



INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED

中國工商銀行（亞洲）有限公司

*(Incorporated in Hong Kong with limited liability)*

Regulatory Disclosure Statement

2024 1<sup>ST</sup> QUARTER

(UNAUDITED)

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## 1. Purpose and Basis of Consolidation

The information contained in this Regulatory Disclosure Statement (the "Statement") is for Industrial and Commercial Bank of China (Asia) Limited (the "Bank") and its subsidiaries (collectively the "Group") to comply with the Banking (Disclosure) Rules ("BDR") (Cap. 155M) and Part 6 of the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules, and does not constitute statutory financial statements.

While the Regulatory Disclosure Statement is not required to be subject to external audit, the statement has been reviewed and verified in accordance with the Group's governance processes over financial reporting and policies on disclosures.

Except where indicated otherwise, the financial information contained in this Statement has been prepared on the basis of regulatory scope of consolidation specified by the Hong Kong Monetary Authority ("HKMA") to the Bank.

## 2. Key Prudential Ratios and Metrics

### a. Key Prudential Ratios (KM1)

|   |   | (HK\$'000)  |             |             |             |               |
|---|---|-------------|-------------|-------------|-------------|---------------|
|   |   | (a)         | (b)         | (c)         | (d)         | (e)           |
|   |   | 31/03/2024  | 31/12/2023  | 30/09/2023  | 30/06/2023  | 31/03/2023    |
| <b>Regulatory capital (amount)</b>  |   |             |             |             |             |               |
| 1   | Common Equity Tier 1 (CET1)   | 119,178,824 | 116,273,462 | 113,376,766 | 113,656,329 | 112,619,097   |
| 2   | Tier 1  | 146,841,845 | 143,903,421 | 141,057,467 | 141,361,428 | 140,375,822   |
| 3   | Total capital   | 152,330,528 | 150,159,969 | 147,742,370 | 148,122,175 | 146,724,305   |
| <b>RWA (amount)</b>   |   |             |             |             |             |               |
| 4   | Total RWA   | 625,710,160 | 622,030,858 | 627,876,035 | 642,522,902 | 672,328,778   |
| <b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>      |   |             |             |             |             |               |
| 5   | CET1 ratio (%)  | 19.05%      | 18.69%      | 18.06%      | 17.69%      | 16.75%        |
| 6   | Tier 1 ratio (%)  | 23.47%      | 23.13%      | 22.47%      | 22.00%      | 20.88%        |
| 7   | Total capital ratio (%)   | 24.35%      | 24.14%      | 23.53%      | 23.05%      | 21.83%        |
| <b>Additional CET1 buffer requirements (as a percentage of RWA)</b>       |   |             |             |             |             |               |
| 8   | Capital conservation buffer requirement (%)                                   | 2.50%       | 2.50%       | 2.50%       | 2.50%       | 2.50%         |
| 9   | Countercyclical capital buffer requirement (%)                                | 0.66%       | 0.64%       | 0.67%       | 0.67%       | 0.65%         |
| 10  | Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs) | 1.00%       | 1.00%       | 1.00%       | 1.00%       | 1.00%         |
| 11  | Total AI-specific CET1 buffer requirements (%)                                | 4.16%       | 4.14%       | 4.17%       | 4.17%       | 4.15%         |
| 12  | CET1 available after meeting the AI's minimum capital requirements (%)        | 14.55%      | 14.19%      | 13.56%      | 13.19%      | 12.25%        |
| <b>Basel III leverage ratio</b>   |   |             |             |             |             |               |
| 13  | Total leverage ratio (LR) exposure measure                                    | 993,738,293 | 976,370,799 | 976,873,356 | 974,644,412 | 1,022,298,594 |
| 14  | LR (%)  | 14.78%      | 14.74%      | 14.44%      | 14.50%      | 13.73%        |
| <b>Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)</b> |   |             |             |             |             |               |
| Applicable to category 1 institution only:                                |   |             |             |             |             |               |
| 15  | Total high quality liquid assets (HQLA)                                       | 162,309,250 | 166,846,872 | 152,072,287 | 136,216,518 | 135,371,630   |
| 16  | Total net cash outflows   | 99,930,839  | 86,638,224  | 82,811,529  | 83,121,607  | 67,890,520    |
| 17  | LCR (%)   | 164.61%     | 198.04%     | 184.69%     | 168.05%     | 204.38%       |
| Applicable to category 2 institution only:                                |   |             |             |             |             |               |
| 17a   | LMR (%)   | N/A         | N/A         | N/A         | N/A         | N/A           |
| <b>Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)</b>         |   |             |             |             |             |               |
| Applicable to category 1 institution only:                                |   |             |             |             |             |               |
| 18  | Total available stable funding  | 573,485,855 | 558,705,332 | 556,637,149 | 535,922,830 | 545,238,097   |
| 19  | Total required stable funding   | 447,200,985 | 446,453,370 | 442,122,014 | 441,538,570 | 455,734,585   |
| 20  | NSFR (%)  | 128.24%     | 125.14%     | 125.90%     | 121.38%     | 119.64%       |
| Applicable to category 2A institution only:                               |   |             |             |             |             |               |
| 20a   | CFR (%)   | N/A         | N/A         | N/A         | N/A         | N/A           |

