

# Regulatory Disclosures

31 March 2023



<b>CONTENTS</b>	<b>PAGE</b>
<b>1. Key prudential ratios, key metrics and overview of RWA</b>	
KM1: Key prudential ratios	1
KM2(A): Key metrics – LAC requirements for material subsidiaries (at LAC consolidation group level)	2
KM2(B): Key metrics – TLAC requirements for non-HK resolution entity (at resolution group level)	3
OV1: Overview of RWA	4
<b>2. Leverage ratio</b>	
LR2: Leverage ratio	5
<b>3. Liquidity</b>	
LIQ1: Liquidity Coverage Ratio – for category 1 institution	6
<b>4. Credit risk for non-securitization exposures</b>	
CR8: RWA flow statements of credit risk exposures under IRB approach	8
<b>5. Counterparty credit risk</b>	
CCR7: RWA flow statements of default risk exposures under IMM(CCR) approach	8
<b>6. Market risk</b>	
MR2: RWA flow statements of market risk exposures under IMM approach	8

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

### KM1: Key prudential ratios

	(a)	(b)	(c)	(d)	(e)	
	At 31 March 2023	At 31 December 2022	At 30 September 2022	At 30 June 2022	At 31 March 2022	
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
<b>Regulatory capital</b>						
1	Common Equity Tier 1 (CET1)	239,276	229,798	231,059	229,606	226,324
2	Tier 1	262,752	253,274	254,535	253,082	249,800
3	Total capital	291,865	282,322	284,601	283,299	280,197
<b>RWA</b>						
4	Total RWA	1,280,036	1,312,199	1,291,554	1,300,061	1,330,262
<b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>						
5	CET1 ratio (%)	18.69%	17.51%	17.89%	17.66%	17.01%
6	Tier 1 ratio (%)	20.53%	19.30%	19.71%	19.47%	18.78%
7	Total capital ratio (%)	22.80%	21.52%	22.04%	21.79%	21.06%
<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>						
8	Capital conservation buffer requirement (%)	2.500%	2.500%	2.500%	2.500%	2.500%
9	Countercyclical capital buffer requirement (%)	0.812%	0.817%	0.817%	0.812%	0.802%
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 (%)	4.812%	4.817%	4.817%	4.812%	4.802%
12	CET1 available after meeting the AI's minimum capital requirements (%)	14.19%	13.01%	13.39%	13.16%	12.51%
<b>Basel III leverage ratio</b>						
13	Total leverage ratio (LR) exposure measure	3,470,607	3,370,353	3,310,168	3,300,345	3,309,535
14	LR (%)	7.57%	7.51%	7.69%	7.67%	7.55%
<b>Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)</b>						
Applicable to category 1 institution only:						
15	Total high quality liquid assets (HQLA)	931,036	829,726	848,353	886,662	1,034,777
16	Total net cash outflows	491,937	466,673	570,294	594,283	647,998
17	LCR (%)	189.68%	178.49%	149.00%	149.49%	159.16%
Applicable to category 2 institution only:						
17a	LMR (%)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
<b>Net Stable Funding Ratio (NSFR)/Core Funding Ratio (CFR)</b>						
Applicable to category 1 institution only:						
18	Total available stable funding	2,040,498	1,952,126	1,907,480	1,907,244	1,877,886
19	Total required stable funding	1,516,958	1,483,841	1,490,466	1,503,313	1,516,181
20	NSFR (%)	134.51%	131.56%	127.98%	126.87%	123.86%
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 31 March 2023	At 31 December 2022	At 30 September 2022	At 30 June 2022	At 31 March 2022
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
<b>Of the material entity at LAC consolidation group level</b>						
1	Internal loss-absorbing capacity available	346,556	335,239	261,125	259,823	256,721
2	Risk-weighted amount under the LAC Rules	1,280,036	1,312,199	1,291,554	1,300,061	1,330,262
3	Internal LAC risk-weighted ratio	27.07%	25.55%	20.22%	19.99%	19.30%
4	Exposure measure under the LAC Rules	3,470,607	3,370,353	3,310,168	3,300,345	3,309,535
5	Internal LAC leverage ratio	9.99%	9.95%	7.89%	7.87%	7.76%
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply? <sup>1</sup>	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? <sup>1</sup>	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 <sup>1</sup>	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

