

Regulatory Disclosures

31 March 2020



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Introduction

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

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

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

KM1: Key prudential ratios

		At 31 March 2020	At 31 December 2019	At 30 September 2019	At 30 June 2019	At 31 March 2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Regulatory capital (amount)					
1	Common Equity Tier 1 (CET1)	40,952,753	39,813,759	38,831,519	38,144,683	38,075,031
2	Tier 1	50,267,643	49,128,649	48,146,409	47,459,573	47,389,921
3	Total capital	62,566,034	59,345,916	52,867,274	52,293,766	52,181,933
	RWA (amount)					
4	Total RWA	324,039,939	273,125,594	262,752,628	278,277,353	278,043,475
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	12.64%	14.58%	14.78%	13.71%	13.69%
6	Tier 1 ratio (%)	15.51%	17.99%	18.32%	17.05%	17.04%
7	Total capital ratio (%)	19.31%	21.73%	20.12%	18.79%	18.77%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical capital buffer requirement (%)	0.63%	1.11%	1.33%	1.37%	1.34%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	-	-	-	-	-
11	Total AI-specific CET1 buffer requirements (%)	3.13%	3.61%	3.83%	3.87%	3.84%
12	CET1 available after meeting the AI's minimum capital requirements (%)	8.14%	10.08%	10.28%	9.21%	9.19%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	492,849,199	512,744,692	480,324,461	495,303,731	504,341,925
14	LR (%)	10.20%	9.58%	10.02%	9.58%	9.40%
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	69,226,714	73,600,109	74,736,968	75,150,686	71,127,385
16	Total net cash outflows	45,795,373	47,755,499	48,593,366	48,808,494	41,320,198
17	LCR (%)	151.34%	154.97%	154.48%	154.16%	173.83%
	Applicable to category 2 institution only:					
17a	LMR (%)	N/A	N/A	N/A	N/A	N/A
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	296,981,688	301,381,779	290,141,434	298,813,026	296,815,218
19	Total required stable funding	250,509,520	248,958,643	244,680,316	252,318,334	246,919,326
20	NSFR (%)	118.55%	121.06%	118.58%	118.43%	120.21%
	Applicable to category 2A institution only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

OV1: Overview of RWA

		RWA		Minimum capital requirements
		At 31 March 2020	At 31 December 2019	At 31 March 2020
		HK\$'000	HK\$'000	HK\$'000
1	Credit risk for non-securitization exposures	303,508,916	246,187,158	24,280,713
2	Of which STC approach	303,508,916	20,332,891	24,280,713
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	-	225,179,052	-
4	Of which supervisory slotting criteria approach	-	675,215	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	757,979	655,096	60,638
7	Of which SA-CCR	N/A	N/A	N/A
7a	Of which CEM	546,587	429,113	43,727
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	211,392	225,983	16,911
10	CVA risk	301,000	243,138	24,080
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA	N/A	N/A	N/A
13	CIS exposures - MBA	N/A	N/A	N/A
14	CIS exposures - FBA	N/A	N/A	N/A
14a	CIS exposures - combination of approaches	N/A	N/A	N/A
15	Settlement risk	234	-	19
16	Securitization exposures in banking book	198,462	203,439	15,877
17	Of which SEC - IRBA	-	-	-
18	Of which SEC - ERBA (including IAA)	-	-	-
19	Of which SEC - SA	198,462	203,439	15,877
19a	Of which SEC - FBA	-	-	-
20	Market risk	8,074,325	768,038	645,946
21	Of which STM approach	8,074,325	66,188	645,946
22	Of which IMM approach	-	701,850	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	N/A	N/A	N/A
24	Operational risk	15,613,000	15,336,063	1,249,040
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	15,250	15,250	1,220
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	4,429,227	3,872,664	354,338
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	638,949	77,753	51,116
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	3,790,278	3,794,911	303,222
27	Total	324,039,939	259,535,518	25,923,195

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

LR2: Leverage ratio

		At 31 March 2020	At 31 December 2019
		HK\$'000	HK\$'000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	464,501,774	477,827,139
2	Less: Asset amounts deducted in determining Tier 1 capital	(9,631,293)	(9,652,542)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	454,870,481	468,174,597
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)	690,730	445,285
5	Add-on amounts for PFE associated with all derivative contracts	676,582	593,750
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	-	-
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	1,367,312	1,039,035
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	8,027,677	14,109,627
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	440,584	758,648
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	8,468,261	14,868,275
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	149,226,550	148,195,510
18	Less: Adjustments for conversion to credit equivalent amounts	(117,882,861)	(116,499,073)
19	Off-balance sheet items	31,343,689	31,696,437
Capital and total exposures			
20	Tier 1 capital	50,267,643	49,128,649
20a	Total exposures before adjustments for specific and collective provisions	496,049,743	515,778,344
20b	Adjustments for specific and collective provisions	(3,200,544)	(3,033,652)
21	Total exposures after adjustments for specific and collective provisions	492,849,199	512,744,692
Leverage ratio			
22	Leverage ratio	10.20%	9.58%

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	
		UNWEIGHTED VALUE (Average) HK\$'000	WEIGHTED VALUE (Average) HK\$'000
Basis of disclosure: consolidated			
A. HQLA			
1	Total HQLA		69,226,714
B. CASH OUTFLOWS			
2	Retail deposits and small business funding, of which:	153,855,418	10,011,239
3	<i>Stable retail deposits and stable small business funding</i>	26,484,752	794,543
4	<i>Less stable retail deposits and less stable small business funding</i>	48,517,456	4,851,745
4a	<i>Retail term deposits and small business term funding</i>	78,853,210	4,364,951
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	94,011,938	49,675,703
6	<i>Operational deposits</i>	13,665,943	3,217,926
7	<i>Unsecured wholesale funding (other than small business funding) not</i>	79,708,327	45,820,109
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	637,668	637,668
9	Secured funding transactions (including securities swap transactions)		1,733,726
10	Additional requirements, of which:	44,856,092	11,024,129
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	5,038,936	5,038,937
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	-	-
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	39,817,156	5,985,192
14	Contractual lending obligations (not otherwise covered in Section B) and	2,667,307	2,667,307
15	Other contingent funding obligations (whether contractual or non-contractual)	116,116,972	1,733,357
16	TOTAL CASH OUTFLOWS		76,845,461
C. CASH INFLOWS			
17	Secured lending transactions (including securities swap transactions)	220,849	220,849
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial	43,615,515	23,519,455
19	Other cash inflows	7,418,196	7,309,784
20	TOTAL CASH INFLOWS	51,254,560	31,050,088
D. LIQUIDITY COVERAGE RATIO			ADJUSTED VALUE
21	TOTAL HQLA		69,226,714
22	TOTAL NET CASH OUTFLOWS		45,795,373
23	LCR (%)		151.34%

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

Notes:

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

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

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

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

In the first quarter of 2020, the Group has maintained a healthy liquidity position. The LCR remained stable and there was no material change compared with the last quarter. The average LCR of the first quarter of 2020 was 151.34%. The average HKD level 1 HQLA to HKD net cash outflow ratio of the first quarter of 2020 was 179.63%, well above the regulatory requirement of 20%. The ratios have maintained at stable and healthy levels.

The HQLA consists of cash, balances at central banks and high quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks and non-financial corporate debt securities. In the first quarter of 2020, the majority of the HQLA was composed of Level 1 HQLA.

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

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