b. Key Metrics – LAC Requirements for the Group (at LAC Consolidation Group Level)  
(KM2(A))

|   |   | (HK\$'000)  |             |             |             |               |
|---|---|-------------|-------------|-------------|-------------|---------------|
|   |   | (a)         | (b)         | (c)         | (d)         | (e)           |
|   |   | 31/03/2024  | 31/12/2023  | 30/09/2023  | 30/06/2023  | 31/03/2023    |
| Of the material entity at LAC consolidation group level |   |             |             |             |             |               |
| 1   | Internal loss-absorbing capacity available  | 162,109,841 | 159,927,594 | 158,154,209 | 158,543,191 | 157,164,739   |
| 2   | Risk-weighted amount under the LAC Rules  | 625,710,160 | 622,030,858 | 627,876,035 | 642,522,902 | 672,328,778   |
| 3   | Internal LAC risk-weighted ratio  | 25.91%      | 25.71%      | 25.19%      | 24.68%      | 23.38%        |
| 4   | Exposure measure under the LAC Rules  | 993,738,293 | 976,370,799 | 976,873,356 | 974,644,412 | 1,022,298,594 |
| 5   | Internal LAC leverage ratio   | 16.31%      | 16.38%      | 16.19%      | 16.27%      | 15.37%        |
| 6a  | Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?(Note 1)   | N/A         | N/A         | N/A         | N/A         | N/A           |
| 6b  | Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?(Note 1)   | N/A         | N/A         | N/A         | N/A         | N/A           |
| 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 (Note 1) | N/A         | N/A         | N/A         | N/A         | N/A           |

Note 1: The subordination exemptions in the antepenultimate and penultimate paragraphs of Section 11 of the Financial Stability Board ("FSB") Total Loss Absorbing Capacity ("TLAC") Term Sheet do not apply in Hong Kong under the Loss Absorbing Capacity ("LAC") Rules.

c. Key Metrics – TLAC Requirements for Non-HK Resolution Entity (at Resolution Group Level) (KM2(B))

|  |  | (HK\$ Million) |            |            |            |            |
|--|--|----------------|------------|------------|------------|------------|
|  |  | (a)            | (b)        | (c)        | (d)        | (e)        |
|  |  | 31/03/2024     | 31/12/2023 | 30/09/2023 | 30/06/2023 | 31/03/2023 |
| Of the non-HK resolution entity at resolution group level (Note 1) |  |                |            |            |            |            |
| 1  | External loss-absorbing capacity available   | 5,244,648      | 5,185,172  | 4,950,726  | 4,818,261  | 5,016,821  |
| 2  | Total risk-weighted amount under the relevant non-HK LAC regime  | 27,307,252     | 27,144,334 | 26,343,412 | 26,109,873 | 26,706,153 |
| 3  | External loss-absorbing capacity as a percentage of risk-weighted amount   | 19.21%         | 19.10%     | 18.79%     | 18.45%     | 18.79%     |
| 4  | Leverage ratio exposure measure under the relevant non-HK LAC regime   | 53,984,831     | 51,749,986 | 50,750,460 | 49,465,934 | 50,490,228 |
| 5  | External loss-absorbing capacity as a percentage of leverage ratio exposure measure  | 9.72%          | 10.02%     | 9.76%      | 9.74%      | 9.94%      |
| 6a   | Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?  | N/A            | N/A        | N/A        | N/A        | N/A        |
| 6b   | Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?  | N/A            | N/A        | N/A        | N/A        | N/A        |
| 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 | N/A            | N/A        | N/A        | N/A        | N/A        |

