%)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
	Net Stable Funding Ratio (NSFR)/Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	1,726,956	1,669,808	1,662,594	1,634,103	1,595,457
19	Total required stable funding	1,393,610	1,455,375	1,423,913	1,409,245	1,363,567
20	NSFR (%)	123.92%	114.73%	116.76%	115.96%	117.01%
	Applicable to category 2A institution only:					
20a	CFR (%)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

1. Key prudential ratios, key metrics, overview of risk management and RWA (continued)

KM2(A): Key metrics – LAC requirements for material subsidiaries (at LAC consolidation group level)

		(a) At 31 December 2020 HK$'m	(b) At 30 September 2020 HK$'m	(c) At 30 June 2020 HK$'m	(d) At 31 March 2020[1] HK$'m	(e) At 31 December 2019[1] HK$'m
Of the material entity at LAC consolidation group level						
1	Internal loss-absorbing capacity available	246,100	247,105	246,782	Not applicable	Not applicable
2	Risk-weighted amount under the LAC Rules	1,220,000	1,347,574	1,169,600	Not applicable	Not applicable
3	Internal LAC risk-weighted ratio	20.17%	18.34%	21.10%	Not applicable	Not applicable
4	Exposure measure under the LAC Rules	3,036,425	3,438,516	2,960,539	Not applicable	Not applicable
5	Internal LAC leverage ratio	8.10%	7.19%	8.34%	Not applicable	Not applicable
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?[2]	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?[2]	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
6c	If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised as external loss-absorbing capacity, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised as external loss-absorbing capacity if no cap was applied[2]	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

Footnote:

[1] The LAC disclosures for the Group commences on 30 June 2020 in accordance with the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ("LAC Rules"), accordingly the prior periods' metrics are not available.

[2] The subordination exemptions under Section 11 of the Financial Stability Board ("FSB") Total Loss-absorbing Capacity Term Sheet ("TLAC Term Sheet") do not apply in Hong Kong under the LAC Rules.

1. Key prudential ratios, key metrics, overview of risk management and RWA (continued)

KM2(B): Key metrics – TLAC requirements for non-HK resolution entity (at resolution group level)

		(a)	(b)	(c)	(d)	(e)
		At 31 December 2020[1]	**At 30 September 2020[1]**	**At 30 June 2020[1]**	**At 31 March 2020**	**At 31 December 2019**
		HK$'m	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**
Of the non-HK resolution entity at resolution group level						
1	External loss-absorbing capacity available	2,921,224	2,743,041	2,517,967	Not applicable	Not applicable
2	Total risk-weighted amount under the relevant non-HK LAC regime	18,007,355	Not applicable[2]	16,324,797	Not applicable	Not applicable
3	External loss-absorbing capacity as a percentage of risk-weighted amount	16.22%	15.69%	15.42%	Not applicable	Not applicable
4	Leverage ratio exposure measure under the relevant non-HK LAC regime	30,844,993	29,757,570	28,135,870	Not applicable	Not applicable
5	External loss-absorbing capacity as a percentage of leverage ratio exposure measure	9.47%	9.22%	8.95%	Not applicable	Not applicable
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
6c	If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised as external loss-absorbing capacity, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised as external loss-absorbing capacity if no cap was applied	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

Footnote:
[1] The relevant non-HK LAC regime in the non-HK jurisdiction is not yet implemented and that the values for rows 1 to 5 are reported on the regulatory capital regime of the non-HK jurisdiction as proxies.
[2] "Not applicable" is reported because the value was not published by the non-HK resolution entity.

1. Key prudential ratios, key metrics, overview of risk management and RWA (continued)

OVA: Overview of risk management

The Group conducts risk assessment in daily operations based on its business activities, sets up risk appetite, and sets risk adjusted return targets as well as different levels of risk limits and KRIs under the overall risk appetite framework. Via such risk limits and KRIs, the risk appetite is cascaded to business units into corresponding performance indicators, so as to supervise business units to make proper adjustments to the Bank's operations based on current risk status.

The Group conducts regular assessment on risk management status and risk governance based on regulatory requirements and assesses the Bank's level of internal capital adequacy accordingly. The key types of risk inherent in the Group's business include: credit risk, market risk, interest rate risk, liquidity risk, operational risk, technology risk, legal and compliance risk (including anti-money laundering risk), reputation risk and strategic risk.

The Group's risk governance structure covers 3 layers: the Board of Directors and its subordinate committees, the senior management and the management level committees, the three lines of defence risk management functions.

- Board of Directors: The Board of Directors represents the interests of shareholders, and is the highest decision making authority of the Group and has the ultimate responsibility for the oversight of risk management. The Board with the assistance of its committees has the primary responsibilities for the determination of risk management strategies, risk appetite and risk culture, and for ensuring that the Group has an effective risk management system to implement these risk management strategies.

- Senior management: Chief Executive ("CE") is responsible for managing the various types of risks that the Group is exposed to, and approving material risk exposures or transactions within his authority delegated by the Board. The Deputy Chief Executives ("DCEs") assist the CE in fulfilling his responsibilities on day-to-day management of various types of risk and are responsible for approving material risk exposures or transactions within their authorities delegated by the CE. The Deputy Chief Executive in charge of legal, compliance, operational risk and anti-money laundering together with the Chief Risk Officer ("CRO") assist the CE in fulfilling his responsibilities on day-to-day management of various types of risks and internal control; responsible for initiating new risk management strategies, projects and measures in response to regulatory changes that will enable the Group to better monitor and manage any risks that may arise from time to time from new businesses, products and changes in the operating environment and responsible for reviewing material risk exposures or transactions within the delegated authority.

1. Key prudential ratios, key metrics, overview of risk management and RWA (continued)

OVA: Overview of risk management (continued)

- Individual business units (front office): Act as the first line of defence of risk management and are responsible for soliciting business in compliance with the risk management policies and procedures and within various risk limits, and for assessing and monitoring the risk of their business, and ensuring risk data is correctly entered, kept current and aligned with the data definitions.

- Various risk management units (middle office) and supporting units (back office): Act as the second line of defence of risk management. Various risk management units (middle office), which are independent from the business units, are responsible for day-to-day management of different kinds of risks. They have the primary responsibilities for conducting an independent due diligence through identifying, measuring, monitoring and controlling risk to ensure an effective check and balance, as well as drafting various risk management policies and procedures. They are also responsible for reporting the implementation of risk management policies and risk profiles to the Board and the Management and for providing support and recommendations for their decision-making. Supporting units (back office) are responsible for providing proper day-to-day operations support to ensure that there are adequate human resources and systems to support risk management.

- Group Audit: Acts as the third line of defence of risk management, which is responsible for conducting independent checking, and reporting to the Board on the quality of risk management supervision, the adequacy of internal controls and the compliance of internal policies and procedures.

The Group develops various codes of conduct and has sound management systems in place to enforce them. The standards of conduct are laid down in its risk management policies, and other operating principles and guidelines. All staff are required to follow them when conducting business.

The Group makes use of appropriate training programmes, remuneration, incentive, reward and penalty schemes, assessment and feedback mechanism to guide and drive staff to conduct business in a responsible, honest, practical and proper manner.

The Group’s risk management measurement system covers comprehensive quantitative and qualitative indicators of the 8 major risk categories as required by regulator.

Under such system, the Group sets risk appetite and regularly reviews and monitors risk appetite and risk limits based on operating conditions and risk status, and reports regularly to senior management and the Board.

1. Key prudential ratios, key metrics, overview of risk management and RWA (continued)

OVA: Overview of risk management (continued)

Regular risk reporting is made to the senior management and the Board, and such regular reporting covers:

- Implementation status of Group Risk Appetite, risk limits and KRIs
- Risk status of major risk types, portfolios and exposures
- Major regulatory compliance requirements and implementation status
- Significant risk, compliance and internal control incidents/events
- Matters of concern and main tasks

Ad hoc reporting to senior management and the Board is also conducted based on business needs of risk management and internal control.

Based on regulatory requirements, the Group conducts a variety of stress tests on individual risks and integrated risks each year. The Group also conducts special scenario analysis, sensitivity analysis and stress testing according to emerging issues or by specific areas or businesses. Each stress testing scenario takes into account 3 levels of severity, i.e. mild, moderate, and severe, while different probabilities are applied based on level of severity. Impacts on macroeconomic and market will be evaluated under different scenarios, and impact on Group's risk indicators are also assessed accordingly.

The Bank shall apply stress testing results to various management decisions, including decisions made on strategic businesses, preparation of the business and capital planning, setting of the risk appetite, setting and adjustment of the risk limit, inclusion in the Internal Capital Adequacy Assessment Process ("ICAAP"), performance of liquidity assessment, implementation of remedial actions and recovery plan, etc.

The strategies and processes to manage, hedge and mitigate risks that arise from the AI's business model include:

1. Establishing clear risk management strategies and ensuring that a comprehensive risk management system is in place to identify, assess, monitor and control various kinds of risks.

2. Establishing risk management units with clear responsibilities to perform independent risk management and control.

3. Establishing effective communication system that enables the "tone of the top" on risk management are communicated to and understood by every employee so that they could comply with BOCHK's risk management strategies.

1. Key prudential ratios, key metrics, overview of risk management and RWA (continued)

OVA: Overview of risk management (continued)

4. Putting in place supporting policies and procedures as well as clear authority structure that guide employees' behaviors and set clear boundaries for actions.

5. Setting the risk appetite of the Group. Empirical and/or quantitative models shall be used to set limits for quantifiable risks (including credit risk, market risk, interest rate risk and liquidity risk) to ensure that exposures to such risks are controlled within acceptable risk levels.

6. Continuously strengthen risk data aggregation capabilities, establishing a comprehensive risk management information system that provides regular and sufficiently detailed reports for the Board and the Management to facilitate their continuous monitoring of the risk profile of the Group as well as the implementation of risk management policies (especially exceptions).

7. Establishing independent internal audit, review and accountability system so as to review and evaluate the implementation of the Group's risk management system.

The Group has established various risk limits and early warning indicators of different types and different approval levels, and regularly monitors and reports implementation status to senior management and the Board. If such indicators approach or breach the early warning level or pre-set limits, timely assessment will be conducted by relevant function units and reported to corresponding approval level, and appropriate mitigation actions will be taken accordingly.

1. Key prudential ratios, key metrics, overview of risk management and RWA (continued)

OV1: Overview of RWA

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		At 31 December 2020	At 30 September 2020	At 31 December 2020
		HK$'m	HK$'m	HK$'m
1	Credit risk for non-securitization exposures	1,055,377	1,162,908	88,995
2	Of which STC approach	104,371	106,679	8,350
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	950,382	1,055,603	80,592
4	Of which supervisory slotting criteria approach	624	626	53
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	11,701	11,580	981
7	Of which SA-CCR	Not applicable	Not applicable	Not applicable
7a	Of which CEM	10,574	10,462	889
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	1,127	1,118	92
10	CVA risk	7,738	8,082	619
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA	Not applicable	Not applicable	Not applicable
13	CIS exposures – MBA	Not applicable	Not applicable	Not applicable
14	CIS exposures – FBA	Not applicable	Not applicable	Not applicable
14a	CIS exposures – combination of approaches	Not applicable	Not applicable	Not applicable
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which SEC-IRBA	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-
20	Market risk	9,880	15,914	790
21	Of which STM approach	885	1,130	71
22	Of which IMM approach	8,995	14,784	719
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	Not applicable	Not applicable	Not applicable
24	Operational risk	98,493	105,739	7,880
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	6,360	7,110	509
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	27,177	27,695	2,174
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	27,177	27,695	2,174
27	Total	1,162,372	1,283,638	97,600

In this table, RWAs for credit risk calculated under the IRB approach are before the application of the 1.06 scaling factor. Minimum capital requirement represents the amount of capital required to be held for that risk based on its RWAs after any applicable scaling factor multiplied by 8%.

Compared with 30 September 2020, RWA under foundation IRB approach decreased by HK$105,221 million, and the main driver was due to decrease in IPO business.

2. Linkages between financial statements and regulatory exposures

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	At 31 December 2020						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
Assets							
Cash and balances and placements with banks and other financial institutions	463,081	462,605	461,022	1,583	-	-	-
Financial assets at fair value through profit or loss	32,745	32,567	2,461	3,418	-	26,688	-
Derivative financial instruments	52,811	52,811	-	52,766	-	52,761	58
Hong Kong SAR Government certificates of indebtedness	189,550	189,550	189,550	-	-	-	-
Advances and other accounts	1,499,808	1,499,808	1,499,808	-	-	-	-
Investment in securities	789,869	789,862	789,862	210	-	-	-
Interests in subsidiaries	-	802	802	-	-	-	-
Interests in associates and joint ventures	663	663	663	-	-	-	-
Investment properties	18,740	18,598	18,598	-	-	-	-
Properties, plant and equipment	46,504	46,008	46,008	-	-	-	-
Current tax assets	69	69	-	-	-	-	69
Deferred tax assets	95	91	-	-	-	-	91
Other assets	50,595	50,360	33,930	16,430	-	10,697	-
Total assets	**3,144,530**	**3,143,794**	**3,042,704**	**74,407**	**-**	**90,146**	**218**

2. Linkages between financial statements and regulatory exposures (continued)

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (continued)

	At 31 December 2020						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
Liabilities							
Hong Kong SAR currency notes in circulation	189,550	189,550	-	-	-	-	189,550
Deposits and balances from banks and other financial institutions	326,241	326,241	-	-	-	-	326,241
Financial liabilities at fair value through profit or loss	20,336	20,336	-	-	-	20,336	-
Derivative financial instruments	60,355	60,355	-	60,243	-	54,143	104
Deposits from customers	2,190,322	2,190,655	-	-	-	-	2,190,655
Debt securities and certificates of deposit in issue	426	426	-	-	-	-	426
Other accounts and provisions	51,086	50,878	-	-	-	-	50,878
Current tax liabilities	3,878	3,870	-	-	-	-	3,870
Deferred tax liabilities	5,778	5,634	-	-	-	-	5,634
Total liabilities	**2,847,972**	**2,847,945**	**-**	**60,243**	**-**	**74,479**	**2,767,358**

2. Linkages between financial statements and regulatory exposures (continued)

LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		At 31 December 2020				
		(a)	(b)	(c)	(d)	(e)
			Items subject to:			
		Total	credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
		HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	3,143,576	3,042,704	-	74,407	90,146
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	80,587	-	-	60,243	74,479
3	Total net amount under regulatory scope of consolidation	3,062,989	3,042,704	-	14,164	15,667
4	Off-balance sheet amounts	767,822	156,703	-	-	-
5	Differences due to PFE	12,758	-	-	12,758	-
6	Differences due to different netting rules, other than those already included in row 2	33,136	-	-	32,496	-
7	Differences due to consideration of provisions	8,504	8,504	-	-	-
8	Differences in valuations	2,002	-	-	2,002	-
9	Differences due to CRM and others	58,516	63,793	-	(5,277)	-
10	**Exposure amounts considered for regulatory purposes**	**3,945,727**	**3,271,704**	**-**	**56,143**	**15,667**

2. Linkages between financial statements and regulatory exposures (continued)

LIA: Explanations of differences between accounting and regulatory exposure amounts

The main driver for the differences between accounting values and amounts considered for regulatory purposes is off-balance sheet amounts, which contribute to exposure amounts considered for regulatory purposes but not the carrying value amount under scope of regulatory consolidation.

