

Regulatory Disclosures

30 June 2020



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

KM1: Key prudential ratios

		(a)	(b)	(c)	(d)	(e)
		At 30 June 2020	At 31 March 2020	At 31 December 2019	At 30 September 2019	At 30 June 2019
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
	Regulatory capital					
1	Common Equity Tier 1 (CET1)	216,560	201,094	195,039	197,089	193,987
2	Tier 1	240,036	224,570	218,515	220,566	217,450
3	Total capital	270,258	255,360	251,370	253,552	250,015
	RWA					
4	Total RWA	1,169,600	1,165,836	1,098,018	1,098,572	1,086,888
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	18.52%	17.25%	17.76%	17.94%	17.85%
6	Tier 1 ratio (%)	20.52%	19.26%	19.90%	20.08%	20.01%
7	Total capital ratio (%)	23.11%	21.90%	22.89%	23.08%	23.00%
	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 (%)	0.778%	0.780%	1.552%	1.928%	1.907%
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 (%)	4.778%	4.780%	5.552%	5.928%	5.907%
12	CET1 available after meeting the AI's minimum capital requirements (%)	14.02%	12.75%	13.26%	13.44%	13.35%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	2,960,539	2,866,862	2,799,606	2,764,612	2,756,823
14	LR (%)	8.11%	7.83%	7.81%	7.98%	7.89%
	Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	629,778	655,935	645,105	612,820	652,196
16	Total net cash outflows	487,193	451,052	452,123	440,675	431,814
17	LCR (%)	129.63%	146.14%	143.00%	139.27%	151.47%
	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	1,662,594	1,634,103	1,595,457	1,592,902	1,604,533
19	Total required stable funding	1,423,913	1,409,245	1,363,567	1,377,442	1,358,331
20	NSFR (%)	116.76%	115.96%	117.01%	115.64%	118.13%
	Applicable to category 2A institution only:					
20a	CFR (%)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

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

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

		(a)	(b)	(c)	(d)	(e)
		At 30 June 2020	At 31 March 2020 ¹	At 31 December 2019 ¹	At 30 September 2019 ¹	At 30 June 2019 ¹
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Of the material entity at LAC consolidation group level						
1	Internal loss-absorbing capacity available	246,782	Not applicable	Not applicable	Not applicable	Not applicable
2	Risk-weighted amount under the LAC Rules	1,169,600	Not applicable	Not applicable	Not applicable	Not applicable
3	Internal LAC risk-weighted ratio	21.10%	Not applicable	Not applicable	Not applicable	Not applicable
4	Exposure measure under the LAC Rules	2,960,539	Not applicable	Not applicable	Not applicable	Not applicable
5	Internal LAC leverage ratio	8.34%	Not applicable	Not applicable	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 and overview of RWA (continued)

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

		(a)	(b)	(c)	(d)	(e)
		At 30 June 2020 ¹	At 31 March 2020	At 31 December 2019	At 30 September 2019	At 30 June 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	2,517,967	Not applicable	Not applicable	Not applicable	Not applicable
2	Total risk-weighted amount under the relevant non-HK LAC regime	16,324,797	Not applicable	Not applicable	Not applicable	Not applicable
3	External loss-absorbing capacity as a percentage of risk-weighted amount	15.42%	Not applicable	Not applicable	Not applicable	Not applicable
4	Leverage ratio exposure measure under the relevant non-HK LAC regime	28,135,870	Not applicable	Not applicable	Not applicable	Not applicable
5	External loss-absorbing capacity as a percentage of leverage ratio exposure measure	8.95%	Not applicable	Not applicable	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.

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

OV1: Overview of RWA

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		At 30 June 2020	At 31 March 2020	At 30 June 2020
		HK\$m	HK\$m	HK\$m
1	Credit risk for non-securitization exposures	1,005,943	1,002,236	84,826
2	Of which STC approach	99,785	100,744	7,983
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	905,535	900,864	76,789
4	Of which supervisory slotting criteria approach	623	628	54
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	11,998	13,489	1,007
7	Of which SA-CCR	Not applicable	Not applicable	Not applicable
7a	Of which CEM	10,526	12,641	886
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	1,472	848	121
10	CVA risk	8,431	9,221	674
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	13,247	12,094	1,060
21	Of which STM approach	1,885	2,207	151
22	Of which IMM approach	11,362	9,887	909
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	96,381	96,128	7,710
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	6,967	7,165	557
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	28,331	29,263	2,266
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	400	-
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	28,331	28,863	2,266
27	Total	1,114,636	1,111,070	93,568

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 31 March 2020, the 17% decrease in counterparty default risk and default fund contributions (of which CEM) was mainly due to change in outstanding amount of derivative transactions.

