

Regulatory Disclosures

31 March 2020



CONTENTS	PAGE
1. Key prudential ratios and overview of RWA	
KM1: Key prudential ratios	1
OV1: Overview of RWA	2
2. Leverage ratio	
LR2: Leverage ratio	3
3. Liquidity	
LIQ1: Liquidity Coverage Ratio – for category 1 institution	4
4. Credit risk for non-securitization exposures	
CR8: RWA flow statements of credit risk exposures under IRB approach	6
5. Counterparty credit risk	
CCR7: RWA flow statements of default risk exposures under IMM(CCR) approach	6
6. Market risk	
MR2: RWA flow statements of market risk exposures under IMM approach	6

1. Key prudential ratios and overview of RWA

KM1: Key prudential ratios

	(a)	(b)	(c)	(d)	(e)	
	At 31 March 2020	At 31 December 2019	At 30 September 2019	At 30 June 2019	At 31 March 2019	
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
Regulatory capital						
1	Common Equity Tier 1 (CET1)	201,094	195,039	197,089	193,987	185,025
2	Tier 1	224,570	218,515	220,566	217,450	208,502
3	Total capital	255,360	251,370	253,552	250,015	240,595
RWA						
4	Total RWA	1,165,836	1,098,018	1,098,572	1,086,888	1,070,971
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	17.25%	17.76%	17.94%	17.85%	17.28%
6	Tier 1 ratio (%)	19.26%	19.90%	20.08%	20.01%	19.47%
7	Total capital ratio (%)	21.90%	22.89%	23.08%	23.00%	22.47%
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 (%)	0.780%	1.552%	1.928%	1.907%	1.912%
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 (%)	4.780%	5.552%	5.928%	5.907%	5.912%
12	CET1 available after meeting the AI's minimum capital requirements (%)	12.75%	13.26%	13.44%	13.35%	12.78%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	2,866,862	2,799,606	2,764,612	2,756,823	2,691,882
14	LR (%)	7.83%	7.81%	7.98%	7.89%	7.75%
Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)						
Applicable to category 1 institution only:						
15	Total high quality liquid assets (HQLA)	675,115	661,013	628,570	674,218	604,550
16	Total net cash outflows	451,052	452,123	440,675	431,834	343,513
17	LCR (%)	150.45%	146.53%	142.85%	156.57%	183.00%
Applicable to category 2 institution only:						
17a	LMR (%)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Net Stable Funding Ratio (NSFR)/Core Funding Ratio (CFR)						
Applicable to category 1 institution only:						
18	Total available stable funding	1,634,103	1,595,457	1,592,902	1,604,533	1,591,465
19	Total required stable funding	1,401,462	1,352,097	1,367,663	1,346,621	1,311,403
20	NSFR (%)	116.60%	118.00%	116.47%	119.15%	121.36%
Applicable to category 2A institution only:						
20a	CFR (%)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

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

OV1: Overview of RWA

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		At 31 March 2020	At 31 December 2019	At 31 March 2020
		HK\$m	HK\$m	HK\$m
1	Credit risk for non-securitization exposures	1,002,236	942,993	84,506
2	Of which STC approach	100,744	94,760	8,060
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	900,864	847,607	76,393
4	Of which supervisory slotting criteria approach	628	626	53
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	13,489	10,695	1,133
7	Of which SA-CCR	Not applicable	Not applicable	Not applicable
7a	Of which CEM	12,641	10,142	1,064
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	848	553	69
10	CVA risk	9,221	6,221	738
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	12,094	13,062	968
21	Of which STM approach	2,207	2,381	177
22	Of which IMM approach	9,887	10,681	791
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	96,128	95,594	7,690
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	7,165	7,261	573
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	29,263	29,263	2,341
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	400	411	32
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	28,863	28,852	2,309
27	Total	1,111,070	1,046,563	93,267

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 December 2019, RWAs under standardised approach increased by HK\$5,984 million, which was mainly due to business growth in Southeast Asian entities. At the same time, RWAs under foundation IRB approach increased by HK\$53,257 million, and the main driver was the growth of corporate loan exposure.