**Footnote:**

<sup>1</sup> 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 31 March 2023 <sup>1</sup>	At 31 December 2022 <sup>1</sup>	At 30 September 2022 <sup>1</sup>	At 30 June 2022 <sup>1</sup>	At 31 March 2022 <sup>1</sup>
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
<b>Of the non-HK resolution entity at resolution group level</b>						
1	External loss-absorbing capacity available	3,516,765	3,301,580	3,176,182	3,304,501	3,424,470
2	Total risk-weighted amount under the relevant non-HK LAC regime	Not applicable <sup>2</sup>	18,845,214	Not applicable <sup>2</sup>	19,448,240	Not applicable <sup>2</sup>
3	External loss-absorbing capacity as a percentage of risk-weighted amount	17.53%	17.52%	17.17%	16.99%	16.64%
4	Leverage ratio exposure measure under the relevant non-HK LAC regime	37,107,540	34,738,341	33,816,503	34,979,020	36,036,848
5	External loss-absorbing capacity as a percentage of leverage ratio exposure measure	9.48%	9.50%	9.39%	9.45%	9.50%
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:**

<sup>1</sup> 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.

<sup>2</sup> "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 31 March 2023	At 31 December 2022	At 31 March 2023
		HK\$'m	HK\$'m	HK\$'m
1	Credit risk for non-securitization exposures	1,086,824	1,108,259	91,721
2	Of which STC approach	92,019	87,706	7,361
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	992,427	1,018,225	84,158
4	Of which supervisory slotting criteria approach	2,378	2,328	202
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	10,391	9,739	870
7	Of which SA-CCR approach	10,067	9,430	844
7a	Of which CEM	-	-	-
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	324	309	26
10	CVA risk	3,990	3,861	319
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA	-	-	-
13	CIS exposures – MBA	-	-	-
14	CIS exposures – FBA	-	-	-
14a	CIS exposures – combination of approaches	-	-	-
15	Settlement risk	-	17	-
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	34,432	50,690	2,755
21	Of which STM approach	3,015	1,806	241
22	Of which IMM approach	31,417	48,884	2,514
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	97,469	94,953	7,798
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	12,965	9,120	1,037
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	26,207	26,118	2,097
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	26,207	26,118	2,097
27	Total	1,219,864	1,250,521	102,403

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 2022, the 7% increase in RWA of counterparty default risk and default fund contributions was mainly driven by change in outstanding derivative transactions' market value and transaction volume.

## 2. Leverage ratio

### LR2: Leverage ratio

		At 31 March 2023	At 31 December 2022
		(a)	(b)
		HK\$m	HK\$m
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	3,270,790	3,179,228
2	Less: Asset amounts deducted in determining Tier 1 capital	(57,051)	(56,234)
3	<b>Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>	<b>3,213,739</b>	<b>3,122,994</b>
<b>Exposures arising from derivative contracts</b>			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	8,100	5,488
5	Add-on amounts for PFE associated with all derivative contracts	23,472	22,141
6	Gross-up for collateral provided in respect of derivative contracts 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	(2,554)	(69)
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit-related derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts	-	-
11	<b>Total exposures arising from derivative contracts</b>	<b>29,018</b>	<b>27,560</b>
<b>Exposures arising from SFTs</b>			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	59,250	52,925
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	19,028	15,035
15	Agent transaction exposures	-	-
16	<b>Total exposures arising from SFTs</b>	<b>78,278</b>	<b>67,960</b>
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	795,326	778,373
18	Less: Adjustments for conversion to credit equivalent amounts	(633,393)	(614,389)
19	<b>Off-balance sheet items</b>	<b>161,933</b>	<b>163,984</b>
<b>Capital and total exposures</b>			
20	Tier 1 capital	262,752	253,274
20a	<b>Total exposures before adjustments for specific and collective provisions</b>	<b>3,482,968</b>	<b>3,382,498</b>
20b	<b>Adjustments for specific and collective provisions</b>	<b>(12,361)</b>	<b>(12,145)</b>
21	<b>Total exposures after adjustments for specific and collective provisions</b>	<b>3,470,607</b>	<b>3,370,353</b>
<b>Leverage ratio</b>			
22	<b>Leverage ratio</b>	<b>7.57%</b>	<b>7.51%</b>