Note 1: As LAC requirement under a regulatory regime in Mainland China has not yet been implemented, so the values for rows 1 to 5 are reported using the values of total regulatory capital, risk-weighted amount and leverage ratio exposure measure of the non-HK resolution entity.

3. Overview of Risk Management and RWA  
 Overview of Risk-Weighted Amount ("RWA") (OV1)

|     |   | (HK\$'000)  |             |                              |
|-----|---|-------------|-------------|------------------------------|
|     |   | (a)         | (b)         | (c)                          |
|     |   | RWA         |             | Minimum capital requirements |
|     |   | 31/03/2024  | 31/12/2023  | 31/03/2024                   |
| 1   | Credit risk for non-securitization exposures  | 562,137,754 | 562,682,208 | 44,971,021                   |
| 2   | Of which STC approach   | 562,137,754 | 562,682,208 | 44,971,021                   |
| 2a  | Of which BSC approach   | -           | -           | -                            |
| 3   | Of which foundation IRB approach  | -           | -           | -                            |
| 4   | Of which supervisory slotting criteria approach   | -           | -           | -                            |
| 5   | Of which advanced IRB approach  | -           | -           | -                            |
| 6   | Counterparty default risk and default fund contributions  | 7,985,936   | 6,781,371   | 638,875                      |
| 7   | Of which SA-CCR approach  | 5,353,545   | 3,676,692   | 428,284                      |
| 7a  | Of which CEM  | -           | -           | -                            |
| 8   | Of which IMM(CCR) approach  | N/A         | N/A         | N/A                          |
| 9   | Of which others   | 2,632,391   | 3,104,679   | 210,591                      |
| 10  | CVA risk  | 1,929,813   | 1,699,400   | 154,385                      |
| 11  | Equity positions in banking book under the simple risk-weight method and internal models method   | -           | -           | -                            |
| 12  | Collective investment scheme ("CIS") exposures – LTA  | 5,595,678   | 5,184,786   | 447,654                      |
| 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   | -           | -           | -                            |
| 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   | 22,105,200  | 20,146,388  | 1,768,416                    |
| 21  | Of which STM approach   | 22,105,200  | 20,146,388  | 1,768,416                    |
| 22  | Of which IMM approach   | -           | -           | -                            |
| 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  | 24,346,163  | 23,929,863  | 1,947,693                    |
| 24a | Sovereign concentration risk  | N/A         | N/A         | N/A                          |

## Overview of Risk-Weighted Amount ("RWA") (OV1) (continued)

|     |  | (HK\$'000)  |             |                              |
|-----|--|-------------|-------------|------------------------------|
|     |  | (a)         | (b)         | (c)                          |
|     |  | RWA         |             | Minimum capital requirements |
|     |  | 31/03/2024  | 31/12/2023  | 31/03/2024                   |
| 25  | Amounts below the thresholds for deduction (subject to 250% RW)  | 2,072,300   | 2,069,525   | 165,784                      |
| 26  | Capital floor adjustment   | -           | -           | -                            |
| 26a | Deduction to RWA   | 462,683     | 462,683     | 37,015                       |
| 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 | 462,683     | 462,683     | 37,015                       |
| 27  | Total  | 625,710,161 | 622,030,858 | 50,056,813                   |

In the first quarter of 2024, RWA of the Group amounts to HKD 625.71 billion, which is an increase of HKD 3.68 billion or 0.59% compared to the fourth quarter in 2023.

Non-securitization credit risk RWA is at HKD 562.14 billion, which is reduced by HKD 0.54 billion or 0.10% compared to the last quarter. Compared with last quarter, the 45.61% increase or an increase of HK\$1.68 billion in RWA for counterparty default risk and default fund contributions under SA-CCR approach was mainly due to the increase of the RWA from foreign exchange ("FX") rate derivative contracts and derivative contracts with netting agreements.