The Group has an established governance structure and controls framework to ensure that fair values are either determined or validated by control units independent of the front offices. Control units have overall responsibility for independent verification of valuation results from front line businesses and all other significant fair value measurements. Other specific controls include verification of observable pricing inputs; review and approval for new models and changes to models; calibration and back-testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; review of significant unobservable inputs and valuation adjustments. Significant valuation issues are reported to senior management, Risk Committee (“RMC”) and Audit Committee.

The Group chooses appropriate valuation methodologies in corresponding to the nature, position and complexity of treasury products and derivatives. They can be classified into marking-to-market and marking-to-model.

Marking-to-market is valuation of positions by adopting readily available and observable close out prices in the market. If market quotation is not available, marking-to-model should be adopted. Marking-to-model is valuation which has to be benchmarked, extrapolated or otherwise derived from market data inputs.

For marking-to-market, the Group uses the price within the bid-offer spread that is most representative of the fair value of financial instruments, where appropriate, includes using on the residual of the net offsetting risk position of portfolios of financial assets and financial liabilities in cases the Group manages such groups of financial assets and liabilities according to their net market risk exposures.

If the market for assets or liabilities is not active, the Group uses valuation techniques, including the use of recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants, that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2. Linkages between financial statements and regulatory exposures (continued)

LIA: Explanations of differences between accounting and regulatory exposure amounts (continued)

Control units independently verify the results of fair value measurements. They source observable data from external independent parties, and compare them to the pricing inputs used in valuation for the financial instruments measured at fair value. If the difference is within a certain pre-set threshold, the selected input is considered as reasonable and can represent current market situation, which supports the conclusion that valuation is reliable.

On top of accounting valuation, the Group conducts liquidity risk adjustments for risk management and regulatory capital adequacy purpose in order to arrive at a prudent value. The Group has continued to consider the liquidity risk adjustment to valuation of less liquid product positions. The appropriateness of the valuation adjustments is reviewed regularly.

2. Linkages between financial statements and regulatory exposures (continued)

PV1: Prudent valuation adjustments

		At 31 December 2020							
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
		Equity	**Interest rates**	**FX**	**Credit**	**Commodities**	**Total**	**Of which: In the trading book**	**Of which: In the banking book**
		HK$'m	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**
1	Close-out uncertainty, of which:	-	24	-	-	-	24	-	24
2	*Mid-market value*	-	-	-	-	-	-	-	-
3	*Close-out costs*	-	-	-	-	-	-	-	-
4	*Concentration*	-	*24*	-	-	-	*24*	-	*24*
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risks	-	-	-	-	-	-	-	-
8	Investing and funding costs						-	-	-
9	Unearned credit spreads						-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other adjustments	-	-	-	-	-	-	-	-
12	**Total adjustments**	**-**	**24**	**-**	**-**	**-**	**24**	**-**	**24**

The Group has basically considered close-out uncertainty, model risk and unearned credit spreads in valuation. Assessment of valuation adjustment attributed to early termination, operational risks, investing and funding costs and future administrative costs is not performed.

3. Composition of regulatory capital

CC1: Composition of regulatory capital

		At 31 December 2020	
		(a)	(b)
		HK$'m	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	43,043	(6)
2	Retained earnings	184,230	(7)
3	Disclosed reserves	45,100	(9)+(10)+(11)+(12)
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	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	**CET1 capital before regulatory deductions**	**272,373**	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	24	Not applicable
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	1,502	(3)-(5)
10	Deferred tax assets (net of associated deferred tax liabilities)	91	(2)
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	21	(1)+(4)
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
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 LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
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	54,193	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	49,413	(8)+(9)
26b	Regulatory reserve for general banking risks	4,780	(11)
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)	-	

3. Composition of regulatory capital (continued)

CC1: Composition of regulatory capital (continued)

		At 31 December 2020	
		(a)	(b)
		HK$'m	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	**Total regulatory deductions to CET1 capital**	**55,831**	
29	**CET1 capital**	**216,542**	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	23,476	
31	of which: classified as equity under applicable accounting standards	23,476	(13)
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Capital instruments subject to phase-out arrangements from AT1 capital*	-	
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	**AT1 capital before regulatory deductions**	**23,476**	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant LAC 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	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	**Total regulatory deductions to AT1 capital**	**-**	
44	**AT1 capital**	**23,476**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**240,018**	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	*Capital instruments subject to phase-out arrangements from Tier 2 capital*	-	
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	*of which: capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	7,322	Not applicable
51	**Tier 2 capital before regulatory deductions**	**7,322**	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	

3. Composition of regulatory capital (continued)

CC1: Composition of regulatory capital (continued)

		At 31 December 2020	
		(a)	(b)
		HK$'m	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as “section 2 institution” under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of 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	(22,236)	
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	(22,236)	[(8)+(9)]*45%
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	**Total regulatory adjustments to Tier 2 capital**	**(22,236)**	
58	**Tier 2 capital (T2)**	**29,558**	
59	**Total regulatory capital (TC = T1 + T2)**	**269,576**	
60	**Total RWA**	**1,220,000**	
	Capital ratios (as a percentage of RWA)		
61	**CET1 capital ratio**	**17.75%**	
62	**Tier 1 capital ratio**	**19.67%**	
63	**Total capital ratio**	**22.10%**	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	**4.790%**	
65	of which: capital conservation buffer requirement	2.500%	
66	of which: bank specific countercyclical capital buffer requirement	0.790%	
67	of which: higher loss absorbency requirement	1.500%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	13.25%	
	National minima (if different from Basel 3 minimum)		
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
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	17,659	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	3,544	
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

3. Composition of regulatory capital (continued)

CC1: Composition of regulatory capital (continued)

		At 31 December 2020	
		(a)	(b)
		HK$'m	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Applicable caps on the inclusion of provisions in Tier 2 capital		
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)	1,214	
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	1,404	
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)	6,598	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	6,108	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	Not applicable
82	*Current cap on AT1 capital instruments subject to phase-out arrangements*	-	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on Tier 2 capital instruments subject to phase-out arrangements*	-	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	-	

3. Composition of regulatory capital (continued)

CC1: Composition of regulatory capital (continued)

Notes to the Template

Row No.	Description	Hong Kong basis HK$'m	Basel III basis HK$'m
9	**Other intangible assets (net of associated deferred tax liabilities)**	1,502	-
	Explanation 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.		
10	**Deferred tax assets (net of associated deferred tax liabilities)**	91	-
	Explanation 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.		
18	**Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	-	-
	Explanation For the purpose of determining the total amount of insignificant LAC 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.		
19	**Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	-	-
	Explanation For the purpose of determining the total amount of significant LAC 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.		

3. Composition of regulatory capital (continued)

CC1: Composition of regulatory capital (continued)

Row No.	Description	Hong Kong basis HK$'m	Basel III basis HK$'m
39	**Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	-	-
	Explanation 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 LAC 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.		
54	**Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)**	-	-
	Explanation 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 LAC investments in Tier 2 capital instruments and non-capital LAC liabilities 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.		
Remarks: The amount of the 10% threshold and 5% 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.			

Abbreviations:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

3. Composition of regulatory capital (continued)

CC2: Reconciliation of regulatory capital to balance sheet

	(a) Balance sheet as in published financial statements as at 31 December 2020	(b) Under regulatory scope of consolidation as at 31 December 2020	(c) Reference
	HK$'m	HK$'m	
ASSETS			
Cash and balances and placements with banks and other financial institutions	463,081	462,605	
Financial assets at fair value through profit or loss	32,745	32,567	
Derivative financial instruments	52,811	52,811	
- of which: debit valuation adjustments in respect of derivative contracts		*13*	(1)
Hong Kong SAR Government certificates of indebtedness	189,550	189,550	
Advances and other accounts	1,499,808	1,499,808	
Investment in securities	789,869	789,862	
Interests in subsidiaries	-	802	
Interests in associates and joint ventures	663	663	
Investment properties	18,740	18,598	
Properties, plant and equipment	46,504	46,008	
Current tax assets	69	69	
Deferred tax assets	95	91	(2)
Other assets	50,595	50,360	
- of which: other intangible assets		*1,798*	(3)
Total assets	**3,144,530**	**3,143,794**	
LIABILITIES			
Hong Kong SAR currency notes in circulation	189,550	189,550	
Deposits and balances from banks and other financial institutions	326,241	326,241	
Financial liabilities at fair value through profit or loss	20,336	20,336	
Derivative financial instruments	60,355	60,355	
- of which: debit valuation adjustments in respect of derivative contracts		*(8)*	(4)
Deposits from customers	2,190,322	2,190,655	
Debt securities and certificates of deposit in issue	426	426	
Other accounts and provisions	51,086	50,878	
Current tax liabilities	3,878	3,870	
Deferred tax liabilities	5,778	5,634	
- of which: deferred tax liabilities related to other intangible assets		*296*	(5)
Total liabilities	**2,847,972**	**2,847,945**	

3. Composition of regulatory capital (continued)

CC2: Reconciliation of regulatory capital to balance sheet (continued)

	(a)	(b)	(c)
	Balance sheet as in published financial statements as at 31 December 2020	**Under regulatory scope of consolidation as at 31 December 2020**	**Reference**
	HK$'m	**HK$'m**	
EQUITY			
Share capital	**43,043**	**43,043**	(6)
Reserves	**229,749**	**229,330**	
- Retained earnings	183,634	184,230	(7)
- of which: cumulative fair value gains arising from the revaluation of investment properties		*12,313*	(8)
- Premises revaluation reserve	38,105	37,100	(9)
- Reserve for fair value changes	3,733	3,735	(10)
- Regulatory reserve	4,780	4,780	(11)
- Translation reserve	(503)	(515)	(12)
Capital and reserves attributable to equity holders of the Bank	**272,792**	**272,373**	
Other equity instruments of the Bank	**23,476**	**23,476**	(13)
Non-controlling interests	**290**	**-**	
Total equity	**296,558**	**295,849**	
Total liabilities and equity	**3,144,530**	**3,143,794**	

3. Composition of regulatory capital (continued)

CCA(A): Main features of regulatory capital instruments and non-capital LAC debt instruments

	(i) Instruments that meet both regulatory capital and LAC requirements	(a) **CET1 Capital Ordinary shares**
1	Issuer	Bank of China (Hong Kong) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable
3	Governing law(s) of the instrument	Hong Kong law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	Not applicable
	Regulatory treatment	
4	Transitional Basel III rules[1]	Not applicable
5	Post-transitional Basel III rules[2]	Common Equity Tier 1
6	Eligible at solo*/group/solo and group (for regulatory capital purposes)	Solo and Group
6a	Eligible at solo*/LAC consolidation group/solo and LAC consolidation group (for LAC purposes)	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HK$43,043m (as of 31 December 2020)
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HK$43,043m (as of 31 December 2020)
9	Par value of instrument	No par value (refer to Note 1 for details)
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1 October 2001 (refer to Note 2 for details)
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity date
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption price	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons/dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned)	Subordinated capital securities mentioned in column (b) of this main features table
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable
Full terms and conditions		Click here to download

3. Composition of regulatory capital (continued)

CCA(A): Main features of regulatory capital instruments and non-capital LAC debt instruments (continued)

(ii)	Instruments that meet only regulatory capital (but not LAC) requirements	(b) **Additional Tier 1 Capital Subordinated capital securities**
1	Issuer	Bank of China (Hong Kong) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Rule 144A: CUSIP - 06428JAA7 ISIN - US06428JAA79 Regulation S: CUSIP - 06428YAA4 ISIN - US06428YAA47
3	Governing law(s) of the instrument	English law, except that the provisions of the Capital Securities relating to subordination shall be governed by Hong Kong law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	Not applicable
	Regulatory treatment	
4	Transitional Basel III rules[1]	Not applicable
5	Post-transitional Basel III rules[2]	Additional Tier 1
6	Eligible at solo*/group/solo and group (for regulatory capital purposes)	Solo and Group
6a	Eligible at solo*/LAC consolidation group/solo and LAC consolidation group (for LAC purposes)	Not applicable
7	Instrument type (types to be specified by each jurisdiction)	Perpetual debt instruments
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HK$23,476m (as of 31 December 2020)
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	Not applicable
9	Par value of instrument	USD3,000m
10	Accounting classification	Shareholders' equity
11	Original date of issuance	14 September 2018
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity date
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption price	First call date: 14 September 2023 The issuer may redeem all but not some only of the Capital Securities then outstanding Also early redemption for tax reasons; tax deduction reasons; capital event; at the option of the issuer etc (please refer to "Terms & Conditions of the Capital Securities" at p.100 of the Supplemental Offering Circular dated 11 September 2018 for further details on call dates and redemption amounts)
16	Subsequent call dates, if applicable	Any distribution payment date after the first call date
	Coupons/dividends	
17	Fixed or floating dividend/coupon	Fixed

3. Composition of regulatory capital (continued)

CCA(A): Main features of regulatory capital instruments and non-capital LAC debt instruments (continued)

		(b) **Additional Tier 1 Capital Subordinated capital securities**
18	Coupon rate and any related index	Years 1-5: 5.90% per annum payable semi-annually in arrear; Year 5 onwards: resettable on year 5 and every 5 years thereafter at the then prevailing 5-year US Treasury rate plus 3.036% p.a.
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible (refer to Note 3 for details)
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Upon the occurrence of a Non-Viability Event
32	If write-down, full or partial	Full or Partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	Not applicable
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned)	(i) Subordinate to (a) all unsubordinated creditors of the issuer (including its depositors), (b) creditors in respect of Tier 2 Capital Securities, and (c) all other subordinated creditors whose claims are stated to rank senior to the Capital Securities; (ii) Pari passu to parity obligations; and (iii) Senior to junior obligations (Please refer to Condition 3(B) of the "Terms & Conditions of the Capital Securities")
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable
Full terms and conditions		Click here to download

Footnote:
[1] *Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules*
[2] *Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules*
* *Include solo-consolidated*

3. Composition of regulatory capital (continued)

CCA(A): Main features of regulatory capital instruments and non-capital LAC debt instruments (continued)

Note 1:

Pursuant to the Hong Kong Companies Ordinance (Chapter 622) which commenced operation on 3 March 2014, all shares issued by a company incorporated in Hong Kong before, on and after that commencement date shall have no par value and the relevant concept of authorised share capital is abolished.