2. Composition of regulatory capital

CC1: Composition of regulatory capital

		At 30 June 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	(4)
2	Retained earnings	184,542	(5)
3	Disclosed reserves	46,433	(7)+(8)+(9)+(10)
4	<i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	CET1 capital before regulatory deductions	274,018	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	169	Not applicable
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	63	(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	49	(1)+(3)
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	57,177	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	51,510	(6)+(7)
26b	Regulatory reserve for general banking risks	5,667	(9)
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)	-	

2. Composition of regulatory capital (continued)

CC1: Composition of regulatory capital (continued)

		At 30 June 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	57,458	
29	CET1 capital	216,560	
	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	(11)
32	of which: classified as liabilities under applicable accounting standards	-	
33	<i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
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)	240,036	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	<i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	7,043	Not applicable
51	Tier 2 capital before regulatory deductions	7,043	
	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	-	

2. Composition of regulatory capital (continued)

CC1: Composition of regulatory capital (continued)

		At 30 June 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	(23,179)	
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	(23,179)	[(6)+(7)]*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	(23,179)	
58	Tier 2 capital (T2)	30,222	
59	Total regulatory capital (TC = T1 + T2)	270,258	
60	Total RWA	1,169,600	
Capital ratios (as a percentage of RWA)			
61	CET1 capital ratio	18.52%	
62	Tier 1 capital ratio	20.52%	
63	Total capital ratio	23.11%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	4.778%	
65	of which: capital conservation buffer requirement	2.500%	
66	of which: bank specific countercyclical capital buffer requirement	0.778%	
67	of which: higher loss absorbency requirement	1.500%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	14.02%	
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	21,480	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	2,787	
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

2. Composition of regulatory capital (continued)

CC1: Composition of regulatory capital (continued)

		At 30 June 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)	1,217	
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	1,351	
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)	6,932	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	5,826	
	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)	-	

2. Composition of regulatory capital (continued)

CC1: Composition of regulatory capital (continued)

Notes to the Template

Row No.	Description	Hong Kong basis	Basel III basis
		HK\$m	HK\$m
9	Other intangible assets (net of associated deferred tax liabilities)	-	-
	<u>Explanation</u> 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)	63	-
	<u>Explanation</u> 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)	-	-
	<u>Explanation</u> 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)	-	-
	<u>Explanation</u> 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.		

2. Composition of regulatory capital (continued)

CC1: Composition of regulatory capital (continued)

Row No.	Description	Hong Kong basis	Basel III basis
		HK\$m	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)	-	-
	<u>Explanation</u> 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)	-	-
	<u>Explanation</u> 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

2. Composition of regulatory capital (continued)

CC2: Reconciliation of regulatory capital to balance sheet

	(a)	(b)	(c)
	Balance sheet as in published financial statements as at 30 June 2020 HK\$m	Under regulatory scope of consolidation as at 30 June 2020 HK\$m	Reference
ASSETS			
Cash and balances and placements with banks and other financial institutions	409,239	408,722	
Financial assets at fair value through profit or loss	31,367	31,190	
Derivative financial instruments	44,379	44,379	
- of which: debit valuation adjustments in respect of derivative contracts		32	(1)
Hong Kong SAR Government certificates of indebtedness	175,330	175,330	
Advances and other accounts	1,509,660	1,509,660	
Investment in securities	751,414	751,407	
Interests in subsidiaries	-	804	
Interests in associates and joint ventures	644	644	
Investment properties	19,889	19,808	
Properties, plant and equipment	49,780	49,228	
Current tax assets	34	34	
Deferred tax assets	63	63	(2)
Other assets	73,915	73,810	
Total assets	3,065,714	3,065,079	
LIABILITIES			
Hong Kong SAR currency notes in circulation	175,330	175,330	
Deposits and balances from banks and other financial institutions	270,231	270,231	
Financial liabilities at fair value through profit or loss	10,858	10,858	
Derivative financial instruments	53,066	53,066	
- of which: debit valuation adjustments in respect of derivative contracts		(17)	(3)
Deposits from customers	2,147,854	2,148,241	
Other accounts and provisions	97,756	97,549	
Current tax liabilities	6,199	6,164	
Deferred tax liabilities	6,297	6,146	
Total liabilities	2,767,591	2,767,585	

2. 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 30 June 2020 HK\$m	Under regulatory scope of consolidation as at 30 June 2020 HK\$m	Reference
EQUITY			
Share capital	43,043	43,043	(4)
Reserves	231,341	230,975	
- Retained earnings	183,918	184,542	(5)
- of which: cumulative fair value gains arising from the revaluation of investment properties		13,436	(6)
- Premises revaluation reserve	39,076	38,074	(7)
- Reserve for fair value changes	3,581	3,582	(8)
- Regulatory reserve	5,667	5,667	(9)
- Translation reserve	(901)	(890)	(10)
Capital and reserves attributable to equity holders of the Bank	274,384	274,018	
Other equity instruments of the Bank	23,476	23,476	(11)
Non-controlling interests	263	-	
Total equity	298,123	297,494	
Total liabilities and equity	3,065,714	3,065,079	

2. 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
<i>Regulatory treatment</i>		
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 30 June 2020)
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HK\$43,043m (as of 30 June 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
<i>Coupons/dividends</i>		
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

2. 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
<i>Regulatory treatment</i>		
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 30 June 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
<i>Coupons/dividends</i>		
17	Fixed or floating dividend/coupon	Fixed

2. 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

2. 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.