Other RWA items only experienced small or moderate fluctuations which were in line with business development. There was neither settlement risk, nor securitization exposure RWA on both current and last reporting dates. There was neither regulatory reserve for general banking risks nor collective provision which needed to be deducted from RWA. There was no RWA capital floor adjustment.

The Group is in compliance with the Banking (Capital) Rules to calculate RWA. The Group adopts the standardized (credit risk) approach ("STC") for the non-securitization credit risk RWA (including equity exposure and CIS exposure) calculation. In accordance with the Banking (Capital) (Amendment) Rules 2020 enacted by HKMA, the Group adopts SA-CCR approach for the calculation of counterparty credit risk exposure arising from the Bank's derivatives contracts and default risk exposure from derivatives cleared through central counterparty ("CCP"), which is implemented in the counterparty credit risk RWA calculation. The Group adopts standardized credit valuation adjustment ("CVA") method for the CVA risk RWA calculation, the standardized (market risk) approach ("STM") for the market risk RWA calculation, the basic indicator approach ("BIA") for the operational risk RWA calculation.



#### 4. Leverage Ratio

##### Leverage Ratio (LR2)

|  |  | (a)                  | (b)                 |
|--|--|----------------------|---------------------|
|  |  | (HK\$'000)           |                     |
|  |  | 31/03/2024           | 31/12/2023          |
| <b>On-balance sheet exposures</b>                  |  |                      |                     |
| 1  | On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)  | 917,651,352          | 905,821,887         |
| 2  | Less: Asset amounts deducted in determining Tier 1 capital   | (1,968,370)          | (1,815,289)         |
| 3  | <b>Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>  | <b>915,682,982</b>   | <b>904,006,598</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)                 | 4,022,064            | 2,655,828           |
| 5  | Add-on amounts for PFE associated with all derivative contracts  | 12,421,289           | 9,514,923           |
| 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   | (1,225,387)          | (1,413,336)         |
| 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>15,217,966</b>    | <b>10,757,415</b>   |
| <b>Exposures arising from SFTs</b>                 |  |                      |                     |
| 12   | Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions  | 24,153,451           | 13,051,192          |
| 13   | Less: Netted amounts of cash payables and cash receivables of gross SFT assets   | (6,665,118)          | (6,031,995)         |
| 14   | CCR exposure for SFT assets  | 847,814              | 2,647,809           |
| 15   | Agent transaction exposures  | -                    | -                   |
| 16   | <b>Total exposures arising from SFTs</b>   | <b>18,336,147</b>    | <b>9,667,006</b>    |
| <b>Other off-balance sheet exposures</b>           |  |                      |                     |
| 17   | Off-balance sheet exposure at gross notional amount  | 216,435,645          | 243,169,738         |
| 18   | Less: Adjustments for conversion to credit equivalent amounts  | (162,178,436)        | (181,026,019)       |
| 19   | <b>Off-balance sheet items</b>   | <b>54,257,209</b>    | <b>62,143,719</b>   |
| <b>Capital and total exposures</b>                 |  |                      |                     |
| 20   | <b>Tier 1 capital</b>  | <b>146,841,845</b>   | <b>143,903,421</b>  |
| 20a  | <b>Total exposures before adjustments for specific and collective provisions</b>   | <b>1,003,494,304</b> | <b>986,574,738</b>  |
| 20b  | <b>Adjustments for specific and collective provisions</b>  | <b>(9,756,011)</b>   | <b>(10,203,939)</b> |
| 21   | <b>Total exposures after adjustments for specific and collective provisions</b>  | <b>993,738,293</b>   | <b>976,370,799</b>  |
| <b>Leverage ratio</b>                              |  |                      |                     |
| 22   | <b>Leverage ratio</b>  | <b>14.78%</b>        | <b>14.74%</b>       |

## Leverage Ratio (LR2) (continued)

### **Item 4:**

The replacement cost associated with all derivative contracts increased by HKD 1,366 million or an increase of 51.44% compared to last quarter due to fair value change of derivative contracts.