Note 2:

- The authorised share capital of Bank of China (Hong Kong) Limited ("BOCHK"), comprising 4 million ordinary shares of HK$100 each, was subdivided into 400 million ordinary shares of HK$1 each pursuant to shareholders written resolution of BOCHK passed on 3 September 2001.
- On 30 September 2001, 400 million shares in the capital of BOCHK were transferred from Bank of China Limited to BOC Hong Kong (Holdings) Limited ("BOCHK Holdings") pursuant to Supplemental Merger Agreement.
- BOCHK then issued a total of 42,642,840,858 ordinary shares at par value of HK$1 each to BOCHK Holdings on 1 October 2001. Hence, the total issued and paid-up share capital of BOCHK was HK$43,042,840,858 since 2001.
- The concepts of par value for shares and authorised share capital have been abolished following the commencement of the Hong Kong Companies Ordinance (Chapter 622) as mentioned in Note 1.

Note 3:

Contractually, the Additional Tier 1 capital securities are non-convertible.

3. Composition of regulatory capital (continued)

TLAC1(A): LAC composition of material subsidiary (at LAC consolidation group level)

		At 31 December 2020
		(a)
		HK$'m
	Regulatory capital elements of internal loss-absorbing capacity and adjustments	
1	Common Equity Tier 1 ("CET1") capital	216,542
2	Additional Tier 1 ("AT1") capital before LAC adjustments	23,476
3	AT1 capital instruments ineligible as internal loss-absorbing capacity as not issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	(23,476)
4	Other adjustments	-
5	AT1 capital eligible under the LAC Rules	-
6	Tier 2 ("T2") capital before LAC adjustments	29,558
7	Amortized portion of T2 capital instruments that are internal LAC debt instruments issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	-
8	T2 capital instruments ineligible as internal loss-absorbing capacity as not issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	-
9	Other adjustments	-
10	T2 capital eligible under the LAC Rules	29,558
11	**Internal loss-absorbing capacity arising from regulatory capital**	**246,100**
	Non-regulatory capital elements of internal loss-absorbing capacity	
12	Internal non-capital LAC debt instruments issued directly or indirectly to, and held indirectly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	-
17	**Internal loss-absorbing capacity arising from non-capital LAC debt instruments before adjustments**	**-**
	Non-regulatory capital elements of internal loss-absorbing capacity: adjustments	
18	**Internal loss-absorbing capacity before deductions**	**246,100**
19	Deductions of exposures between the material subsidiary's LAC consolidation group and group companies outside that group that correspond to non-capital items eligible for internal loss-absorbing capacity	-
20	Deduction of holdings of its own non-capital LAC liabilities	-
21	Other adjustments to internal loss-absorbing capacity	-
22	**Internal loss-absorbing capacity after deductions**	**246,100**
	Risk-weighted amount and exposure measure under the LAC Rules for internal loss-absorbing capacity purposes	
23	Risk-weighted amount under the LAC Rules	1,220,000
24	Exposure measure under the LAC Rules	3,036,425
	Internal LAC ratios and buffers	
25	**Internal LAC risk-weighted ratio**	**20.17%**
26	**Internal LAC leverage ratio**	**8.10%**
27	**CET1 capital (as a percentage of RWA under the Banking (Capital) Rules ("BCR")) available after meeting the LAC consolidation group's minimum capital and LAC requirements**	**13.25%**
28	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer requirements plus higher loss absorbency requirement, expressed as a percentage of RWA under the BCR)	4.790%
29	Of which: capital conservation buffer requirement	2.500%
30	Of which: institution-specific countercyclical capital buffer requirement	0.790%
31	Of which: higher loss absorbency requirement	1.500%

3. Composition of regulatory capital (continued)

TLAC2: Material subsidiary – creditor ranking at legal entity level

		At 31 December 2020		
		Creditor ranking		Sum of values in columns 1
		1 (most junior)	1 (most junior)	
		HK$'m	HK$'m	HK$'m
1	Is a resolution entity or a non-HK resolution entity the creditor/investor?	No	Yes	
2	Description of creditor ranking	Ordinary shares[1]		
3	Total capital and liabilities net of credit risk mitigation	14,609	28,434	43,043
4	Subset of row 3 that are excluded liabilities	-	-	-
5	Total capital and liabilities less excluded liabilities	14,609	28,434	43,043
6	Subset of row 5 that are eligible as internal loss-absorbing capacity	14,609	28,434	43,043
7	Subset of row 6 with 1 year ≤ residual maturity < 2 years	-	-	-
8	Subset of row 6 with 2 years ≤ residual maturity < 5 years	-	-	-
9	Subset of row 6 with 5 years ≤ residual maturity < 10 years	-	-	-
10	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	-	-	-
11	Subset of row 6 that is perpetual securities	14,609	28,434	43,043

Footnote:
[1] Issued and fully paid ordinary shares.

4. Macroprudential supervisory measures

GSIB1: G-SIB indicators

Not applicable.

CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer

		At 31 December 2020			
		(a)	(c)	(d)	(e)
	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect %	RWA used in computation of CCyB ratio HK$'m	AI-specific CCyB ratio %	CCyB amount HK$'m
1	Hong Kong SAR	1.000%	707,218		
2	Luxembourg	0.500%	989		
	Sum		**708,207**		
	Total		**896,298**	**0.790%**	**9,638**

5. Leverage ratio

LR1: Summary comparison of accounting assets against leverage ratio exposure measure

		At 31 December 2020
		(a)
	Item	**Value under the LR framework** **HK$'m**
1	Total consolidated assets as per published financial statements	3,144,530
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(767)
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4	Adjustments for derivative contracts	(26,869)
5	Adjustment for SFTs (i.e. repos and similar secured lending)	29
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	165,533
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(658)
7	Other adjustments	(245,373)
	of which: Hong Kong SAR Government certificates of indebtedness	*(189,550)*
8	**Leverage ratio exposure measure**	**3,036,425**

5. Leverage ratio (continued)

LR2: Leverage ratio

		At 31 December 2020	At 30 September 2020
		(a)	(b)
		HK$'m	**HK$'m**
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	2,905,598	3,310,528
2	Less: Asset amounts deducted in determining Tier 1 capital	(55,824)	(57,082)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	**2,849,774**	**3,253,446**
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	22,666	31,689
5	Add-on amounts for PFE associated with all derivative contracts	15,936	18,297
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	(12,659)	(14,947)
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	**Total exposures arising from derivative contracts**	**25,943**	**35,039**
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	5,260	8,002
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	29	83
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	**5,289**	**8,085**
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	767,841	719,492
18	Less: Adjustments for conversion to credit equivalent amounts	(602,308)	(568,235)
19	**Off-balance sheet items**	**165,533**	**151,257**
Capital and total exposures			
20	**Tier 1 capital**	**240,018**	**239,902**
20a	**Total exposures before adjustments for specific and collective provisions**	**3,046,539**	**3,447,827**
20b	**Adjustments for specific and collective provisions**	**(10,114)**	**(9,311)**
21	**Total exposures after adjustments for specific and collective provisions**	**3,036,425**	**3,438,516**
Leverage ratio			
22	**Leverage ratio**	**7.90%**	**6.98%**

6. Liquidity

LIQA: Liquidity risk management

In accordance with the Group's corporate governance principles in respect of risk management, the Board and the RMC, senior management and functional departments/units perform their duties and responsibilities to manage the Group's liquidity risk. The RMC is the decision-making authority of liquidity risk management, and assumes the ultimate responsibility of liquidity risk management. As authorised by the RMC, ALCO exercises its oversight of liquidity risk and ensures the daily operations of the Group are in accordance with the risk appetite and policies as set by the RMC. The RMD is responsible for the Group's liquidity risk management. It cooperates with the Financial Management Department and Investment Management, etc. to assist the ALCO to perform liquidity management functions according to their specific responsibilities.

The Group established liquidity risk management indicators and limits to identify, measure, monitor and control liquidity risk on a daily basis. These indicators and limits include, but are not limited to liquidity coverage ratio ("LCR"), net stable funding ratio ("NSFR"), loan-to-deposit ratio, Maximum Cumulative Cash Outflow ("MCO") and liquidity cushion. The Group applies a cash flow analysis to assess the Group's liquidity condition under normal conditions and also performs a liquidity stress test (including institution specific, general market crisis and combined crisis) and other methods at least on a monthly basis to assess the Group's capability to withstand various severe liquidity crises. Also, relevant management information systems such as the Assets and Liabilities Management System and the Basel Liquidity Ratio Management System are developed to provide data and to prepare for regular management reports to facilitate liquidity risk management duties.

In accordance with the requirements of Supervisory Policy Manual LM-2 "Sound Systems and controls for Liquidity Risk Management" issued by the HKMA, the Group has implemented a behaviour model and assumptions of cash flow analysis and stress test to enhance the Group's cash flow analysis under both normal and stressed conditions. In cash flow analysis under normal circumstances, assumptions have been made relating to on-balance sheet items (such as deposits from customers) and off-balance sheet items (such as loan commitments). According to various characteristics of the assets, liabilities and off-balance sheet items, the Group forecasts the future cash flow based on the contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The Group establishes the MCO indicator which predicts the future 30 days maximum cumulative net cash outflow in normal situations based on the above assumptions, to assess if the Group has sufficient financing capacity to meet the cash flow gap in order to achieve the objective of continuing operations. As at 31 December 2020, before taking the cash inflow through the sale of outstanding marketable securities into consideration, BOCHK's 30-day cumulative cash flow was a net cash inflow, amounting to HK$186,303 million and was in compliance with the internal limit requirements.

6. Liquidity (continued)

LIQA: Liquidity risk management (continued)

The Group is committed to diversify the sources, tenors and use of funding to avoid excessive concentration of assets and liabilities; and prevent triggering liquidity risk due to the break of funding strand resulting from over-concentration of sources and use of funding in a particular area where problems occur. In order to manage such risk, the Group sets concentration limits on collateral pools and sources of funding such as Tier 1 high-quality readily liquefiable assets to total high-quality readily liquefiable assets ratio, top ten depositors ratio and large depositors ratio. Whenever necessary, the Group could improve the liquidity position by taking mitigation actions including, but not limited to obtaining funding through interbank borrowings or repos in the money market, selling bonds in the secondary market or retaining existing and attracting new customer deposits. Apart from increasing the funding, the Group would maintain good communication with the counterparties, the parent bank and the regulators to enhance mutual confidence.

In the liquidity stress test, institution specific, general market crisis and combined crisis scenarios have been set up, a combined crisis scenario is a combination of institution specific and general market crisis to assess the Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted.

A contingency plan is being established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of relevant departments.

The Group has established a set of uniform liquidity risk management policies which serve as standards and guidance to all the Group's members for liquidity risk management. On the basis of the Group's uniform policies, each of the subsidiaries develops its own liquidity management policies according to its own characteristics, and assumes its own liquidity risk management responsibility. Subsidiaries are required to report their respective liquidity positions with relevant liquidity ratios on a regular basis to the RMD of BOCHK, which consolidates this information and evaluates group-wide liquidity risk to ensure relevant requirements are satisfied.

6. Liquidity (continued)

LIQA: Liquidity risk management (continued)

Under normal circumstances, the intra-group funding transactions between BOCHK and Southeast Asian entities are mainly through interbank placement. As at 31 December 2020, the net funding provided by BOCHK were as follows (positive indicates net placement, negative indicates net borrowing):

	At 31 December 2020
	HK$'m
Southeast Asian entities	
BOC Malaysia	3,884
BOC Thailand	69
Manila Branch	594
Jakarta Branch	4,968
Ho Chi Minh City Branch	(1,667)
Vientiane Branch	(200)
Phnom Penh Branch	388
Brunei Branch	463

As at 31 December 2020, the maturity analysis based on the remaining period at balance sheet date to the contractual maturity date is as follows:

	At 31 December 2020			
	Within one year	One to five years	Over five years	Indefinite
	HK$'m	HK$'m	HK$'m	HK$'m
Total on-balance sheet assets	1,747,085	856,233	467,214	73,262
Total on-balance sheet liabilities	2,809,678	27,064	11,203	-
Net liquidity gap	(1,062,593)	829,169	456,011	73,262

The net liquidity gap of off-balance sheet items is mainly within one year.

6. Liquidity (continued)

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: (73)		For the quarter ended 31 December 2020	
		(a)	(b)
Basis of disclosure: consolidated		**Unweighted value (average)**	**Weighted value (average)**
		HK$'m	**HK$'m**
A.	**HQLA**		
1	Total HQLA		829,430
B.	**Cash Outflows**		
2	Retail deposits and small business funding, of which:	1,083,150	72,130
3	*Stable retail deposits and stable small business funding*	*387,790*	*11,634*
4	*Less stable retail deposits and less stable small business funding*	*503,064*	*50,306*
4a	*Retail term deposits and small business term funding*	*192,296*	*10,190*
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	1,377,669	746,909
6	*Operational deposits*	*344,049*	*84,687*
7	*Unsecured wholesale funding (other than small business funding) not covered in row 6*	*1,033,560*	*662,162*
8	*Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period*	*60*	*60*
9	Secured funding transactions (including securities swap transactions)		917
10	Additional requirements, of which:	454,195	82,059
11	*Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	*42,818*	*42,818*
12	*Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	-	-
13	*Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	*411,377*	*39,241*
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	61,064	61,064
15	Other contingent funding obligations (whether contractual or non-contractual)	336,421	5,367
16	**Total Cash Outflows**		**968,446**
C.	**Cash Inflows**		
17	Secured lending transactions (including securities swap transactions)	2,082	1,731
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	329,653	243,332
19	Other cash inflows	80,584	74,573
20	**Total Cash Inflows**	**412,319**	**319,636**
D.	**Liquidity Coverage Ratio**		**Adjusted value**
21	**Total HQLA**		**829,430**
22	**Total Net Cash Outflows**		**648,810**
23	**LCR (%)**		**129.65%**

6. Liquidity (continued)

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.

The Group's average LCR of each quarter in 2020 were 146.14%, 129.63%, 128.55% and 129.65% respectively, continuously maintained at stable and healthy level.

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. 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 or by issuing debts in the capital 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.