2. Composition of regulatory capital (continued)

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

		At 30 June 2020
		(a)
		HK\$m
	Regulatory capital elements of internal loss-absorbing capacity and adjustments	
1	Common Equity Tier 1 ("CET1") capital	216,560
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	30,222
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	30,222
11	Internal loss-absorbing capacity arising from regulatory capital	246,782
	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	246,782
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	246,782
	Risk-weighted amount and exposure measure under the LAC Rules for internal loss-absorbing capacity purposes	
23	Risk-weighted amount under the LAC Rules	1,169,600
24	Exposure measure under the LAC Rules	2,960,539
	Internal LAC ratios and buffers	
25	Internal LAC risk-weighted ratio	21.10%
26	Internal LAC leverage ratio	8.34%
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	14.02%
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)	4.778%
29	Of which: capital conservation buffer requirement	2.500%
30	Of which: institution-specific countercyclical capital buffer requirement	0.778%
31	Of which: higher loss absorbency requirement	1.500%

2. Composition of regulatory capital (continued)

TLAC2: Material subsidiary – creditor ranking at legal entity level

		At 30 June 2020			
		Creditor ranking			Sum of values in columns 1 to 2
		1 (most junior)	1 (most junior)	2 (most senior)	
		HK\$m	HK\$m	HK\$m	HK\$m
1	Is a resolution entity or a non-HK resolution entity the creditor/investor?	No	Yes	No	
2	Description of creditor ranking	Ordinary shares ¹		AT1 instruments	
3	Total capital and liabilities net of credit risk mitigation	14,609	28,434	23,476	66,519
4	Subset of row 3 that are excluded liabilities	-	-	-	-
5	Total capital and liabilities less excluded liabilities	14,609	28,434	23,476	66,519
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.

3. Macroprudential supervisory measures

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

		At 30 June 2020			
		(a)	(c)	(d)	(e)
		Applicable JCCyB ratio in effect	RWA used in computation of CCyB ratio	AI-specific CCyB ratio	CCyB amount
		%	HK\$m	%	HK\$m
1	Geographical breakdown by Jurisdiction (J)				
1	Hong Kong SAR	1.000%	667,643		
2	Luxembourg	0.250%	847		
	Sum		668,490		
	Total		858,833	0.778%	9,099

4. Leverage ratio

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

		At 30 June 2020
		(a)
		Value under the LR framework
		HK\$m
1	Total consolidated assets as per published financial statements	3,065,714
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(634)
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	(25,256)
5	Adjustment for SFTs (i.e. repos and similar secured lending)	987
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	153,016
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(518)
7	Other adjustments	(232,770)
	<i>of which: Hong Kong SAR Government certificates of indebtedness</i>	<i>(175,330)</i>
8	Leverage ratio exposure measure	2,960,539

4. Leverage ratio (continued)

LR2: Leverage ratio

		At 30 June 2020	At 31 March 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)	2,770,587	2,689,723
2	Less: Asset amounts deducted in determining Tier 1 capital	(57,440)	(64,190)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	2,713,147	2,625,533
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)	14,689	17,241
5	Add-on amounts for PFE associated with all derivative contracts	20,131	21,775
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	(15,697)	(15,194)
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	19,123	23,822
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	83,111	69,152
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	987	217
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	84,098	69,369
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	718,344	700,982
18	Less: Adjustments for conversion to credit equivalent amounts	(565,328)	(544,751)
19	Off-balance sheet items	153,016	156,231
Capital and total exposures			
20	Tier 1 capital	240,036	224,570
20a	Total exposures before adjustments for specific and collective provisions	2,969,384	2,874,955
20b	Adjustments for specific and collective provisions	(8,845)	(8,093)
21	Total exposures after adjustments for specific and collective provisions	2,960,539	2,866,862
Leverage ratio			
22	Leverage ratio	8.11%	7.83%

5. Liquidity

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: (71)		For the quarter ended 30 June 2020	
		(a)	(b)
Basis of disclosure: consolidated		Unweighted value (average)	Weighted value (average)
		HK\$m	HK\$m
A. HQLA			
1	Total HQLA		629,778
B. Cash Outflows			
2	Retail deposits and small business funding, of which:	1,040,253	66,726
3	<i>Stable retail deposits and stable small business funding</i>	359,483	10,785
4	<i>Less stable retail deposits and less stable small business funding</i>	431,033	43,103
4a	<i>Retail term deposits and small business term funding</i>	249,737	12,838
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	1,120,955	548,965
6	<i>Operational deposits</i>	318,922	78,444
7	<i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i>	802,033	470,521
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	-	-
9	Secured funding transactions (including securities swap transactions)		948
10	Additional requirements, of which:	401,862	74,786
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	38,728	38,728
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	-	-
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	363,134	36,058
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	53,924	53,924
15	Other contingent funding obligations (whether contractual or non-contractual)	322,658	5,631
16	Total Cash Outflows		750,980
C. Cash Inflows			
17	Secured lending transactions (including securities swap transactions)	4,686	4,294
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	261,842	182,817
19	Other cash inflows	82,680	76,676
20	Total Cash Inflows	349,208	263,787
D. Liquidity Coverage Ratio		Adjusted value	
21	Total HQLA		629,778
22	Total Net Cash Outflows		487,193
23	LCR (%)		129.63%

5. 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 the first and second quarter in 2020 were 146.14% and 129.63% 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.

