

Regulatory Disclosures

30 September 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 September 2020	At 30 June 2020	At 31 March 2020	At 31 December 2019	At 30 September 2019	
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
Regulatory capital						
1	Common Equity Tier 1 (CET1)	216,426	216,560	201,094	195,039	197,089
2	Tier 1	239,902	240,036	224,570	218,515	220,566
3	Total capital	270,581	270,258	255,360	251,370	253,552
RWA						
4	Total RWA	1,347,574	1,169,600	1,165,836	1,098,018	1,098,572
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	16.06%	18.52%	17.25%	17.76%	17.94%
6	Tier 1 ratio (%)	17.80%	20.52%	19.26%	19.90%	20.08%
7	Total capital ratio (%)	20.08%	23.11%	21.90%	22.89%	23.08%
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 (%)	0.809%	0.778%	0.780%	1.552%	1.928%
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 (%)	4.809%	4.778%	4.780%	5.552%	5.928%
12	CET1 available after meeting the AI's minimum capital requirements (%)	11.56%	14.02%	12.75%	13.26%	13.44%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	3,438,516	2,960,539	2,866,862	2,799,606	2,764,612
14	LR (%)	6.98%	8.11%	7.83%	7.81%	7.98%
Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)						
Applicable to category 1 institution only:						
15	Total high quality liquid assets (HQLA)	717,452	638,368	675,115	661,013	628,570
16	Total net cash outflows	550,283	487,208	451,052	452,123	440,675
17	LCR (%)	130.98%	131.38%	150.45%	146.53%	142.85%
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	1,669,808	1,662,594	1,634,103	1,595,457	1,592,902
19	Total required stable funding	1,448,224	1,415,065	1,401,462	1,352,097	1,367,663
20	NSFR (%)	115.30%	117.49%	116.60%	118.00%	116.47%
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 September 2020	At 30 June 2020	At 31 March 2020 ¹	At 31 December 2019 ¹	At 30 September 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	247,105	246,782	Not applicable	Not applicable	Not applicable
2	Risk-weighted amount under the LAC Rules	1,347,574	1,169,600	Not applicable	Not applicable	Not applicable
3	Internal LAC risk-weighted ratio	18.34%	21.10%	Not applicable	Not applicable	Not applicable
4	Exposure measure under the LAC Rules	3,438,516	2,960,539	Not applicable	Not applicable	Not applicable
5	Internal LAC leverage ratio	7.19%	8.34%	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 September 2020 ¹	At 30 June 2020 ¹	At 31 March 2020	At 31 December 2019	At 30 September 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	2,743,041	2,517,967	Not applicable	Not applicable	Not applicable
2	Total risk-weighted amount under the relevant non-HK LAC regime	Not applicable ²	16,324,797	Not applicable	Not applicable	Not applicable
3	External loss-absorbing capacity as a percentage of risk-weighted amount	15.69%	15.42%	Not applicable	Not applicable	Not applicable
4	Leverage ratio exposure measure under the relevant non-HK LAC regime	29,757,570	28,135,870	Not applicable	Not applicable	Not applicable
5	External loss-absorbing capacity as a percentage of leverage ratio exposure measure	9.22%	8.95%	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.

² "Not applicable" is reported because the value was not published by the non-HK resolution entity.

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

OV1: Overview of RWA

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		At 30 September 2020	At 30 June 2020	At 30 September 2020
		HK\$m	HK\$m	HK\$m
1	Credit risk for non-securitization exposures	1,162,908	1,005,943	98,103
2	Of which STC approach	106,679	99,785	8,534
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	1,055,603	905,535	89,516
4	Of which supervisory slotting criteria approach	626	623	53
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	11,580	11,998	971
7	Of which SA-CCR	Not applicable	Not applicable	Not applicable
7a	Of which CEM	10,462	10,526	880
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	1,118	1,472	91
10	CVA risk	8,082	8,431	647
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	15,914	13,247	1,273
21	Of which STM approach	1,130	1,885	90
22	Of which IMM approach	14,784	11,362	1,183
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	105,739	96,381	8,459
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	7,110	6,967	569
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	27,695	28,331	2,216
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	27,695	28,331	2,216
27	Total	1,283,638	1,114,636	107,806

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

Compared with 30 June 2020, RWA under STC approach increased by HK\$6,894 million, mainly due to business growth in Southeast Asian entities. At the same time, RWA under foundation IRB approach increased by HK\$150,068 million, and the main driver was due to IPO business (including placement of IPO subscription funds to interbank market and IPO loans).