6. Liquidity (continued)

LIQ2: Net Stable Funding Ratio – for category 1 institution

For the quarter ended 31 December 2020 (HK$'m)		(a)	(b)	(c)	(d)	(e)
Basis of disclosure: consolidated		**Unweighted value by residual maturity**				
		No specified term to maturity	< 6 months or repayable on demand	6 months to < 12 months	12 months or more	**Weighted amount**
A.	**Available stable funding ("ASF") item**					
1	Capital:	303,285	-	-	-	303,285
2	*Regulatory capital*	*303,285*	-	-	-	*303,285*
2a	*Minority interests not covered by row 2*	-	-	-	-	-
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and small business funding:	-	1,074,570	16,179	387	1,003,420
5	*Stable deposits*		*423,951*	*3,225*	*65*	*405,883*
6	*Less stable deposits*		*650,619*	*12,954*	*322*	*597,537*
7	Wholesale funding:	-	1,405,166	25,687	2,663	411,810
8	*Operational deposits*		*329,484*	-	-	*164,742*
9	*Other wholesale funding*	-	*1,075,682*	*25,687*	*2,663*	*247,068*
10	Liabilities with matching interdependent assets	189,550	-	-	-	-
11	Other liabilities:	40,143	25,553	841	8,021	8,441
12	*Net derivative liabilities*	-				
13	*All other funding and liabilities not included in the above categories*	*40,143*	*25,553*	*841*	*8,021*	*8,441*
14	**Total ASF**					**1,726,956**
B.	**Required stable funding ("RSF") item**					
15	Total HQLA for NSFR purposes	855,766				93,756
16	Deposits held at other financial institutions for operational purposes	-	1,024	-	-	512
17	Performing loans and securities:	18,494	657,646	146,590	1,107,821	1,178,530
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	*1,166*	-	-	*117*
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	*17*	*257,958*	*12,261*	*29,220*	*74,061*
20	*Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:*	*17,596*	*320,808*	*115,358*	*688,508*	*798,109*
21	*With a risk-weight of less than or equal to 35% under the STC approach*	*22*	*8,568*	-	*3,221*	*5,644*
22	*Performing residential mortgages, of which:*	-	*7,916*	*7,895*	*327,587*	*220,971*
23	*With a risk-weight of less than or equal to 35% under the STC approach*	-	*7,916*	*7,895*	*326,918*	*220,402*
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	*881*	*69,798*	*11,076*	*62,506*	*85,272*
25	Assets with matching interdependent liabilities	189,550	-	-	-	-
26	Other assets:	149,273	23,238	862	1,214	99,048
27	*Physical traded commodities, including gold*	*4,917*				*4,179*
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*	*4,050*				*3,442*
29	*Net derivative assets*	*1,094*				*1,094*
30	*Total derivative liabilities before deduction of variation margin posted*	*58,948*				*2,948*
31	*All other assets not included in the above categories*	*80,264*	*23,238*	*862*	*1,214*	*87,385*
32	Off-balance sheet items		776,373			21,764
33	**Total RSF**					**1,393,610**
34	**Net Stable Funding Ratio (%)**					**123.92%**

6. Liquidity (continued)

LIQ2: Net Stable Funding Ratio – for category 1 institution (continued)

For the quarter ended 30 September 2020 (HK$'m)		(a)	(b)	(c)	(d)	(e)
Basis of disclosure: consolidated		**Unweighted value by residual maturity**				
		No specified term to maturity	< 6 months or repayable on demand	6 months to < 12 months	12 months or more	**Weighted amount**
A.	**Available stable funding ("ASF") item**					
1	Capital:	303,822	-	-	-	303,822
2	*Regulatory capital*	*303,822*	-	-	-	*303,822*
2a	*Minority interests not covered by row 2*	-	-	-	-	-
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and small business funding:	-	1,044,082	18,586	447	977,538
5	*Stable deposits*		*411,378*	*2,432*	*72*	*393,191*
6	*Less stable deposits*		*632,704*	*16,154*	*375*	*584,347*
7	Wholesale funding:	-	1,856,700	18,121	3,422	379,144
8	*Operational deposits*		*290,378*	-	-	*145,189*
9	*Other wholesale funding*	-	*1,566,322*	*18,121*	*3,422*	*233,955*
10	Liabilities with matching interdependent assets	203,850	-	-	-	-
11	Other liabilities:	28,673	50,179	2,064	8,272	9,304
12	*Net derivative liabilities*	-				
13	*All other funding and liabilities not included in the above categories*	*28,673*	*50,179*	*2,064*	*8,272*	*9,304*
14	**Total ASF**					**1,669,808**
B.	**Required stable funding ("RSF") item**					
15	Total HQLA for NSFR purposes	809,155				75,131
16	Deposits held at other financial institutions for operational purposes	-	4,938	-	-	2,469
17	Performing loans and securities:	19,973	965,290	174,857	1,106,302	1,259,845
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	*1,771*	-	-	*177*
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	*29*	*548,141*	*17,283*	*29,677*	*120,569*
20	*Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:*	*18,484*	*369,785*	*125,449*	*694,067*	*836,576*
21	*With a risk-weight of less than or equal to 35% under the STC approach*	*10*	*4,969*	*2,024*	*5,488*	*5,460*
22	*Performing residential mortgages, of which:*	-	*9,746*	*7,472*	*314,001*	*212,831*
23	*With a risk-weight of less than or equal to 35% under the STC approach*	-	*9,746*	*7,472*	*313,390*	*212,312*
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	*1,460*	*35,847*	*24,653*	*68,557*	*89,692*
25	Assets with matching interdependent liabilities	203,850	-	-	-	-
26	Other assets:	145,135	192,455	736	1,125	98,067
27	*Physical traded commodities, including gold*	*5,161*				*4,387*
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*	*4,565*				*3,880*
29	*Net derivative assets*	*2,580*				*2,580*
30	*Total derivative liabilities before deduction of variation margin posted*	*52,341*				*2,617*
31	*All other assets not included in the above categories*	*80,488*	*192,455*	*736*	*1,125*	*84,603*
32	Off-balance sheet items		725,888			19,863
33	**Total RSF**					**1,455,375**
34	**Net Stable Funding Ratio (%)**					**114.73%**

7. Credit risk for non-securitization exposures

CRA: General information about credit risk

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, as well as from on- and off-balance sheet transactions of the Group. It arises principally from lending, trade finance and treasury businesses.

The Group has formulated a comprehensive set of credit risk management policies and procedures, and appropriate credit risk limits to manage and control credit risk that may arise. These policies, procedures and credit risk limits are regularly reviewed and updated to cope with changes in market conditions and business strategies.

The Group's organisation structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits.

The Board delegates credit approval authority to the CE. The CE can further delegate to the subordinates within his limit authorised by the Board. The Group sets the limits of credit approval authority according to the credit business nature, rating, the level of transaction risk, and the extent of the credit exposure.

The Chief Credit Officer, who reports directly to the CRO, takes charge of credit risk management and is also responsible for the control of credit risk exposures of subsidiaries in line with the credit risk management principles and requirements set by the Group. Various units of the Group have their respective credit risk management responsibilities. Business units act as the first line of defence in risk management. The Risk Management Department ("RMD"), which is independent from the business units, is responsible for the day-to-day management of credit risks and provides an independent due diligence through identifying, measuring, monitoring and controlling credit risk to ensure an effective checks and balances, as well as drafting, reviewing and updating credit risk management policies and procedures. It is also responsible for the design, development and maintenance of the Group's internal rating system and ensures the system complies with the relevant regulatory requirements. Back offices are responsible for credit administration, providing operations support and supervision on the implementation of prerequisite terms and conditions of credit facilities.

The Group Audit is responsible for conducting independent reviews on the adequacy and effectiveness of credit risk management framework, as well as the compliance to internal policies and procedures.

The RMD provides regular credit management information reports and ad hoc reports to the Management Committee ("MC"), RMC, and the Board to facilitate their continuous monitoring of credit risk.

7. Credit risk for non-securitization exposures (continued)

CRA: General information about credit risk (continued)

In addition, the Group identifies credit concentration risk by industry, geography, customer, or counterparty. The Group monitors changes to every counterparties credit risk, quality of the credit portfolio and credit risk concentrations, and reports regularly to the Group's Management.

CR1: Credit quality of exposures

		At 31 December 2020						
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Gross carrying amounts of			Of which ECL accounting provisions for credit losses on STC approach exposures			
		Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions	Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values (a+b-c)
		HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
1	Loans	3,562	1,928,678	(9,180)	(888)	(690)	(7,602)	1,923,060
2	Debt securities	-	788,900	(11)	-	(6)	(5)	788,889
3	Off-balance sheet exposures	54	769,698	(658)	(19)	(89)	(550)	769,094
4	**Total**	**3,616**	**3,487,276**	**(9,849)**	**(907)**	**(785)**	**(8,157)**	**3,481,043**

The Group identifies the exposures as "default" if the exposure is past due for more than 90 days or the borrower is unlikely to pay in full for the credit obligations to the Group.

CR2: Changes in defaulted loans and debt securities

		(a)
		HK$'m
1	**Defaulted loans and debt securities at 30 June 2020**	**3,332**
2	Loans and debt securities that have defaulted since the last reporting period	656
3	Returned to non-defaulted status	(104)
4	Amounts written off	(256)
5	Other changes	(66)
6	**Defaulted loans and debt securities at 31 December 2020**	**3,562**

The increase in defaulted exposures in the current reporting period was due to default of a few corporate loans.

7. Credit risk for non-securitization exposures (continued)

CRB: Additional disclosure related to credit quality of exposures

Exposures with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously to exceed the approved limit that was advised to the borrower.

For exposures under both FIRB and STC approaches, ECL is assessed in three stages and the exposures are classified in one of the following three stages:

Stage 1: if the financial instruments are not credit-impaired during origination and their credit risk has not increased significantly since origination, and the impairment allowance is measured at an amount up to 12-month ECL;

Stage 2: if the financial instruments are not credit-impaired during origination but their credit risk has increased significantly since origination, and the impairment allowance is measured at an amount equal to the lifetime ECL;

Stage 3: if the financial instruments are credit-impaired and their future cash flows of that financial instruments are adversely affected by one or more events, and the impairment allowance is also measured at an amount equal to the lifetime ECL.

Rescheduled exposures are those advances that have been restructured and renegotiated between the bank and borrowers because of deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule, and the revised repayment terms, either of interest or the repayment period, are “non-commercial” to the Group.

7. Credit risk for non-securitization exposures (continued)

CRB: Additional disclosure related to credit quality of exposures (continued)

(i) Exposures by geographical areas

		At 31 December 2020
		HK$'m
1	Hong Kong	2,229,472
2	Chinese Mainland	413,384
3	United States	229,671
4	Others	618,365
5	**Total**	**3,490,892**

(ii) Exposures by industry

		At 31 December 2020
		HK$'m
1	Personal	648,978
2	Financial and insurance services	821,549
3	Manufacturing	231,604
4	Public, commercial and other services	441,117
5	Real estate	475,806
6	Wholesale, retail, import and export trades	292,592
7	Others	579,246
8	**Total**	**3,490,892**

(iii) Exposures by residual maturity

		At 31 December 2020
		HK$'m
1	Within one year	2,181,325
2	One to five years	844,549
3	Over five years	460,570
4	Indefinite	4,448
5	**Total**	**3,490,892**

7. Credit risk for non-securitization exposures (continued)

CRB: Additional disclosure related to credit quality of exposures (continued)

(iv) Impaired exposures, related allowances and write-offs by geographical areas

		At 31 December 2020		
		Impaired exposures	Related allowances	Write-offs
		HK$'m	HK$'m	HK$'m
1	Hong Kong	2,589	(1,747)	497
2	Chinese Mainland	40	(16)	7
3	United States	-	-	-
4	Others	1,365	(889)	57
5	**Total**	**3,994**	**(2,652)**	**561**

(v) Impaired exposures, related allowances and write-offs by industry

		At 31 December 2020		
		Impaired exposures	Related allowances	Write-offs
		HK$'m	HK$'m	HK$'m
1	Personal	549	(292)	417
2	Financial and insurance services	-	-	-
3	Manufacturing	1,310	(1,124)	90
4	Public, commercial and other services	361	(214)	-
5	Real estate	224	(29)	-
6	Wholesale, retail, import and export trades	467	(402)	15
7	Others	1,083	(591)	39
8	**Total**	**3,994**	**(2,652)**	**561**

(vi) Aging analysis of accounting past due exposures

		At 31 December 2020
		HK$'m
1	Overdue for three months or less	2,911
2	Overdue for six months or less but over three months	174
3	Overdue for one year or less but over six months	718
4	Overdue for over one year	2,137
5	**Total**	**5,940**

(vii) Restructured exposures

		At 31 December 2020
		HK$'m
1	Impaired exposures	178
2	Not impaired exposures	-
3	**Total**	**178**

7. Credit risk for non-securitization exposures (continued)

CRC: Qualitative disclosures related to credit risk mitigation

The Group's policies and procedures stipulate the counterparty credit risk management and the netting should only be applied where there is a legal right to do so. Recognised netting can only be done pursuant to a valid bilateral netting agreement in accordance with the Banking (Capital) Rules section 209. The Group adopts the netting approach which is consistent with the Banking (Capital) Rules for capital adequacy purposes, and only those OTC derivative transactions subject to valid bilateral netting agreements are eligible for netting approach.

The Group has in place specific policies with respect to revaluation and management of collateral. These policies articulate the standards to monitor and manage the collateral's security as the secondary repayment source and recovery of obligation loss. All collaterals are revalued on a regular basis. More frequent revaluation is required for collaterals with higher volatility or deteriorated accounts.

The credit and market risk concentrations within the credit risk mitigation (recognised collateral and guarantees for capital calculation) used by the Group are under a low level.

7. Credit risk for non-securitization exposures (continued)

CR3: Overview of recognized credit risk mitigation

		At 31 December 2020				
		(a)	(b1)	(b)	(d)	(f)
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
		HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
1	Loans	1,436,082	486,978	64,209	422,769	-
2	Debt securities	729,136	59,753	-	59,753	-
3	**Total**	**2,165,218**	**546,731**	**64,209**	**482,522**	**-**
4	Of which defaulted	645	460	210	250	-

CRD: Qualitative disclosures on use of ECAI ratings under STC approach

The ECAIs recognised by the Group include Standard & Poor's, Moody's and Fitch.

The Group adopts STC approach based on external credit rating to determine the risk weight of the small residual credit exposures that was approved by the HKMA to be exempted from FIRB approach and the exposures are listed as below:

- Exposures to Sovereign
- Exposures to Public sector entity
- Exposures to Multilateral development bank

The Group performs the ECAI issuer ratings mapping to its exposures in banking book in accordance with Part 4 of the Banking (Capital) Rules.