5. Liquidity (continued)

LIQ2: Net Stable Funding Ratio – for category 1 institution

For the quarter ended 30 June 2020 (HK\$m)		(a)	(b)	(c)	(d)	(e)
Basis of disclosure: consolidated		Unweighted value by residual maturity				Weighted amount
		No specified term to maturity	< 6 months or repayable on demand	6 months to < 12 months	12 months or more	
A. Available stable funding ("ASF") item						
1	Capital:	303,974	-	-	-	303,974
2	Regulatory capital	303,974	-	-	-	303,974
2a	Minority interests not covered by row 2	-	-	-	-	-
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and small business funding:	-	1,044,117	14,963	379	974,264
5	Stable deposits		411,787	2,496	70	393,638
6	Less stable deposits		632,330	12,467	309	580,626
7	Wholesale funding:	-	1,345,120	19,227	4,794	374,266
8	Operational deposits		326,145	-	-	163,073
9	Other wholesale funding	-	1,018,975	19,227	4,794	211,193
10	Liabilities with matching interdependent assets	175,330	-	-	-	-
11	Other liabilities:	69,443	67,212	2,260	8,960	10,090
12	Net derivative liabilities	-				
13	All other funding and liabilities not included in the above categories	69,443	67,212	2,260	8,960	10,090
14	Total ASF					1,662,594
B. Required stable funding ("RSF") item						
15	Total HQLA for NSFR purposes		840,547			87,893
16	Deposits held at other financial institutions for operational purposes	-	3,203	-	-	1,602
17	Performing loans and securities:	21,185	484,876	251,560	1,100,913	1,192,998
18	Performing loans to financial institutions secured by Level 1 HQLA	-	1,967	-	-	197
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	20	166,693	40,460	26,032	71,287
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:	19,709	293,857	153,382	695,389	817,328
21	With a risk-weight of less than or equal to 35% under the STC approach	4	6,373	2,000	4,043	5,504
22	Performing residential mortgages, of which:	-	9,266	7,196	297,656	201,819
23	With a risk-weight of less than or equal to 35% under the STC approach	-	9,266	7,196	297,097	201,344
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	1,456	13,093	50,522	81,836	102,367
25	Assets with matching interdependent liabilities	175,330	-	-	-	-
26	Other assets:	154,259	75,648	714	1,045	122,031
27	Physical traded commodities, including gold	8,203				6,973
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	5,483				4,661
29	Net derivative assets	6,201				6,201
30	Total derivative liabilities before deduction of variation margin posted	52,185				2,609
31	All other assets not included in the above categories	82,187	75,648	714	1,045	101,587
32	Off-balance sheet items			723,407		19,389
33	Total RSF					1,423,913
34	Net Stable Funding Ratio (%)					116.76%

5. Liquidity (continued)

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

For the quarter ended 31 March 2020 (HK\$m)		(a)	(b)	(c)	(d)	(e)
Basis of disclosure: consolidated		Unweighted value by residual maturity				Weighted amount
		No specified term to maturity	< 6 months or repayable on demand	6 months to < 12 months	12 months or more	
A. Available stable funding (“ASF”) item						
1	Capital:	294,739	-	-	-	294,739
2	<i>Regulatory capital</i>	294,739	-	-	-	294,739
2a	<i>Minority interests not covered by row 2</i>	-	-	-	-	-
3	<i>Other capital instruments</i>	-	-	-	-	-
4	Retail deposits and small business funding:	-	1,011,225	16,021	424	945,157
5	<i>Stable deposits</i>		400,630	3,587	79	384,085
6	<i>Less stable deposits</i>		610,595	12,434	345	561,072
7	Wholesale funding:	-	1,305,504	24,874	5,290	384,206
8	<i>Operational deposits</i>		324,475	-	-	162,237
9	<i>Other wholesale funding</i>	-	981,029	24,874	5,290	221,969
10	Liabilities with matching interdependent assets	172,930	-	-	-	-
11	Other liabilities:	62,623	58,536	1,440	9,281	10,001
12	<i>Net derivative liabilities</i>	-				
13	<i>All other funding and liabilities not included in the above categories</i>	62,623	58,536	1,440	9,281	10,001
14	Total ASF					1,634,103
B. Required stable funding (“RSF”) item						
15	Total HQLA for NSFR purposes		805,288			84,523
16	Deposits held at other financial institutions for operational purposes	-	852	-	-	426
17	Performing loans and securities:	22,679	470,817	238,318	1,097,771	1,183,563
18	<i>Performing loans to financial institutions secured by Level 1 HQLA</i>	-	1,606	-	-	161
19	<i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>	18	186,164	42,593	22,598	71,837
20	<i>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:</i>	21,148	253,394	152,259	692,809	807,768
21	<i>With a risk-weight of less than or equal to 35% under the STC approach</i>	4	2,214	5,193	6,820	7,581
22	<i>Performing residential mortgages, of which:</i>	-	8,898	7,007	291,330	197,317
23	<i>With a risk-weight of less than or equal to 35% under the STC approach</i>	-	8,898	7,007	291,330	197,317
24	<i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	1,513	20,755	36,459	91,034	106,480
25	Assets with matching interdependent liabilities	172,930	-	-	-	-
26	Other assets:	155,683	51,177	843	936	121,546
27	<i>Physical traded commodities, including gold</i>	5,909				5,023
28	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>	5,412				4,600
29	<i>Net derivative assets</i>	6,065				6,065
30	<i>Total derivative liabilities before deduction of variation margin posted</i>	54,305				2,715
31	<i>All other assets not included in the above categories</i>	83,992	51,177	843	936	103,143
32	Off-balance sheet items		705,668			19,187
33	Total RSF					1,409,245
34	Net Stable Funding Ratio (%)					115.96%

6. Credit risk for non-securitization exposures

CR1: Credit quality of exposures

		At 30 June 2020								
		(a)	(b)	(c)	(d)	(e)	(f)	(g)		
		Gross carrying amounts of		Allowances/ impairments	Of which ECL accounting provisions for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values (a+b-c)		
					Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions				
		Defaulted exposures	Non-defaulted exposures							
		HK\$m	HK\$m		HK\$m	HK\$m			HK\$m	HK\$m
1	Loans	3,332	1,902,036	(8,075)	(768)	(914)	(6,393)	1,897,293		
2	Debt securities	-	751,582	(11)	-	(6)	(5)	751,571		
3	Off-balance sheet exposures	77	718,267	(518)	(19)	(75)	(424)	717,826		
4	Total	3.409	3.371.885	(8.604)	(787)	(995)	(6.822)	3.366.690		