### 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: (73)		For the quarter ended 31 March 2023	
		(a)	(b)
Basis of disclosure: consolidated		Unweighted value (average)	Weighted value (average)
		HK\$'m	HK\$'m
<b>A. HQLA</b>			
1	Total HQLA		931,036
<b>B. Cash Outflows</b>			
2	Retail deposits and small business funding, of which:	1,227,710	75,402
3	<i>Stable retail deposits and stable small business funding</i>	369,614	11,088
4	<i>Less stable retail deposits and less stable small business funding</i>	419,974	41,997
4a	<i>Retail term deposits and small business term funding</i>	438,122	22,317
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	1,114,880	485,639
6	<i>Operational deposits</i>	415,249	102,304
7	<i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i>	699,631	383,335
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)		128
10	Additional requirements, of which:	447,784	70,953
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	28,860	28,616
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>	418,924	42,337
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	78,760	78,760
15	Other contingent funding obligations (whether contractual or non-contractual)	362,732	3,083
16	<b>Total Cash Outflows</b>		<b>713,965</b>
<b>C. Cash Inflows</b>			
17	Secured lending transactions (including securities swap transactions)	17,388	6,170
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	264,683	149,516
19	Other cash inflows	71,780	66,342
20	<b>Total Cash Inflows</b>	<b>353,851</b>	<b>222,028</b>
<b>D. Liquidity Coverage Ratio</b>			<b>Adjusted value</b>
21	Total HQLA		931,036
22	Total Net Cash Outflows		491,937
23	LCR (%)		189.68%



### 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 2023 was 189.68%, 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, had a minimal impact to the LCR.

The majority of the Group's customer deposits are denominated in HKD, USD and RMB. As the supply of HQLA denominated in HKD in the market is relatively limited, the Group exchanges surplus funds in HKD for USD and other currencies through swap transactions, part of which being used for investment in HQLA.

#### 4. Credit risk for non-securitization exposures

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

		(a)
		HK\$m
<b>1</b>	<b>RWA as at 31 December 2022</b>	<b>1,020,553</b>
2	Asset size	(5,954)
3	Asset quality	1,789
4	Model updates	-
5	Methodology and policy	(25,541)
6	Acquisitions and disposals	-
7	Foreign exchange movements	3,958
8	Other	-
<b>9</b>	<b>RWA as at 31 March 2023</b>	<b>994,805</b>

RWA decreased by HK\$25,748 million in the first quarter of 2023. It was mainly due to a downward adjustment in risk weight floor from 25% to 15% for residential mortgage lending secured by Hong Kong properties by the HKMA.

#### 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 2023.

#### 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
<b>1</b>	<b>RWA as at 31 December 2022</b>	<b>3,323</b>	<b>45,561</b>	-	-	-	<b>48,884</b>
1a	Regulatory adjustment	(1,937)	(34,626)	-	-	-	(36,563)
<b>1b</b>	<b>RWA as at day-end of 31 December 2022</b>	<b>1,386</b>	<b>10,935</b>	-	-	-	<b>12,321</b>
2	Movement in risk levels*	(140)	(5,622)	-	-	-	(5,762)
3	Model updates/changes	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-
7	Other	-	-	-	-	-	-
<b>7a</b>	<b>RWA as at day-end of 31 March 2023</b>	<b>1,246</b>	<b>5,313</b>	-	-	-	<b>6,559</b>
7b	Regulatory adjustment	3,548	21,310	-	-	-	24,858
<b>8</b>	<b>RWA as at 31 March 2023</b>	<b>4,794</b>	<b>26,623</b>	-	-	-	<b>31,417</b>

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