7. Credit risk for non-securitization exposures (continued)

CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach

		At 31 December 2020					
		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	On-balance sheet amount HK$'m	Off-balance sheet amount HK$'m	On-balance sheet amount HK$'m	Off-balance sheet amount HK$'m	RWA HK$'m	RWA density %
1	Sovereign exposures	606,897	2,242	607,548	448	14,182	2
2	PSE exposures	25,858	4,448	28,133	4,238	2,982	9
2a	Of which: domestic PSEs	5,487	4,448	7,762	4,238	2,400	20
2b	Of which: foreign PSEs	20,371	-	20,371	-	582	3
3	Multilateral development bank exposures	34,283	-	34,283	-	-	-
4	Bank exposures	1,068	2,637	4,056	1,325	2,516	47
5	Securities firm exposures	2	27	2	10	6	50
6	Corporate exposures	67,980	39,863	61,243	9,022	67,750	96
7	CIS exposures	-	-	-	-	-	-
8	Cash items	537	-	537	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-
10	Regulatory retail exposures	7,795	19,737	7,303	400	5,777	75
11	Residential mortgage loans	3,873	6,029	1,595	-	829	52
12	Other exposures which are not past due exposures	22,614	28,159	9,794	74	9,868	100
13	Past due exposures	307	-	307	-	461	150
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	**Total**	**771,214**	**103,142**	**754,801**	**15,517**	**104,371**	**14**

7. Credit risk for non-securitization exposures (continued)

CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

		At 31 December 2020										
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
	Risk Weight / Exposure class	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
		HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
1	Sovereign exposures	585,239	-	5,611	-	10,871	-	3,577	2,698	-	-	607,996
2	PSE exposures	17,463	-	14,908	-	-	-	-	-	-	-	32,371
2a	Of which: domestic PSEs	-	-	12,000	-	-	-	-	-	-	-	12,000
2b	Of which: foreign PSEs	17,463	-	2,908	-	-	-	-	-	-	-	20,371
3	Multilateral development bank exposures	34,283	-	-	-	-	-	-	-	-	-	34,283
4	Bank exposures	-	-	753	-	4,526	-	102	-	-	-	5,381
5	Securities firm exposures	-	-	-	-	12	-	-	-	-	-	12
6	Corporate exposures	-	-	680	-	4,654	-	64,217	714	-	-	70,265
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	537	-	-	-	-	-	-	-	-	-	537
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	7,703	-	-	-	-	7,703
11	Residential mortgage loans	-	-	-	918	-	677	-	-	-	-	1,595
12	Other exposures which are not past due exposures	-	-	-	-	-	-	9,868	-	-	-	9,868
13	Past due exposures	-	-	-	-	-	-	-	307	-	-	307
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**637,522**	**-**	**21,952**	**918**	**20,063**	**8,380**	**77,764**	**3,719**	**-**	**-**	**770,318**

7. Credit risk for non-securitization exposures (continued)

CRE: Qualitative disclosures related to internal models for measuring credit risk under IRB approach

The internal model developments, controls and changes are complied with the regulatory requirements of Banking (Capital) Rules by the HKMA. The Group establishes the model standards to govern the process for the initial development, the approval and the implementation of the internal rating system, as well as the procedures for monitoring and reporting of the model performance.

To ensure the discriminatory power, accuracy and stability of the rating systems meet regulatory and management requirements, review of a rating model will be triggered if the performance of the model deteriorates materially against pre-determined tolerance limit.

The model development and maintenance unit of the RMD is responsible for developing, maintaining and changing internal rating models. The model validation unit of the RMD is responsible for independent validation of internal rating models.

The implementation of initial IRB models and the subsequent material changes of models are approved by the Risk Committee of the Board on the recommendation of the Asset and Liability Management Committee ("ALCO").

The RMD as a credit risk control unit is responsible for the design, selection, testing and implementation, oversight of the effectiveness, as well as related monitoring and review of an internal rating system.

Internal audit reviews at least annually the internal rating system (including the validation process and the estimation of the risk components) and the operations of the related credit risk control unit. The audit purpose is to verify the control mechanism over the internal rating system is functioning as intended.

Comprehensive validation of all internal rating models is carried out by Model Validation Team that is functionally independent of model development, maintenance unit and business units. The validation findings and conclusions will be submitted directly to the Group's senior management and the Risk Committee.

Internal rating models are validated at least once a year. If material changes in the market environment or business activities are considered to have potentially significant impact on effectiveness of IRB system, prompt validation will be conducted accordingly.

For newly-developed or revised internal rating models, independent validation should be carried out before the model is submitted to the Risk Committee for approval for implementation. The validation opinions will be submitted together with the model development documentation for consideration in the model approval process.

7. Credit risk for non-securitization exposures (continued)

CRE: Qualitative disclosures related to internal models for measuring credit risk under IRB approach (continued)

On an ongoing basis, regular validation reports are endorsed by the Risk Committee. Significant findings of model weakness are reported to the senior management and the Risk Committee. Corresponding remedial actions are taken by the model development and maintenance unit, and followed up by the validation unit, which is also governed by the Risk Committee and senior management.

The scope of reporting related to credit risk models covers the assessment on the discriminatory power, accuracy and stability of the rating systems, the use of rating overrides and its reason analysis, the major findings during the model review and validation.

The Group adopts the FIRB approach to calculate the regulatory capital requirements for most of the corporate and bank exposures, and adopts the supervisory slotting criteria approach to project finance exposures under specialised lending. The Group adopts retail IRB approach for retail exposures to individuals and small business.

The following table summarised the portion of total EAD within the Group covered by the STC approach and IRB approaches:

		IRB approaches		
Portfolio	STC approach (% in EAD)	Foundation IRB approach (% in EAD)	Retail IRB approach (% in EAD)	Specific Risk Weight approach (% in EAD)
Sovereign	100%	-	-	-
Bank	4%	96%	-	-
Corporate	5%	95%	-	-
Retail	2%	-	98%	-
Equity	100%	-	-	-
Other	2%	-	-	98%

Description of Internal rating models

The models in portfolios are categorised mainly by product nature or obligor types. The main differences among the models are the reflection of the risk characteristics (e.g. secured or unsecured products, and obligors with different sales turnover, exposure size and industry, etc.). For project finance exposures under specialised lending, the rating is assigned by the project finance model based on the characteristics of borrowers and transactions.

7. Credit risk for non-securitization exposures (continued)

CRE: Qualitative disclosures related to internal models for measuring credit risk under IRB approach (continued)

IRB models – Bank and Corporate

Probability of Default ("PD") models

- PD represents the likelihood of a default event in a one-year horizon.

Portfolio	Model	Number of Models	Key Model Characteristics	Regulatory Floors Applied
Bank (Banks and regulated securities firms)	PD	2	PD models are developed based on historical data and market benchmarking data, combining both quantitative and qualitative data on latest financial performance, management quality, industry risks, group connection and negative warning signals of each obligor.	0.03%
Corporate (Large corporates, medium corporates, real estate developers, real estate investors, insurance companies, object finance and project finance)	PD	7		0.03%

IRB models – Retail

The Group uses statistical models to provide estimated probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") for retail exposures under retail IRB approach.

Probability of Default ("PD") models

- PD represents the likelihood of a default event in a one-year horizon.
- PD models incorporate the characteristics of obligors, facility types, and the obligor's account behavior.

Loss Given Default ("LGD") models

- LGD estimates the potential loss of each credit exposure if the obligor defaults.
- LGD is mainly determined by the characteristics of facility, collateralisation, loss recovery and the associated costs. Downturn LGD takes into account of the recoveries experience in the historical downturn situation. The determination of the time lapse between the default event and the closure of the exposure is based on empirical data and expert judgement.

Exposure at Default ("EAD") models

- EAD estimates the additional drawn down on the undrawn facility, if any, after the facility defaulted.
- In modeling the credit conversion factors ("CCF"), fixed horizon method has been used and the horizon chosen is 12 months. For the estimation of CCF for facilities of off-balance sheet exposures such as the undrawn portion of credit lines, CCF estimation considered the factors such as utilisation rate.

7. Credit risk for non-securitization exposures (continued)

CRE: Qualitative disclosures related to internal models for measuring credit risk under IRB approach (continued)

Portfolio	Model	Number of Models	Key Model Characteristics	Regulatory Floors Applied
Residential Mortgage (To individuals and property holding shell companies)	PD	1	Calibrated to a long-run default rate from the score based on obligor's characteristics and internal behavioral data.	0.03%
	LGD	1	Pooling based on the factors such as collateral type and LTV, etc. A conservative LGD is estimated for the economic downturn period based on the historical data.	10%
	EAD	1	Based on the outstanding balance. For the accounts denominated in foreign currency, EAD will be adjusted to consider the increasing of EAD due to the appreciation of the foreign currency.	At least be equal to the current outstanding balance
Other Retail Exposure to individuals (non-credit card)	PD	3	Calibrated to a long-run default rate from the score based on the facility type and internal behavioral data.	0.03%
	LGD	3	Pooling based on the factors such as facility type, collateral type and LTV, etc. A conservative LGD is estimated for the economic downturn period based on the historical data.	Nil
	EAD	3	For revolving facilities, utilisation ratio is derived to determine the EAD. For reducing balance facilities, EAD is based on the outstanding balance. For the accounts denominated in foreign currency, EAD will be adjusted to consider the increasing of EAD due to the appreciation of the foreign currency.	At least be equal to the current outstanding balance
Credit Card	PD	1	Calibrated to a long-run default rate from the score based on obligor's characteristics and internal behavioral data.	0.03%
	LGD	1	A conservative LGD is estimated for the economic downturn period based on the historical data.	Nil
	EAD	1	Utilisation ratio is derived to determine the EAD. For the accounts denominated in foreign currency, EAD will be adjusted to consider the increasing of EAD due to the appreciation of the foreign currency.	At least be equal to the current outstanding balance

7. Credit risk for non-securitization exposures (continued)

CRE: Qualitative disclosures related to internal models for measuring credit risk under IRB approach (continued)

Portfolio	Model	Number of Models	Key Model Characteristics	Regulatory Floors Applied
Small Business Retail	PD	1	Calibrated to a long-run default rate from the combination of financial assessment, qualitative assessment to the obligor and the internal behavioral data.	0.03%
	LGD	1	Pooling based on the factors such as facility type and LTV, etc. A conservative LGD is estimated for the economic downturn period based on the historical data.	Nil
	EAD	1	CCF is estimated to determine the EAD. For reducing balance facilities, EAD is based on the outstanding balance.	At least be equal to the current outstanding balance

7. Credit risk for non-securitization exposures (continued)

CR6: Credit risk exposures by portfolio and PD ranges – for IRB approach

(a) FIRB approach

		At 31 December 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Provisions
	%	HK$'m	HK$'m	%	HK$'m	%		%	Year	HK$'m	%	HK$'m	HK$'m
Portfolio (i) – Sovereign	0.00 to < 0.15	-	-	-	-	-	-	-	-	-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-	-	-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-	-	-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-	-	-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-	-	-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-	-	-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
	Sub-total	-	-	-	-	-	-	-	-	-	-	-	-
Portfolio (ii) – Bank	0.00 to < 0.15	412,946	24,752	36	435,439	0.06	299	45	2.50	122,750	28	110	
	0.15 to < 0.25	6,309	3,439	5	7,050	0.22	51	45	2.50	4,141	59	7	
	0.25 to < 0.50	2,536	1,694	7	3,106	0.39	33	43	2.50	2,159	70	5	
	0.50 to < 0.75	1,870	3,856	-	1,875	0.57	19	24	2.50	970	52	3	
	0.75 to < 2.50	910	922	2	928	1.20	25	35	2.50	723	78	4	
	2.50 to < 10.00	375	70	-	375	5.79	6	45	2.50	591	157	10	
	10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
	Sub-total	424,946	34,733	27	448,773	0.07	433	45	2.50	131,334	29	139	1,570
Portfolio (iii) – Corporate – specialized lending (other than HVCRE) – FIRB/AIRB	0.00 to < 0.15	-	-	-	-	-	-	-	-	-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-	-	-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-	-	-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-	-	-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-	-	-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-	-	-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
	Sub-total	-	-	-	-	-	-	-	-	-	-	-	-

7. Credit risk for non-securitization exposures (continued)

CR6: Credit risk exposures by portfolio and PD ranges – for IRB approach (continued)

(a) FIRB approach (continued)

	PD scale	(a) Original on-balance sheet gross exposure	(b) Off-balance sheet exposures pre-CCF	(c) Average CCF	(d) EAD post-CRM and post-CCF	(e) Average PD	(f) Number of obligors	(g) Average LGD	(h) Average maturity	(i) RWA	(j) RWA density	(k) EL	(l) Provisions
		At 31 December 2020											
	%	HK$'m	HK$'m	%	HK$'m	%		%	Year	HK$'m	%	HK$'m	HK$'m
Portfolio (iv) – Corporate – small-and-medium sized corporates	0.00 to < 0.15	10,692	3,383	17	11,544	0.09	237	43	2.50	2,759	24	5	
	0.15 to < 0.25	3,618	2,775	9	10,183	0.22	189	42	2.50	3,639	36	9	
	0.25 to < 0.50	3,407	4,804	17	18,140	0.39	293	43	2.50	9,307	51	31	
	0.50 to < 0.75	9,742	7,085	4	6,531	0.57	376	41	2.50	3,578	55	15	
	0.75 to < 2.50	39,867	9,604	20	33,757	1.34	802	42	2.50	25,851	77	190	
	2.50 to < 10.00	12,027	6,658	1	5,328	4.07	296	39	2.50	4,960	93	84	
	10.00 to < 100.00	570	293	1	546	14.96	27	38	2.50	793	145	31	
	100.00 (Default)	201	-	-	201	100.00	4	40	2.50	820	408	15	
	Sub-total	80,124	34,602	12	86,230	1.27	2,224	42	2.50	51,707	60	380	637
Portfolio (v) – Corporate – HVCRE – FIRB/AIRB	0.00 to < 0.15	-	-	-	-	-	-	-	-	-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-	-	-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-	-	-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-	-	-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-	-	-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-	-	-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
	Sub-total	-	-	-	-	-	-	-	-	-	-	-	-
Portfolio (vi) – Corporate – other (including purchased corporate receivables)	0.00 to < 0.15	307,230	99,094	43	514,886	0.10	597	44	2.50	152,915	30	228	
	0.15 to < 0.25	88,402	40,628	42	198,309	0.22	230	45	2.50	93,680	47	195	
	0.25 to < 0.50	80,186	48,954	23	109,622	0.39	269	45	2.50	67,326	61	190	
	0.50 to < 0.75	264,483	95,551	25	105,148	0.57	434	44	2.50	77,327	74	266	
	0.75 to < 2.50	196,361	124,268	15	161,020	1.33	751	42	2.50	147,958	92	862	
	2.50 to < 10.00	78,797	45,126	7	38,218	3.57	257	42	2.50	47,443	124	561	
	10.00 to < 100.00	6,253	1,461	4	4,923	21.45	36	42	2.50	10,836	220	436	
	100.00 (Default)	2,201	3	-	1,889	100.00	29	45	2.50	1,364	72	1,461	
	Sub-total	1,023,913	455,085	28	1,134,015	0.74	2,603	44	2.50	598,849	53	4,199	8,656

7. Credit risk for non-securitization exposures (continued)

CR6: Credit risk exposures by portfolio and PD ranges – for IRB approach (continued)

(a) FIRB approach (continued)

		At 31 December 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Provisions
	%	HK$'m	HK$'m	%	HK$'m	%		%	Year	HK$'m	%	HK$'m	HK$'m
Portfolio (vii) – Equity – PD/LGD approach	0.00 to < 0.15	-	-	-	-	-	-	-	-	-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-	-	-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-	-	-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-	-	-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-	-	-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-	-	-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
	Sub-total	-	-	-	-	-	-	-	-	-	-	-	-
Portfolio (viii) – Retail – QRRE	0.00 to < 0.15	-	-	-	-	-	-	-	-	-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-	-	-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-	-	-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-	-	-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-	-	-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-	-	-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
	Sub-total	-	-	-	-	-	-	-	-	-	-	-	-
Portfolio (ix) – Retail – Residential mortgage exposures (including both to individuals and to property-holding shell companies)	0.00 to < 0.15	-	-	-	-	-	-	-	-	-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-	-	-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-	-	-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-	-	-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-	-	-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-	-	-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
	Sub-total	-	-	-	-	-	-	-	-	-	-	-	-

7. Credit risk for non-securitization exposures (continued)

CR6: Credit risk exposures by portfolio and PD ranges – for IRB approach (continued)

(a) FIRB approach (continued)

		At 31 December 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Provisions
	%	HK$'m	HK$'m	%	HK$'m	%		%	Year	HK$'m	%	HK$'m	HK$'m
Portfolio (x) – Retail – small business retail exposures	0.00 to < 0.15	-	-	-	-	-	-	-	-	-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-	-	-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-	-	-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-	-	-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-	-	-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-	-	-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
	Sub-total	-	-	-	-	-	-	-	-	-	-	-	-
Portfolio (xi) – Other retail exposures to individuals	0.00 to < 0.15	-	-	-	-	-	-	-	-	-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-	-	-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-	-	-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-	-	-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-	-	-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-	-	-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	
	Sub-total	-	-	-	-	-	-	-	-	-	-	-	-
Total (sum of all portfolios)		**1,528,983**	**524,420**	**27**	**1,669,018**	**0.49**	**5,260**	**44**	**2.50**	**781,890**	**47**	**4,718**	**10,863**

Compared with 30 June 2020, the 10% increase in RWA of "Portfolio (ii) – Bank" was mainly due to increase in "EAD post-CRM and post-CCF".