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 31 December 2019	2,903
2	Loans and debt securities that have defaulted since the last reporting period	925
3	Returned to non-defaulted status	(100)
4	Amounts written off	(305)
5	Other changes	(91)
6	Defaulted loans and debt securities at 30 June 2020	3,332

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

CR3: Overview of recognized credit risk mitigation

		At 30 June 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	1,419,214	478,079	75,069	403,010	-
2	Debt securities	704,018	47,553	-	47,553	-
3	Total	2,123,232	525,632	75,069	450,563	-
4	Of which defaulted	482	606	345	261	-

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

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

		At 30 June 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	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	%
1	Sovereign exposures	573,344	1,134	574,188	205	12,404	2
2	PSE exposures	37,137	3,545	39,107	4,368	2,448	6
2a	Of which: domestic PSEs	2,990	3,545	4,960	4,368	1,866	20
2b	Of which: foreign PSEs	34,147	-	34,147	-	582	2
3	Multilateral development bank exposures	42,102	-	42,102	-	-	-
4	Bank exposures	1,182	2,520	4,327	1,264	2,421	43
5	Securities firm exposures	1	27	1	9	5	50
6	Corporate exposures	67,202	34,596	60,229	7,354	64,826	96
7	CIS exposures	-	-	-	-	-	-
8	Cash items	368	-	368	-	-	-
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	8,891	25,471	8,246	659	6,679	75
11	Residential mortgage loans	3,415	5,496	1,444	-	729	51
12	Other exposures which are not past due exposures	24,383	25,634	9,951	108	10,059	100
13	Past due exposures	142	-	142	-	214	150
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	Total	758,167	98,423	740,105	13,967	99,785	13

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

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

<div style="text-align: center;"> <div style="transform: rotate(-45deg); display: inline-block;">Risk Weight</div> <div style="display: inline-block;">Exposure class</div> </div>		At 30 June 2020										
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
		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	553,307	-	1,521	-	14,931	-	4,634	-	-	-	574,393
2	PSE exposures	31,237	-	12,238	-	-	-	-	-	-	-	43,475
2a	Of which: domestic PSEs	-	-	9,328	-	-	-	-	-	-	-	9,328
2b	Of which: foreign PSEs	31,237	-	2,910	-	-	-	-	-	-	-	34,147
3	Multilateral development bank exposures	42,102	-	-	-	-	-	-	-	-	-	42,102
4	Bank exposures	-	-	1,264	-	4,317	-	10	-	-	-	5,591
5	Securities firm exposures	-	-	-	-	10	-	-	-	-	-	10
6	Corporate exposures	-	-	116	-	5,327	-	62,140	-	-	-	67,583
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	368	-	-	-	-	-	-	-	-	-	368
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	-	-	-	-	-	8,905	-	-	-	-	8,905
11	Residential mortgage loans	-	-	-	883	-	561	-	-	-	-	1,444
12	Other exposures which are not past due exposures	-	-	-	-	-	-	10,059	-	-	-	10,059
13	Past due exposures	-	-	-	-	-	-	-	142	-	-	142
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	Total	627,014	-	15,139	883	24,585	9,466	76,843	142	-	-	754,072

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

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

(a) FIRB approach

	PD scale	At 30 June 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
		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	%		%	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	332,723	24,311	38	354,408	0.06	318	45	2.50	100,334	28	90	-
	0.15 to < 0.25	21,466	1,896	4	23,246	0.22	68	45	2.50	13,297	57	23	-
	0.25 to < 0.50	2,274	2,108	6	2,514	0.39	34	41	2.50	1,689	67	4	-
	0.50 to < 0.75	3,086	3,665	1	3,152	0.56	22	39	2.50	2,565	81	7	-
	0.75 to < 2.50	1,147	1,659	-	1,118	1.28	23	36	2.50	955	85	5	-
	2.50 to < 10.00	24	16	-	24	4.43	2	37	2.50	29	121	-	-
	10.00 to < 100.00	-	-	-	-	-	-	-	-	-	-	-	-
	100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	-
	Sub-total	360,720	33,655	28	384,462	0.08	467	45	2.50	118,869	31	129	1,501
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	-	-	-	-	-	-	-	-	-	-	-	-