2. Leverage ratio

LR2: Leverage ratio

		At 31 March 2020	At 31 December 2019
		(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)	2,689,723	2,623,367
2	Less: Asset amounts deducted in determining Tier 1 capital	(64,190)	(63,671)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	2,625,533	2,559,696
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)	17,241	12,505
5	Add-on amounts for PFE associated with all derivative contracts	21,775	20,536
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	(15,194)	(5,635)
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	23,822	27,406
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	69,152	66,599
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	217	164
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	69,369	66,763
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	700,982	686,056
18	Less: Adjustments for conversion to credit equivalent amounts	(544,751)	(532,514)
19	Off-balance sheet items	156,231	153,542
Capital and total exposures			
20	Tier 1 capital	224,570	218,515
20a	Total exposures before adjustments for specific and collective provisions	2,874,955	2,807,407
20b	Adjustments for specific and collective provisions	(8,093)	(7,801)
21	Total exposures after adjustments for specific and collective provisions	2,866,862	2,799,606
Leverage ratio			
22	Leverage ratio	7.83%	7.81%

3. 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: (74)		For the quarter ended 31 March 2020	
		(a)	(b)
Basis of disclosure: consolidated		Unweighted value (average)	Weighted value (average)
		HK\$m	HK\$m
A. HQLA			
1	Total HQLA		675,115
B. Cash Outflows			
2	Retail deposits and small business funding, of which:	1,033,519	65,198
3	<i>Stable retail deposits and stable small business funding</i>	352,961	10,589
4	<i>Less stable retail deposits and less stable small business funding</i>	405,110	40,511
4a	<i>Retail term deposits and small business term funding</i>	275,448	14,098
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	1,001,020	452,454
6	<i>Operational deposits</i>	326,059	80,170
7	<i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i>	671,064	368,387
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	3,897	3,897
9	Secured funding transactions (including securities swap transactions)		197
10	Additional requirements, of which:	427,158	73,366
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	35,758	35,758
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>	391,400	37,608
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	48,844	48,844
15	Other contingent funding obligations (whether contractual or non-contractual)	310,431	5,443
16	Total Cash Outflows		645,502
C. Cash Inflows			
17	Secured lending transactions (including securities swap transactions)	887	615
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	211,988	130,434
19	Other cash inflows	70,114	63,401
20	Total Cash Inflows	282,989	194,450
D. Liquidity Coverage Ratio			Adjusted value
21	Total HQLA		675,115
22	Total Net Cash Outflows		451,052
23	LCR (%)		150.45%

3. 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 quarter in 2020 was 150.45%, 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.

4. Credit risk for non-securitization exposures

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

		(a)
		HK\$m
1	RWA as at 31 December 2019	848,233
2	Asset size	51,914
3	Asset quality	6,096
4	Model updates	-
5	Methodology and policy	-
6	Acquisitions and disposals	-
7	Foreign exchange movements	(4,751)
8	Other	-
9	RWA as at 31 March 2020	901,492

RWAs increased by HK\$53,259 million in the first quarter of 2020. It is mainly due to growth of corporate loan exposure, that caused the increase in asset size by HK\$51,914 million.

5. Counterparty credit risk

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

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

6. Market risk

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 December 2019	3,081	7,600	-	-	-	10,681
1a	<i>Regulatory adjustment</i>	(2,062)	(5,807)	-	-	-	(7,869)
1b	RWA as at day-end of 31 December 2019	1,019	1,793	-	-	-	2,812
2	Movement in risk levels*	(278)	601	-	-	-	323
3	Model updates/changes	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-
7	Other	-	-	-	-	-	-
7a	RWA as at day-end of 31 March 2020	741	2,394	-	-	-	3,135
7b	<i>Regulatory adjustment</i>	2,137	4,615	-	-	-	6,752
8	RWA as at 31 March 2020	2,878	7,009	-	-	-	9,887

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