7. Credit risk for non-securitization exposures (continued)

CR6: Credit risk exposures by portfolio and PD ranges – for IRB approach (continued)

(b) Retail IRB approach

		At 31 December 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Provisions
	%	HK$'m	HK$'m	%	HK$'m	%		%	Year	HK$'m	%	HK$'m	HK$'m
Portfolio (i) – Sovereign	0.00 to < 0.15	-	-	-	-	-	-	-		-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-		-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-		-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-		-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-		-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-		-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-		-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-		-	-	-	
	Sub-total	-	-	-	-	-	-	-		-	-	-	-
Portfolio (ii) – Bank	0.00 to < 0.15	-	-	-	-	-	-	-		-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-		-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-		-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-		-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-		-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-		-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-		-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-		-	-	-	
	Sub-total	-	-	-	-	-	-	-		-	-	-	-
Portfolio (iii) – Corporate – specialized lending (other than HVCRE) – FIRB/AIRB	0.00 to < 0.15	-	-	-	-	-	-	-		-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-		-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-		-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-		-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-		-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-		-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-		-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-		-	-	-	
	Sub-total	-	-	-	-	-	-	-		-	-	-	-

7. Credit risk for non-securitization exposures (continued)

CR6: Credit risk exposures by portfolio and PD ranges – for IRB approach (continued)

(b) Retail IRB approach (continued)

		At 31 December 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Provisions
	%	HK$'m	HK$'m	%	HK$'m	%		%	Year	HK$'m	%	HK$'m	HK$'m
Portfolio (iv) – Corporate – small-and-medium sized corporates	0.00 to < 0.15	-	-	-	-	-	-	-		-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-		-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-		-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-		-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-		-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-		-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-		-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-		-	-	-	
	Sub-total	-	-	-	-	-	-	-		-	-	-	-
Portfolio (v) – Corporate – HVCRE – FIRB/AIRB	0.00 to < 0.15	-	-	-	-	-	-	-		-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-		-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-		-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-		-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-		-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-		-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-		-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-		-	-	-	
	Sub-total	-	-	-	-	-	-	-		-	-	-	-
Portfolio (vi) – Corporate – other (including purchased corporate receivables)	0.00 to < 0.15	-	-	-	-	-	-	-		-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-		-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-		-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-		-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-		-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-		-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-		-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-		-	-	-	
	Sub-total	-	-	-	-	-	-	-		-	-	-	-

7. Credit risk for non-securitization exposures (continued)

CR6: Credit risk exposures by portfolio and PD ranges – for IRB approach (continued)

(b) Retail IRB approach (continued)

		At 31 December 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Provisions
	%	HK$'m	HK$'m	%	HK$'m	%		%	Year	HK$'m	%	HK$'m	HK$'m
Portfolio (vii) – Equity – PD/LGD approach	0.00 to < 0.15	-	-	-	-	-	-	-		-	-	-	
	0.15 to < 0.25	-	-	-	-	-	-	-		-	-	-	
	0.25 to < 0.50	-	-	-	-	-	-	-		-	-	-	
	0.50 to < 0.75	-	-	-	-	-	-	-		-	-	-	
	0.75 to < 2.50	-	-	-	-	-	-	-		-	-	-	
	2.50 to < 10.00	-	-	-	-	-	-	-		-	-	-	
	10.00 to < 100.00	-	-	-	-	-	-	-		-	-	-	
	100.00 (Default)	-	-	-	-	-	-	-		-	-	-	
	Sub-total	-	-	-	-	-	-	-		-	-	-	-
Portfolio (viii) – Retail – QRRE	0.00 to < 0.15	5,125	56,075	-	34,499	0.10	707,311	90		1,916	6	32	
	0.15 to < 0.25	1,398	29,711	-	24,238	0.23	686,370	90		2,621	11	50	
	0.25 to < 0.50	528	18,077	-	14,969	0.32	454,393	89		2,102	14	43	
	0.50 to < 0.75	743	2,614	-	2,694	0.57	72,714	93		618	23	14	
	0.75 to < 2.50	712	1,309	-	1,916	1.31	44,308	94		836	44	24	
	2.50 to < 10.00	1,309	1,042	-	2,062	5.47	34,176	95		2,472	120	107	
	10.00 to < 100.00	506	112	-	619	16.56	10,756	96		1,341	217	97	
	100.00 (Default)	37	50	-	76	100.00	1,642	88		525	696	25	
	Sub-total	10,358	108,990	-	81,073	0.58	2,011,670	90		12,431	15	392	167
Portfolio (ix) – Retail – Residential mortgage exposures (including both to individuals and to property-holding shell companies)	0.00 to < 0.15	158,282	-	-	158,282	0.11	77,984	12		31,894	20	20	
	0.15 to < 0.25	58,477	-	-	58,477	0.22	17,767	11		12,001	21	14	
	0.25 to < 0.50	52,587	-	-	52,587	0.39	14,954	12		12,364	24	24	
	0.50 to < 0.75	58,176	-	-	58,176	0.58	17,989	14		14,773	25	47	
	0.75 to < 2.50	13,029	-	-	13,029	0.97	4,225	15		3,555	27	19	
	2.50 to < 10.00	1,087	-	-	1,087	4.85	547	11		394	36	6	
	10.00 to < 100.00	649	-	-	649	21.50	322	13		452	70	18	
	100.00 (Default)	134	-	-	134	100.00	103	12		203	151	1	
	Sub-total	342,421	-	-	342,421	0.38	133,891	12		75,636	22	149	868

7. Credit risk for non-securitization exposures (continued)

CR6: Credit risk exposures by portfolio and PD ranges – for IRB approach (continued)

(b) Retail IRB approach (continued)

		At 31 December 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Provisions
	%	HK$'m	HK$'m	%	HK$'m	%		%	Year	HK$'m	%	HK$'m	HK$'m
Portfolio (x) – Retail – small business retail exposures	0.00 to < 0.15	931	1,865	35	1,576	0.08	1,427	13		45	3	-	
	0.15 to < 0.25	333	219	35	410	0.22	282	13		23	6	-	
	0.25 to < 0.50	486	362	35	613	0.39	365	13		51	8	-	
	0.50 to < 0.75	491	354	40	632	0.58	407	15		72	11	1	
	0.75 to < 2.50	835	298	40	955	1.35	733	21		226	24	3	
	2.50 to < 10.00	211	44	43	230	3.63	222	23		75	33	2	
	10.00 to < 100.00	10	1	109	10	25.14	8	20		5	48	1	
	100.00 (Default)	9	-	-	9	100.00	19	51		7	79	6	
	Sub-total	3,306	3,143	36	4,435	0.93	3,463	16		504	11	13	12
Portfolio (xi) – Other retail exposures to individuals	0.00 to < 0.15	2,967	9,078	-	11,515	0.04	3,636	17		311	3	1	
	0.15 to < 0.25	3,824	43	-	3,857	0.22	5,111	13		209	5	1	
	0.25 to < 0.50	31,658	28	-	31,678	0.37	15,832	12		2,223	7	14	
	0.50 to < 0.75	18,717	23	-	18,735	0.59	9,155	13		2,001	11	15	
	0.75 to < 2.50	18,868	18,949	-	19,758	1.35	11,306	28		6,742	34	96	
	2.50 to < 10.00	582	4	-	585	4.17	368	30		255	44	8	
	10.00 to < 100.00	305	-	-	305	14.72	771	31		190	62	17	
	100.00 (Default)	117	2	-	118	100.00	911	70		120	102	77	
	Sub-total	77,038	28,127	-	86,551	0.81	47,090	17		12,051	14	229	219
Total (sum of all portfolios)		**433,123**	**140,260**	**1**	**514,480**	**0.49**	**2,196,114**	**25**		**100,622**	**20**	**783**	**1,266**

7. Credit risk for non-securitization exposures (continued)

CR7: Effects on RWA of recognized credit derivative contracts used as recognized credit risk mitigation – for IRB approach

		At 31 December 2020	
		(a)	(b)
		Pre-credit derivatives RWA	Actual RWA
		HK$'m	HK$'m
1	Corporate – Specialized lending under supervisory slotting criteria approach (project finance)	624	624
2	Corporate – Specialized lending under supervisory slotting criteria approach (object finance)	-	-
3	Corporate – Specialized lending under supervisory slotting criteria approach (commodities finance)	-	-
4	Corporate – Specialized lending under supervisory slotting criteria approach (income-producing real estate)	-	-
5	Corporate – Specialized lending (high-volatility commercial real estate)	-	-
6	Corporate – Small-and-medium sized corporates	51,707	51,707
7	Corporate – Other corporates	598,849	598,849
8	Sovereigns	-	-
9	Sovereign foreign public sector entities	-	-
10	Multilateral development banks	-	-
11	Bank exposures – Banks	130,661	130,661
12	Bank exposures – Securities firms	673	673
13	Bank exposures – Public sector entities (excluding sovereign foreign public sector entities)	-	-
14	Retail – Small business retail exposures	504	504
15	Retail – Residential mortgages to individuals	75,051	75,051
16	Retail – Residential mortgages to property-holding shell companies	585	585
17	Retail – Qualifying revolving retail exposures (QRRE)	12,431	12,431
18	Retail – Other retail exposures to individuals	12,051	12,051
19	Equity – Equity exposures under market-based approach (simple risk-weight method)	-	-
20	Equity – Equity exposures under market-based approach (internal models method)	-	-
21	Equity – Equity exposures under PD/LGD approach (publicly traded equity exposures held for long-term investment)	-	-
22	Equity – Equity exposures under PD/LGD approach (privately owned equity exposures held for long-term investment)	-	-
23	Equity – Equity exposures under PD/LGD approach (other publicly traded equity exposures)	-	-
24	Equity – Equity exposures under PD/LGD approach (other equity exposures)	-	-
25	Equity – Equity exposures associated with equity investments in funds (CIS exposures)	-	-
26	Other – Cash items	-	-
27	Other – Other items	67,870	67,870
28	**Total (under the IRB calculation approaches)**	**951,006**	**951,006**

The Group did not use any recognised credit derivative contracts for credit risk mitigation.

7. Credit risk for non-securitization exposures (continued)

CR8: RWA flow statements of credit risk exposures under IRB approach

		(a)
		HK$'m
1	**RWA as at 30 September 2020**	**1,056,229**
2	Asset size	(141,391)
3	Asset quality	32,695
4	Model updates	(1,139)
5	Methodology and policy	-
6	Acquisitions and disposals	-
7	Foreign exchange movements	4,612
8	Other	-
9	**RWA as at 31 December 2020**	**951,006**

RWA decreased by HK$105,223 million in the fourth quarter of 2020. These movements comprised (i) reduction in asset size primarily driven by decrease in IPO business; (ii) implementation of re-calibrated Mid-Market PD model reduced RWA by HK$1,139 million.