6. 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	At 30 June 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
		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	%		%	Year	HK\$m	%	HK\$m	HK\$m
Portfolio (iv) – Corporate – small-and- medium sized corporates	0.00 to < 0.15	9,072	1,384	9	10,177	0.09	184	43	2.50	2,404	24	4	
	0.15 to < 0.25	3,978	2,252	16	10,057	0.22	161	41	2.50	3,524	35	9	
	0.25 to < 0.50	2,996	4,060	12	12,224	0.39	258	42	2.50	5,798	47	20	
	0.50 to < 0.75	11,068	7,391	6	10,946	0.60	371	41	2.50	6,557	60	27	
	0.75 to < 2.50	40,094	9,602	4	28,420	1.23	769	41	2.50	20,688	73	144	
	2.50 to < 10.00	10,451	2,410	2	5,694	4.03	309	38	2.50	5,307	93	89	
	10.00 to < 100.00	515	211	3	365	13.33	21	38	2.50	512	140	18	
	100.00 (Default)	241	11	-	240	100.00	5	40	2.50	1,057	440	12	
	Sub-total	78,415	27,321	7	78,123	1.30	2,078	41	2.50	45,847	59	323	580
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	378,061	130,488	42	598,178	0.10	667	44	2.50	178,007	30	264	
	0.15 to < 0.25	69,760	36,949	28	131,105	0.22	230	44	2.50	61,159	47	127	
	0.25 to < 0.50	73,651	25,700	30	129,420	0.39	314	44	2.50	79,408	61	225	
	0.50 to < 0.75	245,074	84,840	20	128,523	0.57	490	44	2.50	93,397	73	322	
	0.75 to < 2.50	226,382	103,970	14	147,700	1.29	891	41	2.50	134,726	91	776	
	2.50 to < 10.00	57,568	34,288	2	19,754	4.17	308	41	2.50	25,893	131	340	
	10.00 to < 100.00	2,890	2,135	12	945	14.49	31	28	2.50	1,294	137	41	
	100.00 (Default)	2,283	12	-	1,991	100.00	25	44	2.50	1,736	87	1,542	
	Sub-total	1,055,669	418,382	27	1,157,616	0.60	2,956	44	2.50	575,620	50	3,637	8,539

6. 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	At 30 June 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
		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	-	-	-	-	-	-	-	-	-	-	-	-

6. 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	At 30 June 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
		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)		1,494,804	479,358	26	1,620,201	0.51	5,501	44	2.50	740,336	46	4,089	10,620

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

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

(b) Retail IRB approach

	PD scale	At 30 June 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
		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	%		%	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	-	-	-	-	-	-	-		-	-	-	-

6. 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)

	PD scale	At 30 June 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
		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	-	-	-	-	-	-	-	-	-	-	-	-

6. 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)

	PD scale	At 30 June 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
		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	%		%	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	5,564	57,825	-	36,153	0.10	738,463	90		2,033	6	34	
	0.15 to < 0.25	2,118	28,155	-	23,818	0.23	666,757	90		2,581	11	49	
	0.25 to < 0.50	586	17,784	-	14,745	0.32	450,477	89		2,075	14	43	
	0.50 to < 0.75	700	2,420	-	2,471	0.57	67,731	93		567	23	13	
	0.75 to < 2.50	733	1,186	-	1,827	1.31	39,405	94		803	44	23	
	2.50 to < 10.00	1,408	1,068	-	2,178	5.52	35,769	95		2,631	121	114	
	10.00 to < 100.00	564	122	-	684	17.04	11,538	96		1,478	216	110	
	100.00 (Default)	56	52	-	96	100.00	1,786	88		538	559	42	
	Sub-total	11,729	108,612	-	81,972	0.62	2,011,926	90		12,706	16	428	193
Portfolio (ix) – Retail – Residential mortgage exposures (including both to individuals and to property-holding shell companies)	0.00 to < 0.15	141,705	-	-	141,705	0.10	74,908	12		27,323	19	18	
	0.15 to < 0.25	58,370	-	-	58,370	0.22	17,934	11		11,621	20	14	
	0.25 to < 0.50	50,875	-	-	50,875	0.39	14,458	12		11,859	23	23	
	0.50 to < 0.75	47,515	-	-	47,515	0.56	15,495	13		11,436	24	35	
	0.75 to < 2.50	13,447	-	-	13,447	0.96	4,844	13		3,499	26	17	
	2.50 to < 10.00	1,214	-	-	1,214	4.64	656	12		461	38	7	
	10.00 to < 100.00	659	-	-	659	23.09	348	13		453	69	19	
	100.00 (Default)	105	-	-	105	100.00	94	11		147	140	1	
	Sub-total	313,890	-	-	313,890	0.38	128,737	12		66,799	21	134	798

6. 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)

	PD scale	At 30 June 2020											
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
		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	1,013	1,818	35	1,646	0.08	1,434	13		46	3	-	
	0.15 to < 0.25	371	205	35	442	0.22	297	13		25	6	-	
	0.25 to < 0.50	484	310	37	599	0.39	398	16		61	10	-	
	0.50 to < 0.75	590	383	36	729	0.57	472	16		91	12	1	
	0.75 to < 2.50	880	333	38	1,006	1.26	755	22		240	24	3	
	2.50 to < 10.00	203	36	41	218	4.04	669	24		76	35	2	
	10.00 to < 100.00	9	-	116	9	19.56	60	25		5	59	1	
	100.00 (Default)	11	-	109	12	100.00	41	52		8	68	8	
	Sub-total	3,561	3,085	36	4,661	0.94	4,126	16		552	12	15	15
Portfolio (xi) – Other retail exposures to individuals	0.00 to < 0.15	3,904	5,817	-	9,318	0.05	3,952	14		209	2	1	
	0.15 to < 0.25	3,618	42	-	3,650	0.22	4,926	12		192	5	1	
	0.25 to < 0.50	29,398	26	-	29,419	0.36	14,413	12		2,027	7	12	
	0.50 to < 0.75	20,023	11	-	20,032	0.58	9,560	16		2,441	12	18	
	0.75 to < 2.50	20,863	22,949	-	25,056	1.19	12,963	24		6,872	27	93	
	2.50 to < 10.00	489	1	-	490	4.57	381	24		175	36	6	
	10.00 to < 100.00	331	-	-	331	16.35	724	28		194	58	19	
	100.00 (Default)	97	2	-	98	100.00	989	89		86	88	84	
	Sub-total	78,723	28,848	-	88,394	0.80	47,908	16		12,196	14	234	232
Total (sum of all portfolios)		407,903	140,545	1	488,917	0.50	2,192,697	26		92,253	19	811	1,238