### **Item 5:**

The add-on amounts for the potential future exposure ("PFE") associated with all derivative contracts increased by HKD 2,906 million or an increase of 30.55% compared to last quarter due to increase in PFE from interest rate contracts and exchange rate contracts.

### **Item 11(include 4 and 5):**

Replacement cost associated with all derivative contracts increased by HKD 1,366 million or an increase of 51.44%. Additionally, the add-on amounts for PFE associated with all derivative contracts increased by HKD 2,906 million or an increase of 30.55%. As a result, total exposures arising from derivative contracts increased by HKD4,461 million or an increase of 41.46%.

### **Item 12:**

The Gross securities financing transaction ("SFT") assets (with no recognition of netting), after adjusting for sale accounting transactions, increased by HKD 11,102 million or an increase of 85.07% compared to last quarter due to increase in the amount of repo-style transactions.

### **Item 14:**

Counterparty Credit Risk ("CCR") exposure for SFT assets decreased by HKD 1,800 million or a decrease of 67.98%, due to decrease in CCR from repo-style transactions.

### **Item 16 (include 12 and 14):**

The Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions, increased by HKD 11,102 million or an increase of 85.07%. Additionally, Counterparty Credit Risk ("CCR") exposure for SFT assets decreased by HKD 1,800 million or a decrease of 67.98%. As a result, total exposures arising from SFTs increased by HKD 8,669 million or an increase of 89.68% compared to last quarter.

## 5. Liquidity

### Liquidity Coverage Ratio – for Category 1 Institution (LIQ1)

| Number of data points used in calculating the average value of the LCR and related components set out in this template: (72) |  | (HK\$'000)                           |                                    |
|--|--|--------------------------------------|------------------------------------|
|  |  | (a)                                  | (b)                                |
| Basis of disclosure: consolidated  |  | <b>Unweighted value</b><br>(average) | <b>Weighted value</b><br>(average) |
| <b>A. HQLA</b>   |  |                                      |                                    |
| 1  | Total HQLA   |                                      | 162,309,250                        |
| <b>B. Cash outflows</b>  |  |                                      |                                    |
| 2  | Retail deposits and small business funding, of which:  | 183,865,619                          | 17,685,769                         |
| 3  | <i>Stable retail deposits and stable small business funding</i>  | 10,011,681                           | 300,375                            |
| 4  | <i>Less stable retail deposits and less stable small business funding</i>  | 173,853,938                          | 17,385,394                         |
| 4a   | <i>Retail term deposits and small business term funding</i>  | -                                    | -                                  |
| 5  | Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:                | 310,374,529                          | 155,734,428                        |
| 6  | <i>Operational deposits</i>  | 3,650,282                            | 910,108                            |
| 7  | <i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i>  | 306,695,525                          | 154,795,598                        |
| 8  | <i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>  | 28,722                               | 28,722                             |
| 9  | Secured funding transactions (including securities swap transactions)  |                                      | 65,883                             |
| 10   | Additional requirements, of which:   | 65,244,702                           | 13,313,233                         |
| 11   | <i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i> | 8,575,940                            | 7,337,853                          |
| 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>                       | 56,668,762                           | 5,975,380                          |
| 14   | Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows   | 8,316,956                            | 8,316,956                          |
| 15   | Other contingent funding obligations (whether contractual or non-contractual)  | 408,620,233                          | 1,879,533                          |
| 16   | <b>Total Cash Outflows</b>   |                                      | <b>196,995,802</b>                 |
| <b>C. Cash Inflows</b>   |  |                                      |                                    |
| 17   | Secured lending transactions (including securities swap transactions)  | 974,539                              | 82,198                             |
| 18   | Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions    | 116,286,096                          | 89,073,748                         |
| 19   | Other cash inflows   | 64,399,480                           | 7,909,017                          |
| 20   | <b>Total Cash Inflows</b>  | <b>181,660,115</b>                   | <b>97,064,963</b>                  |
| <b>D. Liquidity Coverage Ratio</b>   |  |                                      | <b>Adjusted value</b>              |
| 21   | <b>Total HQLA</b>  |                                      | <b>162,309,250</b>                 |