7. Credit risk for non-securitization exposures (continued)

CR9: Back-testing of PD per portfolio – for IRB approach

(a) FIRB approach

		At 31 December 2020							
(a)	(b)	(c)	(d)	(e)	(f)		(g)	(h)	(i)
					Number of obligors				
Portfolio	PD Range	External rating equivalent (Standard & Poor's)	Weighted average PD	Arithmetic average PD by obligors	Beginning of the year	End of the year	Defaulted obligors in the year	Of which: new defaulted obligors in the year	Average historical annual default rate
	%		%	%					%
Bank	0.00 to < 0.15	AAA to BBB+	0.06	0.07	313	306	-	-	-
	0.15 to < 0.25	BBB+ to BBB	0.22	0.22	33	57	-	-	-
	0.25 to < 0.50	BBB to BB+	0.39	0.39	58	35	-	-	-
	0.50 to < 0.75	BB+	0.64	0.59	34	32	-	-	-
	0.75 to < 2.50	BB+ to B+	1.22	1.38	32	32	-	-	-
	2.50 to < 10.00	B+ to B-	3.51	4.74	3	9	-	-	-
	10.00 to < 100.00	B- to C	-	-	-	-	-	-	-
Corporate – small-and-medium sized corporates	0.00 to < 0.15	AAA to BBB+	0.08	0.11	198	280	-	-	-
	0.15 to < 0.25	BBB+ to BBB	0.22	0.22	192	214	-	-	-
	0.25 to < 0.50	BBB to BB+	0.39	0.39	372	308	-	-	-
	0.50 to < 0.75	BB+	0.59	0.58	522	445	3	-	0.15
	0.75 to < 2.50	BB+ to B+	1.34	1.39	1,084	905	3	-	0.13
	2.50 to < 10.00	B+ to B-	3.79	3.95	436	354	2	-	1.03
	10.00 to < 100.00	B- to C	12.71	12.78	35	36	-	-	1.18
Corporate – other (including purchased corporate receivables)	0.00 to < 0.15	AAA to BBB+	0.09	0.10	625	587	-	-	-
	0.15 to < 0.25	BBB+ to BBB	0.22	0.22	181	225	-	-	0.09
	0.25 to < 0.50	BBB to BB+	0.39	0.39	284	262	1	-	0.21
	0.50 to < 0.75	BB+	0.57	0.60	501	556	-	-	-
	0.75 to < 2.50	BB+ to B+	1.30	1.32	1,010	1,038	1	-	0.11
	2.50 to < 10.00	B+ to B-	4.05	4.21	388	392	6	-	0.91
	10.00 to < 100.00	B- to C	12.33	12.53	32	51	1	-	3.42

7. Credit risk for non-securitization exposures (continued)

CR9: Back-testing of PD per portfolio – for IRB approach (continued)

(b) Retail IRB approach

		At 31 December 2020							
(a)	(b)	(c)	(d)	(e)	(f)		(g)	(h)	(i)
					Number of obligors				
Portfolio	PD Range	External rating equivalent (Standard & Poor's)	Weighted average PD	Arithmetic average PD by obligors	Beginning of the year	End of the year	Defaulted obligors in the year	Of which: new defaulted obligors in the year	Average historical annual default rate
	%		%	%					%
Retail – QRRE	0.00 to < 0.15		0.10	0.10	530,895	505,011	332	1	0.07
	0.15 to < 0.25		0.20	0.23	421,569	444,513	297	1	0.09
	0.25 to < 0.50		0.29	0.32	396,742	440,239	209	1	0.09
	0.50 to < 0.75		0.47	0.57	75,752	67,691	159	2	0.27
	0.75 to < 2.50		0.92	1.26	50,699	41,069	300	12	0.37
	2.50 to < 10.00		4.45	5.53	37,547	32,175	840	-	2.15
	10.00 to < 100.00		16.06	21.14	12,769	10,766	1,094	4	8.09
Retail – Residential mortgage exposures (including both to individuals and to property-holding shell companies)	0.00 to < 0.15		0.11	0.09	64,287	61,267	8	-	0.01
	0.15 to < 0.25		0.21	0.22	16,301	16,706	6	-	0.02
	0.25 to < 0.50		0.30	0.37	20,699	21,458	6	-	0.02
	0.50 to < 0.75		0.47	0.57	16,892	23,348	2	-	0.01
	0.75 to < 2.50		0.53	0.96	7,604	9,645	1	-	0.08
	2.50 to < 10.00		3.66	4.72	762	669	4	-	0.66
	10.00 to < 100.00		18.22	20.75	434	402	14	-	3.27
Retail – small business retail exposures	0.00 to < 0.15		0.08	0.08	1,460	1,427	-	-	0.04
	0.15 to < 0.25		0.22	0.22	306	282	-	-	0.26
	0.25 to < 0.50		0.39	0.39	434	370	1	1	0.09
	0.50 to < 0.75		0.58	0.59	447	415	2	1	0.38
	0.75 to < 2.50		1.23	1.28	632	735	4	1	1.29
	2.50 to < 10.00		3.77	5.99	737	223	79	55	3.80
	10.00 to < 100.00		29.41	40.51	95	8	35	-	25.37

7. Credit risk for non-securitization exposures (continued)

CR9: Back-testing of PD per portfolio – for IRB approach (continued)

(b) Retail IRB approach (continued)

		At 31 December 2020							
(a)	(b)	(c)	(d)	(e)	(f)		(g)	(h)	(i)
					Number of obligors				
Portfolio	PD Range	External rating equivalent (Standard & Poor's)	Weighted average PD	Arithmetic average PD by obligors	Beginning of the year	End of the year	Defaulted obligors in the year	Of which: new defaulted obligors in the year	Average historical annual default rate
	%		%	%					%
Other retail exposures to individuals	0.00 to < 0.15		0.07	0.08	1,455	1,786	5	-	0.15
	0.15 to < 0.25		0.16	0.22	4,447	4,707	10	-	0.12
	0.25 to < 0.50		0.25	0.35	15,664	14,764	10	-	0.06
	0.50 to < 0.75		0.38	0.56	8,270	8,708	6	2	0.03
	0.75 to < 2.50		0.60	1.09	11,351	13,093	158	110	0.29
	2.50 to < 10.00		2.81	5.43	467	395	125	69	7.43
	10.00 to < 100.00		10.72	22.93	550	788	183	20	18.68

7. Credit risk for non-securitization exposures (continued)

CR10: Specialized lending under supervisory slotting criteria approach and equities under simple risk-weight method – for IRB approach

I. Specialized lending under supervisory slotting criteria approach – HVCRE

There were no specialised lending under supervisory slotting criteria approach – HVCRE as at 31 December 2020.

II. Specialized lending under supervisory slotting criteria approach – other than HVCRE

		At 31 December 2020									
		(a)	(b)	(c)	(d)(i)	(d)(ii)	(d)(iii)	(d)(iv)	(d)(v)	(e)	(f)
					EAD amount						
Supervisory Rating Grade	Remaining Maturity	On-balance sheet exposure amount	Off-balance sheet exposure amount	SRW	PF	OF	CF	IPRE	Total	RWA	Expected loss amount
		HK$'m	HK$'m		HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
Strong^	Less than 2.5 years	-	-	50%	-	-	-	-	-	-	-
Strong	Equal to or more than 2.5 years	-	-	70%	-	-	-	-	-	-	-
Good^	Less than 2.5 years	-	-	70%	-	-	-	-	-	-	-
Good	Equal to or more than 2.5 years	693	-	90%	693	-	-	-	693	624	6
Satisfactory		-	-	115%	-	-	-	-	-	-	-
Weak		-	-	250%	-	-	-	-	-	-	-
Default		-	-	0%	-	-	-	-	-	-	-
Total		693	-		693	-	-	-	693	624	6

^ Use of preferential risk-weights.

III. Equity exposures under simple risk-weight method

The Group did not use simple risk-weight method to measure equities exposures as at 31 December 2020.

8. Counterparty credit risk

CCRA: Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)

The Group's management objective to counterparty credit risk is to ensure credit risk is properly managed and controlled within the general credit risk management framework. The Group has also formulated relevant policy which covers identification, measurement, control and monitoring of counterparty credit risk.

The Group establishes credit limit through formal credit approval procedures to control the pre-settlement credit risk arising from derivative transactions and settlement limit to control the settlement risk arising from foreign exchange-related transactions for counterparties including CCP in both the trading book and banking book. The Group monitors the risk exposure due to market fluctuations by using the current exposure and the potential exposure value of the transactions.

The Group establishes prudent eligibility criteria and haircut policy of debt securities being pledged as collateral for securities financing transactions.

In controlling and monitoring of wrong-way risk (risk of existence of positive correlation between the PD of a counterparty and credit exposures driven by mark-to-market value of the underlying transactions), specific wrong-way risk transactions are generally not allowed; monitoring measures have been formulated for those counterparties that would be exposed to potential general wrong-way risk being identified by making use of internal risk management tools.

Based on the existing ISDAs and CSAs signed with BOCHK's counterparties, there is no impact on collateral amount that BOCHK would be required to provide given a credit rating downgrade.

8. Counterparty credit risk (continued)

CCR1: Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

		At 31 December 2020					
		(a)	(b)	(c)	(d)	(e)	(f)
		Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
		HK$'m	HK$'m	HK$'m		HK$'m	HK$'m
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-
1a	CEM	22,347	12,758		-	31,964	10,574
2	IMM(CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					5,155	446
5	VaR (for SFTs)					-	-
6	**Total**						**11,020**

Compared with 30 June 2020, the 79% decrease in SFTs' default risk exposure after CRM was mainly driven by change in outstanding transaction volume.

CCR2: CVA capital charge

		At 31 December 2020	
		(a)	(b)
		EAD post CRM	RWA
		HK$'m	HK$'m
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	31,992	7,738
4	**Total**	**31,992**	**7,738**

8. Counterparty credit risk (continued)

CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

		At 31 December 2020										
		(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
	Risk Weight / Exposure class	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Others**	**Total default risk exposure after CRM**
		HK$'m	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**
1	Sovereign exposures	1,040	-	-	-	-	-	-	-	-	-	1,040
2	PSE exposures	-	-	31	-	-	-	-	-	-	-	31
2a	Of which: domestic PSEs	-	-	31	-	-	-	-	-	-	-	31
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	14	-	-	-	-	-	-	-	-	-	14
4	Bank exposures	-	-	-	-	-	-	-	-	-	-	-
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	47	-	-	-	-	-	88	-	-	-	135
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	551	-	-	-	-	398	21	-	-	-	970
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	4,097	-	-	-	-	-	1,153	-	-	-	5,250
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	**Total**	**5,749**	**-**	**31**	**-**	**-**	**398**	**1,262**	**-**	**-**	**-**	**7,440**

8. Counterparty credit risk (continued)

CCR4: Counterparty default risk exposures (other than those to CCPs) by portfolio and PD range – for IRB approach

FIRB approach

		At 31 December 2020						
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
	PD scale	EAD post-CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
	%	HK$'m	%		%	Year	HK$'m	%
Portfolio (i) – Sovereign	0.00 to < 0.15	-	-	-	-	-	-	-
	0.15 to < 0.25	-	-	-	-	-	-	-
	0.25 to < 0.50	-	-	-	-	-	-	-
	0.50 to < 0.75	-	-	-	-	-	-	-
	0.75 to < 2.50	-	-	-	-	-	-	-
	2.50 to < 10.00	-	-	-	-	-	-	-
	10.00 to < 100.00	-	-	-	-	-	-	-
	100.00 (Default)	-	-	-	-	-	-	-
	Sub-total	-	-	-	-	-	-	-
Portfolio (ii) – Bank	0.00 to < 0.15	21,547	0.06	119	31	2.06	4,016	19
	0.15 to < 0.25	1,885	0.22	21	45	2.43	1,120	59
	0.25 to < 0.50	554	0.39	19	45	2.50	450	81
	0.50 to < 0.75	68	0.58	9	45	2.50	64	93
	0.75 to < 2.50	129	0.91	5	45	2.50	125	97
	2.50 to < 10.00	-	4.62	1	45	2.50	-	146
	10.00 to < 100.00	-	-	-	-	-	-	-
	100.00 (Default)	-	-	-	-	-	-	-
	Sub-total	24,183	0.09	174	32	2.10	5,775	24
Portfolio (iii) – Corporate	0.00 to < 0.15	1,934	0.08	20	37	2.48	494	26
	0.15 to < 0.25	750	0.22	7	45	2.50	345	46
	0.25 to < 0.50	418	0.39	4	45	2.50	259	62
	0.50 to < 0.75	775	0.60	17	45	2.50	607	78
	0.75 to < 2.50	508	1.16	30	43	2.50	481	95
	2.50 to < 10.00	1,074	3.50	23	45	2.50	1,419	132
	10.00 to < 100.00	37	10.54	1	45	2.50	73	197
	100.00 (Default)	-	-	-	-	-	-	-
	Sub-total	5,496	1.04	102	42	2.49	3,678	67
Portfolio (iv) – Retail	0.00 to < 0.15	-	-	-	-	-	-	-
	0.15 to < 0.25	-	-	-	-	-	-	-
	0.25 to < 0.50	-	-	-	-	-	-	-
	0.50 to < 0.75	-	-	-	-	-	-	-
	0.75 to < 2.50	-	-	-	-	-	-	-
	2.50 to < 10.00	-	-	-	-	-	-	-
	10.00 to < 100.00	-	-	-	-	-	-	-
	100.00 (Default)	-	-	-	-	-	-	-
	Sub-total	-	-	-	-	-	-	-
Total (sum of all portfolios)		**29,679**	**0.26**	**276**	**34**	**2.17**	**9,453**	**32**

8. Counterparty credit risk (continued)

CCR5: Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

	At 31 December 2020					
	(a)	(b)	(c)	(d)	(e)	(f)
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
Cash	-	11,285	-	17,240	210	5,050
Debt securities	-	-	-	-	1,305	229
Equity securities	-	-	-	-	4,146	-
Total	**-**	**11,285**	**-**	**17,240**	**5,661**	**5,279**

Compared with 30 June 2020, the 22% increase in fair value of recognised collateral received (unsegregated) under derivative contracts was mainly driven by change in market value and transaction volume. The fair values of recognised collateral received and posted collateral under SFTs decreased by 93% and 94% respectively were mainly driven by change in transaction volume.

CCR6: Credit-related derivatives contracts

	At 31 December 2020	
	(a)	(b)
	Protection bought	Protection sold
	HK$'m	HK$'m
Notional amounts		
Index credit default swaps	-	-
Total notional amounts	**-**	**-**
Fair values		
Positive fair value (asset)	-	-
Negative fair value (liability)	-	-

CCR7: RWA flow statements of default risk exposures under IMM(CCR) approach

The Group did not use IMM(CCR) approach to measure default risk exposures as at 31 December 2020.

8. Counterparty credit risk (continued)

CCR8: Exposures to CCPs

		At 31 December 2020	
		(a)	(b)
		Exposure after CRM	**RWA**
		HK$'m	**HK$'m**
1	**Exposures of the AI as clearing member or client to qualifying CCPs (total)**		**681**
2	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	15,279	367
3	(i) OTC derivative transactions	14,438	350
4	(ii) Exchange-traded derivative contracts	841	17
5	(iii) Securities financing transactions	-	-
6	(iv) Netting sets subject to valid cross-product netting agreements	-	-
7	Segregated initial margin	-	
8	Unsegregated initial margin	3,516	89
9	Funded default fund contributions	229	225
10	Unfunded default fund contributions	-	-
11	**Exposures of the AI as clearing member or client to non-qualifying CCPs (total)**		**-**
12	Default risk exposures to non-qualifying CCPs (excluding items disclosed in rows 17 to 20), of which:	-	-
13	(i) OTC derivative transactions	-	-
14	(ii) Exchange-traded derivative contracts	-	-
15	(iii) Securities financing transactions	-	-
16	(iv) Netting sets subject to valid cross-product netting agreements	-	-
17	Segregated initial margin	-	
18	Unsegregated initial margin	-	-
19	Funded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

Compared with 30 June 2020, the 12% decrease in qualifying CCPs RWA was mainly driven by change in outstanding transaction volume.

9. Securitization exposures

SECA: Qualitative disclosures related to securitization exposures

BOCHK has not sponsored or managed or provided implicit support to securitisation exposures and does not hold any re-securitisation exposures as at 31 December 2020.

SEC1: Securitization exposures in banking book

There were no securitisation exposures in the banking book as at 31 December 2020.

SEC2: Securitization exposures in trading book

There were no securitisation exposures in the trading book as at 31 December 2020.

SEC3: Securitization exposures in banking book and associated capital requirements – where AI acts as originator

There were no securitisation exposures in the banking book and the associated capital requirements where the Group acts as an originator as at 31 December 2020.