2. Leverage ratio

LR2: Leverage ratio

		At 30 September 2020	At 30 June 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)	3,310,528	2,770,587
2	Less: Asset amounts deducted in determining Tier 1 capital	(57,082)	(57,440)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	3,253,446	2,713,147
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)	31,689	14,689
5	Add-on amounts for PFE associated with all derivative contracts	18,297	20,131
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	(14,947)	(15,697)
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	35,039	19,123
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	8,002	83,111
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	83	987
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	8,085	84,098
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	719,492	718,344
18	Less: Adjustments for conversion to credit equivalent amounts	(568,235)	(565,328)
19	Off-balance sheet items	151,257	153,016
Capital and total exposures			
20	Tier 1 capital	239,902	240,036
20a	Total exposures before adjustments for specific and collective provisions	3,447,827	2,969,384
20b	Adjustments for specific and collective provisions	(9,311)	(8,845)
21	Total exposures after adjustments for specific and collective provisions	3,438,516	2,960,539
Leverage ratio			
22	Leverage ratio	6.98%	8.11%

Compared with 30 June 2020, total exposures after adjustments for specific and collective provisions increased by HK\$477,977 million, mainly due to IPO business (including placement of IPO subscription funds to interbank market and IPO loans).

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: (78)		For the quarter ended 30 September 2020	
		(a)	(b)
Basis of disclosure: consolidated		Unweighted value (average)	Weighted value (average)
		HK\$m	HK\$m
A. HQLA			
1	Total HQLA		717,452
B. Cash Outflows			
2	Retail deposits and small business funding, of which:	1,070,675	70,070
3	<i>Stable retail deposits and stable small business funding</i>	384,558	11,537
4	<i>Less stable retail deposits and less stable small business funding</i>	475,445	47,544
4a	<i>Retail term deposits and small business term funding</i>	210,672	10,989
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	1,257,281	670,810
6	<i>Operational deposits</i>	324,872	79,916
7	<i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i>	932,349	590,834
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	60	60
9	Secured funding transactions (including securities swap transactions)		3,553
10	Additional requirements, of which:	436,017	80,187
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	42,829	42,829
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>	393,188	37,358
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	58,719	58,719
15	Other contingent funding obligations (whether contractual or non-contractual)	334,875	5,514
16	Total Cash Outflows		888,853
C. Cash Inflows			
17	Secured lending transactions (including securities swap transactions)	2,837	2,203
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	333,344	246,427
19	Other cash inflows	98,315	89,940
20	Total Cash Inflows	434,496	338,570
D. Liquidity Coverage Ratio			Adjusted value
21	Total HQLA		717,452
22	Total Net Cash Outflows		550,283
23	LCR (%)		130.98%

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, second and third quarter in 2020 were 150.45%, 131.38% and 130.98% 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.

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 30 June 2020	906,158
2	Asset size	135,919
3	Asset quality	12,294
4	Model updates	(1,219)
5	Methodology and policy	-
6	Acquisitions and disposals	-
7	Foreign exchange movements	3,077
8	Other	-
9	RWA as at 30 September 2020	1,056,229

RWA increased by HK\$150,071 million in the third quarter of 2020. It was mainly due to IPO business (including placement of IPO subscription funds to interbank market and IPO loans), leading to increase in asset size and RWA increased by HK\$135,919 million. On the other hand, due to recalibrated Mid-Market PD model, RWA of model updates dropped by HK\$1,219 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 30 September 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 30 June 2020	3,050	8,312	-	-	-	11,362
1a	Regulatory adjustment	(1,747)	(4,701)	-	-	-	(6,448)
1b	RWA as at day-end of 30 June 2020	1,303	3,611	-	-	-	4,914
2	Movement in risk levels*	(378)	(906)	-	-	-	(1,284)
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 September 2020	925	2,705	-	-	-	3,630
7b	Regulatory adjustment	2,607	8,547	-	-	-	11,154
8	RWA as at 30 September 2020	3,532	11,252	-	-	-	14,784

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