## Liquidity Coverage Ratio – for Category 1 Institution (LIQ1) (continued)

| Number of data points used in calculating the average value of the LCR and related components set out in this template: (72) |                                | (HK\$'000)                           |                                    |
|--|--------------------------------|--------------------------------------|------------------------------------|
|  |                                | (a)                                  | (b)                                |
| Basis of disclosure: consolidated  |                                | <b>Unweighted value</b><br>(average) | <b>Weighted value</b><br>(average) |
| 22   | <b>Total Net Cash Outflows</b> |                                      | <b>99,930,839</b>                  |
| 23   | <b>LCR (%)</b>                 |                                      | <b>164.61%</b>                     |

### Liquidity Coverage Ratio

The Liquidity Coverage Ratio (“LCR”) throughout the first quarter of 2024 meets the regulatory requirement and maintains at a safe level.

The average LCR as of the first quarter of 2024 decreased by 33.43% compared to that as of the fourth quarter of 2023. Such decrease was mainly due to reduction of HKD 4.5 billion on average in High Quality Liquid Assets (“HQLA”), of which the average Level 1 securities decreased by HKD 3.8 billion, as well as an increase of HKD 13.3 billion on average in total net cash outflows, of which the average unsecured wholesale financial institution (“FI”) funding decreased by HKD 15.0 billion but the average contractual cash inflows from FI lending decreased by HKD 32.0 billion. Others resulted from the maturing impact from various kinds of assets and liabilities.

#### (i) Main drivers of LCR results

The change in the Bank’s LCR was mainly due to the changes in HQLA position, as well as the maturing impacts from various kinds of assets and liabilities which impacts the net cash outflows.

#### (ii) Composition of HQLA

The Bank holds a portfolio of unencumbered HQLA which can be readily liquidated to meet cash flow obligations under stress scenarios, as defined in the LCR rules. These liquid assets consist primarily of Level 1 HQLA, such as the Hong Kong Exchange Fund Bills and Notes as well as other government debt securities, supplemented by Level 2A and 2B HQLA, such as bonds issued by highly rated corporate issuers.

## Liquidity Coverage Ratio – for Category 1 Institution (LIQ1) (continued)

### (iii) Concentration of funding sources

The Bank maintains a diversified funding base composed mainly by retail and corporate customer deposits, supplemented by wholesale funding including but not limited to issuance of certificates of deposit and term debts. Short-term interbank money market borrowing is also used from time to time to meet temporary funding needs. The Bank continues to expand and diversify its deposit base, and to increase the proportion of stable deposits in its overall funding pool.

### (iv) Derivative exposures

The Bank closely monitors all its exchange traded and over-the-counter derivative exposures arising from customer transactions and their corresponding hedging activities. Such derivative contracts comprise mainly of foreign exchange forwards, interest rate and cross currency swaps. Collateral may be required to be posted to counterparties depending on the marked-to-market of the derivative contracts.

### (v) Currency mismatch

The fundings of the Bank are mainly customer deposits and capital denominated in HKD. To meet customer loan demand, the Bank swaps surplus HKD funding into USD and other foreign currencies. This represents the major currency mismatch of the Bank.

On the other hand, the Bank covers its HKD mismatch by holding HQLA denominated in USD when necessary. This is in line with the LCR alternative liquidity approach option elected by the HKMA.

### (vi) Centralization of liquidity management

The Bank has a wholly owned subsidiary in Mainland China, Chinese Mercantile Bank ("CMB"), which has set up its own liquidity risk management policy and managed liquidity risk in accordance with its local regulatory requirements. CMB calculates its own LCR, which would then be consolidated with the Bank's LCR to reflect the liquidity position on a Group basis.

## Liquidity Coverage Ratio – for Category 1 Institution (LIQ1) (continued)

### (vii) Approach to liquidity risk management

The Bank has established a comprehensive liquidity risk management framework in accordance with the HKMA requirements and Basel Committee on Banking Supervision guidance. The Board is ultimately responsible for liquidity risk management, with the support from the Risk Management Committee of Board of Directors, senior management committees including the Senior Executive Risk Management Committee and the Asset and Liability Committee. Policies and procedures are in place, with properly approved limits and indicators in order to identify, measure and monitor liquidity risk. Stress tests are conducted regularly, and the Bank has readied the Contingency Funding Plan with detailed procedures in dealing with a potential liquidity crisis.