6. 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 30 June 2020	
		(a)	(b)
		Pre-credit derivatives RWA	Actual RWA
		HK\$m	HK\$m
1	Corporate – Specialized lending under supervisory slotting criteria approach (project finance)	623	623
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	45,847	45,847
7	Corporate – Other corporates	575,620	575,620
8	Sovereigns	-	-
9	Sovereign foreign public sector entities	-	-
10	Multilateral development banks	-	-
11	Bank exposures – Banks	115,266	115,266
12	Bank exposures – Securities firms	3,603	3,603
13	Bank exposures – Public sector entities (excluding sovereign foreign public sector entities)	-	-
14	Retail – Small business retail exposures	552	552
15	Retail – Residential mortgages to individuals	66,168	66,168
16	Retail – Residential mortgages to property-holding shell companies	631	631
17	Retail – Qualifying revolving retail exposures (QRRE)	12,706	12,706
18	Retail – Other retail exposures to individuals	12,196	12,196
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	72,946	72,946
28	Total (under the IRB calculation approaches)	906,158	906,158

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

6. 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 31 March 2020	901,492
2	Asset size	(6,356)
3	Asset quality	10,749
4	Model updates	(1,227)
5	Methodology and policy	-
6	Acquisitions and disposals	-
7	Foreign exchange movements	1,500
8	Other	-
9	RWA as at 30 June 2020	906,158

Due to the re-calibration of Mid-Market PD model, RWAs of model updates dropped by HK\$1,227 million in the second quarter of 2020.

6. 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 30 June 2020.

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

		At 30 June 2020									
		(a)	(b)	(c)	(d)(i)	(d)(ii)	(d)(iii)	(d)(iv)	(d)(v)	(e)	(f)
Supervisory Rating Grade	Remaining Maturity	On-balance sheet exposure amount	Off-balance sheet exposure amount	SRW	EAD amount					RWA	Expected loss amount
					PF	OF	CF	IPRE	Total		
		HK\$'m	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	692	-	90%	692	-	-	-	692	623	6
Satisfactory		-	-	115%	-	-	-	-	-	-	-
Weak		-	-	250%	-	-	-	-	-	-	-
Default		-	-	0%	-	-	-	-	-	-	-
Total		692	-		692	-	-	-	692	623	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 30 June 2020.

7. Counterparty credit risk

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

		At 30 June 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	14,734	16,956		-	31,514	10,526
2	IMM(CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					24,513	701
5	VaR (for SFTs)					-	-
6	Total						11,227

Compared with 31 December 2019, the 260% increase in SFTs' default risk exposure after CRM was mainly driven by change in outstanding transaction volume.

CCR2: CVA capital charge

		At 30 June 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	31,643	8,431
4	Total	31,643	8,431

7. 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 30 June 2020										
		(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
	Risk Weight Exposure class											
1	Sovereign exposures	1,108	-	29	-	19	-	-	-	-	-	1,156
2	PSE exposures	-	-	2	-	-	-	-	-	-	-	2
2a	Of which: domestic PSEs	-	-	2	-	-	-	-	-	-	-	2
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	43	-	-	-	-	-	-	-	-	-	43
4	Bank exposures	-	-	2	-	-	-	-	-	-	-	2
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	46	-	-	-	-	-	117	-	-	-	163
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	529	-	-	-	-	116	-	-	-	-	645
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	4,029	-	-	-	-	-	1,095	-	-	-	5,124
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	Total	5,755	-	33	-	19	116	1,212	-	-	-	7,135

Compared with 31 December 2019, the 45% increase in sovereign exposures was mainly due to increase in outstanding transaction volume.

7. Counterparty credit risk (continued)

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

FIRB approach

	PD scale	At 30 June 2020						
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		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	38,291	0.06	136	23	1.42	5,170	14
	0.15 to < 0.25	2,685	0.22	17	23	1.27	728	27
	0.25 to < 0.50	556	0.39	18	45	2.34	419	75
	0.50 to < 0.75	2,023	0.67	11	8	0.69	283	14
	0.75 to < 2.50	273	0.90	6	44	2.50	300	110
	2.50 to < 10.00	-	8.01	1	45	2.50	-	178
	10.00 to < 100.00	-	-	-	-	-	-	-
	100.00 (Default)	-	-	-	-	-	-	-
	Sub-total	43,828	0.11	189	23	1.40	6,900	16
Portfolio (iii) – Corporate	0.00 to < 0.15	2,452	0.09	26	39	2.39	701	29
	0.15 to < 0.25	411	0.22	10	45	2.50	191	46
	0.25 to < 0.50	225	0.39	10	45	2.50	139	62
	0.50 to < 0.75	696	0.56	25	45	2.50	507	73
	0.75 to < 2.50	773	1.27	58	45	2.50	772	100
	2.50 to < 10.00	503	4.29	24	45	2.50	694	138
	10.00 to < 100.00	4	11.38	4	45	2.50	8	201
	100.00 (Default)	-	-	-	-	-	-	-
	Sub-total	5,064	0.78	157	42	2.45	3,012	59
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)		48,892	0.18	346	25	1.50	9,912	20

7. Counterparty credit risk (continued)

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

	At 30 June 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	-	9,267	-	16,541	74,969	7,920
Debt securities	-	-	-	-	6,473	76,177
Equity securities	-	-	-	-	1,709	-
Total	-	9,267	-	16,541	83,151	84,097

Compared with 31 December 2019, the 24% increase in fair value of recognised collateral received under SFTs was mainly driven by change in outstanding transactions' market value and outstanding transaction volume. The 26% increase in fair value of posted collateral under SFTs was mainly driven by change in outstanding transactions' market value and outstanding transaction volume.