SEC4: Securitization exposures in banking book and associated capital requirements – where AI acts as investor

There were no securitisation exposures in the banking book and the associated capital requirements where the Group acts as an investor as at 31 December 2020.

10. Market risk

MRA: Qualitative disclosures related to market risk

Market Risk

Market risk refers to the risk of loss arising from movements in the value of foreign exchange, interest rate, equity and commodity positions held by the Group due to the volatility of financial market price (foreign exchange rate, interest rate, equity price, commodity price).

Market Risk Governance

The Group's market risk management is intended to ensure proper oversight of market risk, assure market risk taking activities are consistent with our risk appetite while optimising risk and return. In accordance with the Group's corporate governance principles in respect of risk management, the Board and RMC, senior management and functional departments/units perform their duties and responsibilities to manage the Group's market risk. The RMD is responsible for the Group's market risk management, assisting senior management to perform their day-to-day duties, independently monitoring the market risk profile and compliance of management policies and limits of the Group and BOCHK, and ensuring that the aggregate and individual market risks are within acceptable levels. The Group's risk management report is submitted to the senior management and RMC on a monthly basis.

The Group's market risk management covers BOCHK and its subsidiaries. The Group establishes market risk management policies to regulate BOCHK's and its subsidiaries' market risk management; meanwhile, the Group sets up the Group's VaR and stress test limits, which are allocated and monitored across the Group, according to the business requirements and risk tolerance levels. In line with the requirements set in the Group's policy, the subsidiaries formulate the detailed policies and procedures and are responsible for managing their daily market risk.

The Group sets up market risk indicators and limits to identify, measure, monitor and control market risk. Major risk indicators and limits include but are not limited to VaR, Stop Loss, Open Position, Stress Testing and Sensitivity Analysis (Basis Point Value, Greeks), etc. Trading market risks are managed holistically at the portfolio level on a daily basis. Global Markets may utilise hedging strategies to manage risk within set limits. Hedging may lead to basis risks – due to less than perfect correlation between the hedging instrument in question and the position to be hedged, which are managed within the overall limits. As such, the RMD does not distinguish between specific positions and their respective hedges.

Market risk limits are established for the Group, individual entities, business unit and at granular levels within the business lines, reflecting the nature and magnitude of the market risks. Major risk indicators and limits are classified into three levels, and are approved by the RMC, senior management or the head of the respective business unit respectively. Regular review of the market risk limits should be conducted at least once a year. The treasury business units of BOCHK and subsidiaries (as for Group Limit) are required to conduct their business within approved market risk indicators and limits.

10. Market risk (continued)

MRB: Additional qualitative disclosures for AI using IMM approach

The Group continues to adopt the internal models ("IMM") approach to calculate the general market risk capital charge for foreign exchange and interest rate exposures and, with the approval from the HKMA, exclude its structural FX positions in the calculation of the market risk capital charge. The Group continues to adopt the standardised (market risk) ("STM") approach to calculate the market risk capital charge for the remaining exposures. Regulatory VaR and stressed VaR models are adopted to use in the Group and BOCHK.

Regulatory VaR and stressed VaR for determining market risk capital requirements are calculated at a 99% confidence level for a 10-day holding period. The stressed VaR uses the same methodology as the VaR model and is generated with inputs calibrated to the historical market data from a continuous 12-month period of significant financial stress relevant to the Group's portfolio. For management purposes, the Group uses 1-day 99% VaR to measure and report general market risks of the Group and subsidiaries, and sets up the VaR limit of the Group and subsidiaries.

Directly modeled 10-day holding period is used in the calculation of regulatory VaR, whereby two-year historical observations are equally weighted. Absolute returns are used for interest rates; logarithmic returns are used for foreign exchange rates and implied volatilities under historical simulation, where the data are updated daily.

Stressed VaR model is based on a directly modeled 10-day holding period, which is same as regulatory VaR model. Based on the assessment at the most volatile period in recent history, relevant historical crises are first identified. With further assessment, January 2008 to December 2008 is chosen as the stress period in calculating stressed VaR. The period used is approved by the HKMA and regularly reviewed.

Full revaluation approach is used in both VaR and stressed VaR model. Specific risk charge is calculated as a standalone charge by using a different method (i.e. Standardised approach). It is aggregated by simple sum with the VaR and stressed VaR contributions when computing the market risk capital charge.

The Group adopts back-testing to measure the accuracy of VaR model results. The back-testing compares the calculated VaR figure of market risk positions of each business day with the actual and hypothetical gains or losses arising from those positions on the next business day. Generally speaking, the number of back-testing exceptions in a rolling 12-month period will not exceed four times, given a 99% confidence level.

10. Market risk (continued)

MR1: Market risk under STM approach

		At 31 December 2020
		(a)
		RWA
		HK$'m
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	146
2	Equity exposures (general and specific risk)	208
3	Foreign exchange (including gold) exposures	-
4	Commodity exposures	529
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	2
7	Other approach	-
8	Securitization exposures	-
9	**Total**	**885**

MR2: RWA flow statements of market risk exposures under IMM approach

		(a)	(b)	(c)	(d)	(e)	(f)
		VaR	**Stressed VaR**	**IRC**	**CRC**	**Other**	**Total RWA**
		HK$'m	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**
1	**RWA as at 30 September 2020**	**3,532**	**11,252**	**-**	**-**	**-**	**14,784**
1a	*Regulatory adjustment*	*(2,607)*	*(8,547)*	-	-	-	*(11,154)*
1b	***RWA as at day-end of 30 September 2020***	***925***	***2,705***	**-**	**-**	**-**	***3,630***
2	Movement in risk levels*	(6)	(1,207)	-	-	-	(1,213)
3	Model updates/changes	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-
7	Other	-	-	-	-	-	-
7a	***RWA as at day-end of 31 December 2020***	***919***	***1,498***	**-**	**-**	**-**	***2,417***
7b	*Regulatory adjustment*	*1,769*	*4,809*	-	-	-	*6,578*
8	**RWA as at 31 December 2020**	**2,688**	**6,307**	**-**	**-**	**-**	**8,995**

* Movements as a result of changes in positions and risk levels.

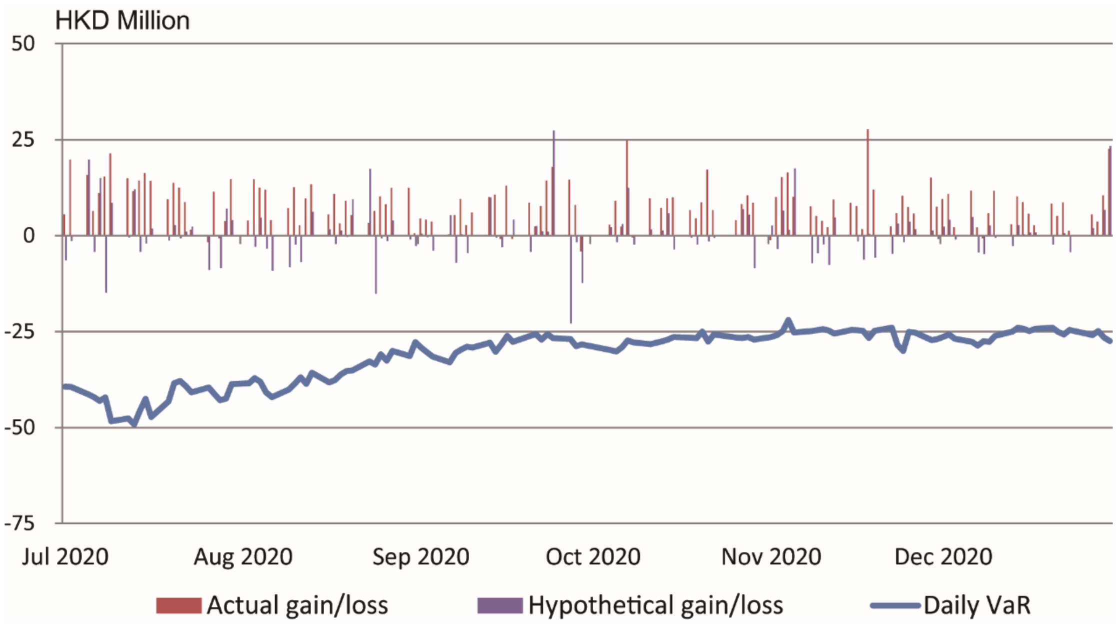
10. Market risk (continued)

MR3: IMM approach values for market risk exposures

		(a)
		HK$'m
VaR (10 days – one-tailed 99% confidence interval)		
1	Maximum Value	118
2	Average Value	81
3	Minimum Value	49
4	Period End	74
Stressed VaR (10 days – one-tailed 99% confidence interval)		
5	Maximum Value	449
6	Average Value	220
7	Minimum Value	120
8	Period End	120
Incremental risk charge (IRC) (99.9% confidence interval)		
9	Maximum Value	-
10	Average Value	-
11	Minimum Value	-
12	Period End	-
Comprehensive risk charge (CRC) (99.9% confidence interval)		
13	Maximum Value	-
14	Average Value	-
15	Minimum Value	-
16	Period End	-
17	Floor	-

10. Market risk (continued)

MR4: Comparison of VaR estimates with gains or losses



Regulatory VaR and stressed VaR for determining market risk capital requirements are calculated at a 99% confidence level for a 10-day holding period. The stressed VaR uses the same methodology as the VaR model and is generated with inputs calibrated to the historical market data from a continuous 12-month period of significant financial stress relevant to the Group's portfolio.

The Group adopts a regulatory VaR model, using a historical simulation approach and two years of historical data, to capture general interest rate and foreign exchange risks over a 10-day holding period with a 99% confidence level. The Group adopts back-testing to measure the accuracy of VaR model results. Actual and hypothetical P&L are compared against the corresponding 99% one-day regulatory VaR. The numbers of exception over the recent 250 business days (Actual or hypothetical P&L exceeds the VaR) determines the value of VaR multiplication factor.

Actual P&Ls are the P&Ls in respect to trading activities within the scope of regulatory VaR model, which includes intraday P&Ls; excludes commissions, fees and reserves. Hypothetical P&Ls are the hypothetical changes in portfolio value assuming unchanged end-of-day position.

There were no back-testing exceptions against both actual and hypothetical P&Ls in the second-half of 2020.

11. Interest rate risk in banking book

IRRBBA: Interest rate risk in banking book – risk management objectives and policies

The Group's risk management framework applies also to interest rate risk management. The ALCO exercises its oversight of interest rate risk in accordance with the "BOCHK Group Banking Book Interest Rate Risk Management Policy" approved by the RMC. The RMD is responsible for the Group's interest rate risk management. With the cooperation of the Financial Management Department and Investment Management, etc., RMD assists the ALCO to perform day-to-day interest rate risk management. Its roles include, but are not limited to, the formulation of management policies, selection of methodologies, setting of risk indicators and limits, assessment of target balance sheet, monitoring of the compliance with policies and limits, and submission of interest rate risk management reports to senior management and the RMC, etc.

Interest rate risk in banking book ("IRRBB") refers to the risk of losses in terms of overall earnings and economic value of the banking book due to the adverse movement of the interest rate level, or change to the balance sheet structure. The major types of interest rate risk of the Group are:

- Gap risk: mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income and economic value;
- Basis risk: different pricing basis for different transactions resulting that the yield on assets and cost of liabilities may change by different amounts within the same repricing period; and
- Option risk: exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cash flows of assets and liabilities.

The Group sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk on a daily basis. The indicators and limits include, but are not limited to, repricing gap limits, basis risk, duration, price value of a basis point ("PVBP"), net interest income sensitivity ratio ("NII"), economic value sensitivity ratio ("EV"), etc. The indicators and limits are classified into different levels, which are approved by the CFO, CRO, ALCO and RMC accordingly. Risk-taking business units are required to conduct their business within the boundary of the interest rate risk limits. Based on the limit requirements and business conditions, when necessary, the Group can hedge (economic hedging or hedge accounting) or mitigate the IRRBB by holding one or more hedging tools that are opposite to the original risk position. Before launching a new product or business in the banking book, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be submitted to the RMC for approval. The Group Audit, assuming the roles of third line of defence of the Group, performs internal audit on the Group's IRRBB management process independently in accordance with the annual audit plan.

11. Interest rate risk in banking book (continued)

IRRBBA: Interest rate risk in banking book – risk management objectives and policies (continued)

The Group calculates the NII and EV KRI according to the local standard framework for measuring IRRBB risk exposure in the Hong Kong Monetary Authority's Supervisory Policy Manual IR-1, which includes six interest rate shock scenarios:

- parallel shock up;
- parallel shock down;
- steepener shock (short rates down and long rates up);
- flattener shock (short rates up and long rates down);
- short rates shock up; and
- short rates shock down.

In the standardised framework implementation, the Group includes commercial margins and other spread components into the cash flows and discounts them at risk-free rates. For products with customer behavior models, such as retail fixed-rate loans with early repayment risk, retail time deposits and open-term deposits with early redemption risk, model and parameter assumptions are based on historical analysis. Average repricing maturity assigned to non-maturity deposits ("NMDs") is 0.4 year and longest repricing maturity assigned to NMDs is 5 years. Assumptions and parameters are updated, reviewed and independently validated regularly.

The Group uses scenario analyses and stress tests to assess the banking book interest rate risk that the Group would face under adverse circumstances.

IRRBB1: Quantitative information on interest rate risk in banking book

		(a)	(b)	(c)	(d)
		ΔEVE		ΔNII	
	Period	**At 31 December 2020**	**At 31 December 2019**	**At 31 December 2020**	**At 31 December 2019**
		HK$'m	**HK$'m**	**HK$'m**	**HK$'m**
1	Parallel up	15,345	13,245	(4,197)	(4,384)
2	Parallel down	3,416	2,402	4,466	4,598
3	Steepener	11,148	5,111		
4	Flattener	1,523	931		
5	Short rate up	10,093	4,902		
6	Short rate down	5,545	2,992		
7	**Maximum**	15,345	13,245	4,466	4,598
	Period	**At 31 December 2020**		**At 31 December 2019**	
		HK$'m		**HK$'m**	
8	**Tier 1 capital**	**240,018**		218,515	

12. Remuneration

REMA: Remuneration policy

For details, please refer to "Corporate Governance" section of the Group's 2020 Annual Report.

REM1: Remuneration awarded during financial year

For details, please refer to Note 19 to the Financial Statements of the Group's 2020 Annual Report.

REM2: Special payments

For details, please refer to Note 19 to the Financial Statements of the Group's 2020 Annual Report.

REM3: Deferred remuneration

For details, please refer to Note 19 to the Financial Statements of the Group's 2020 Annual Report.

13. Operational risk

	At 31 December 2020
	HK$'m
Capital charge for operational risk	7,880

The Group uses the standardised (operational risk) approach to calculate its operational risk capital charge.