CCR6: Credit-related derivatives contracts

	At 30 June 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 30 June 2020.

7. Counterparty credit risk (continued)

CCR8: Exposures to CCPs

		At 30 June 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)		771
2	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	17,752	430
3	(i) OTC derivative transactions	17,209	419
4	(ii) Exchange-traded derivative contracts	543	11
5	(iii) Securities financing transactions	-	-
6	(iv) Netting sets subject to valid cross-product netting agreements	-	-
7	Segregated initial margin	-	-
8	Unsegregated initial margin	5,999	146
9	Funded default fund contributions	189	195
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 31 December 2019, the 163% increase in qualifying CCPs RWA was mainly driven by change in outstanding transaction volume.

8. Securitization exposures

SEC1: Securitization exposures in banking book

There were no securitisation exposures in the banking book as at 30 June 2020.

SEC2: Securitization exposures in trading book

There were no securitisation exposures in the trading book as at 30 June 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 30 June 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 30 June 2020.

9. Market risk

MR1: Market risk under STM approach

		At 30 June 2020
		(a)
		RWA
		HK\$'m
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	876
2	Equity exposures (general and specific risk)	484
3	Foreign exchange (including gold) exposures	-
4	Commodity exposures	518
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	7
7	Other approach	-
8	Securitization exposures	-
9	Total	1,885

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 31 March 2020	2,878	7,009	-	-	-	9,887
1a	<i>Regulatory adjustment</i>	(2,137)	(4,615)	-	-	-	(6,752)
1b	RWA as at day-end of 31 March 2020	741	2,394	-	-	-	3,135
2	Movement in risk levels*	562	1,217	-	-	-	1,779
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 30 June 2020	1,303	3,611	-	-	-	4,914
7b	<i>Regulatory adjustment</i>	1,747	4,701	-	-	-	6,448
8	RWA as at 30 June 2020	3,050	8,312	-	-	-	11,362

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

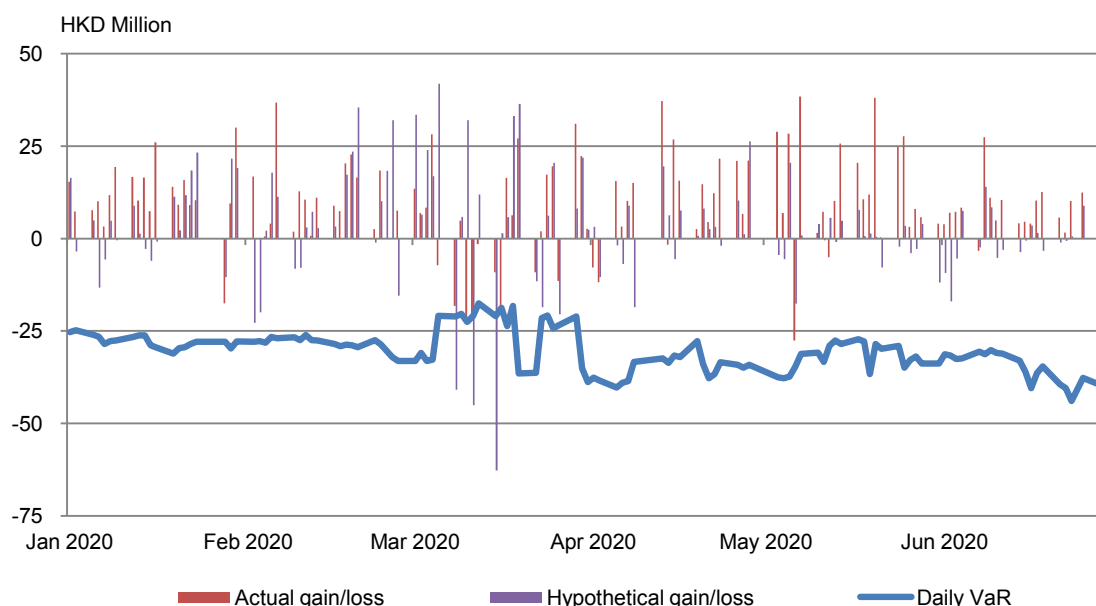
9. Market risk (continued)

MR3: IMM approach values for market risk exposures

		(a)
		HK\$m
VaR (10 days – one-tailed 99% confidence interval)		
1	Maximum Value	104
2	Average Value	79
3	Minimum Value	49
4	Period End	104
Stressed VaR (10 days – one-tailed 99% confidence interval)		
5	Maximum Value	292
6	Average Value	203
7	Minimum Value	143
8	Period End	289
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	-

9. 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.

Three exceptions are noted in hypothetical P&L back-testing on 9 March, 12 March and 16 March (excess amount: HK\$20 million, HK\$24 million and HK\$42 million respectively); two exceptions are noted in actual P&L back-testing on 11 March and 17 March (excess amount: HK\$1 million respectively) in the first-half of 2020. Those exceptions were both driven by unexpected market movements.