



ZA Bank Limited

Regulatory Disclosure Statement
For the period ended
31 December 2020

ZA Bank Limited

Regulatory Disclosure Statement

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ZA Bank Limited

Regulatory Disclosure Statement

Introduction

Purpose

The information contained in this document is for ZA Bank Limited (“the Bank”), and prepared in accordance with the Banking (Disclosure) Rules (“BDR”) and disclosure templates issued by the Hong Kong Monetary Authority (“HKMA”).

This regulatory disclosure statement is governed by the Bank’s disclosure policy, which has been approved by the Board of Directors (“the Board”). The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the regulatory disclosure statement is not required to be externally audited, the document has been subject to independent review in accordance with the Bank’s disclosure policy.

The numbers in this document are expressed in thousands of Hong Kong Dollars, unless otherwise stated.

Basis of preparation

The capital adequacy ratio (“CAR”) was compiled in accordance with the Banking (Capital) Rules (“BCR”) issued by the HKMA. In calculating the risk weighted amount (“RWA”), the Bank adopted the Standardized (Credit Risk) Approach (“STC” approach) and the Standardized (Market Risk) Approach (“STM approach”) for credit risk and market risk respectively. For operational risk, the capital requirement is calculated using the alternative approach communicated to the HKMA pursuant to section 340 of the BCR.

Basis of consolidation

As at 31 December 2020, the Bank does not have any subsidiaries to consolidate the financial information in this regulatory disclosure statement.

OVA: Overview of risk management

The Bank conducts its business activities and operations by identifying, assessing, measuring, monitoring and reporting the key inherent risks. By effectively managing such risks, the Bank intends to strike a balance between the amount and types of risks the Bank is willing to take, and the level of return the Bank aims to achieve.

The Bank has a comprehensive risk governance and management framework in place to ensure the risk inherent in the business activities is being managed properly, to comply with the regulatory requirement set out by the regulators and to assess the adequacy of internal capital accordingly. These objectives are delivered through means of properly defined risk appetite in accordance with the Bank's business strategies, well-documented risk policies that established controls and limits to identify, assess, monitor and remedy the risk and formulated through clear procedures for execution of these policies.

The governance structure covers 3 layers including the Board and its subordinate committees, the senior management and the functional committees and the three line of defence formed from risk management units.

The Board has the ultimate responsibility for overseeing the risk governance of the Bank and is responsible for ensuring an effective organizational risk management framework in place for both business and regulatory purposes. The Board and its subordinate committees have the final authority to determine the optimal risk appetite in the interest of shareholder and formulate the appropriate risk management strategy and enforce the correct risk culture within the organization. For effective management, the Board has delegated authority to several Board-level committees to carry out risk management tasks. The Board-level committees include Audit Committee ("AC"), Nomination Committee ("NC"), Remuneration Committee ("REMC"), Risk Committee ("RC") and Executive Committee ("EXCO"). RC is responsible for reviewing material issues escalated by management-level committee and to monitor the Bank's risk management strategies, key risk policies and risk appetite on a regular basis.

Senior Management established several management-level committees under the committees delegated by the Board to oversee the governance of the Bank and provide oversight of various risk disciplines. The management-level committees include New Product Committee, Disciplinary Committee, Technology and Cyber Resilience Committee, Asset & Liability Management Committee ("ALCO"), Anti-Money Laundering Committee, Credit Committee ("CC"), Risk Management Committee ("RMC") and Wealth Management Committee. They are responsible for the risk management tasks including reviewing and approving risk appetite and various policies in accordance with the regulatory requirement and business strategies regularly, initiating new risk management strategies and measures in response to the launch of new product and services, and regulatory change and providing advice on material risk-related activities to the Board-level committee.

The Bank implements a "Three Lines of Defence" approach to ensure effective risk management across the Bank. Frontline business units act as the first line of defence for risk management and are responsible for soliciting business in compliance with the risk policies and procedures, assuring the risk level of their business within the internal risk limits.

Various risk management units represent the second line of defence which are independent of the business units and are responsible for day-to-day management tasks including identifying, assessing and monitoring the risk in the business, reporting the implementation of risk procedures and the risk profiles of the business to the functional committee and providing support to senior management for decision-making.

Internal audit acts as the third line of defence and is responsible for conducting independent checking on the adequacy of internal policies and the execution of the procedures and controls. They are also responsible for reporting to the senior management, providing recommendations to improve the internal policies and procedures.

The Bank adopts the risk approach set out by the HKMA in managing risk with eight types of principle risks including credit risk, market risk, interest rate risk, liquidity risk, operational risk, technology risk, reputation risk, and strategic risk. The Bank establishes various risk limits and indicators in the risk appetite and reports it to the senior management and the Board regularly. Any breaches on these limits are reported to the senior management and the Board, and remediation actions are to be carried out.

Our risk culture is reflected in the risk tolerance level stipulated in Risk Appetite Statement ("RAS") which specifies the limits of major risk areas. RAS is approved by the Board and fully communicated to the EXCO and core bank team. Its daily enforcement is regularly reviewed by RMC.

Reports of risk management are regularly reported by the respective risk management and function units to ALCO, RMC, EXCO and RC for reviews. Hits of Early Warning Indicators ("EWI") and breaches of internal and/or external limit will lead to risk mitigation actions submitted to appropriate management level and the Board-level committee for approvals.

Stress testing is an essential tool for the Bank's overall risk management. The Bank regularly applies stress testing techniques to assess the risk tolerance level of the Bank under stress scenarios on individual risk disciplines covering the Bank's major portfolios and applies risk mitigation strategy and contingency plans accordingly. The Bank conducts stress testing on its loans and advances in order to understand the asset quality variation under a stressed scenario.

OVA: Overview of risk management (continued)

Capital Management

The Bank established the Capital Management Policy that outlines the governance structure and the capital management framework according to the HKMA's Supervisory Policy Manual ("SPM") on "Overview of Capital Adequacy Regime for Locally Incorporated Authorized Institutions" ("CA-G-1") and "Supervisory Review Process" ("CA-G-5"). The objective of policy is to maintain a strong capital position to support the Bank's business strategy and serve as a buffer to absorb losses.

The Bank implements a hierarchy of authorities to manage the capital position. The Board oversees the effectiveness of the Bank's capital framework and ensures an appropriate organization structure for capital management.

Treasury department coordinates with the Asset and Liability Management ("ALM") team from finance department to implement the capital management strategy. Treasury department is responsible for maintaining sufficient capital level which complies with the CAR while retaining flexibility to take advantage of future investment opportunities. ALM team is responsible for monitoring CAR and different capital limits including common equity tier 1 ratio ("CET 1 ratio"), Tier 1 capital ratio, total capital ratio and leverage ratio ("LR") and performing independent assessment on the Bank's capital management activities and monitoring capital position. Finance department is responsible for reporting the limits utilization and any limit breaches to senior management. Finance department and treasury department report to ALCO in relation to the monitoring of capital management.

The Bank defines a clear framework to assess and monitor the adequacy of the internal capital level, the Bank meets these objectives through the establishment of internal minimum capital requirements and a strong capital management governance framework.

The Bank maintains several risk management systems to identify, measure and monitor key areas at risk to ensure such risk are within the tolerance level. A range of key risk measures and indicators are used to ensure comprehensive review and monitoring are in place for various risk types. Such risk management systems and frameworks are used for assessing the capital adequacy including the credit, market and operational risk management systems. Their features are outlined as follows:

1) Credit Risk

Credit risk is the potential that a borrower or counterparty will fail to meet its obligations with agreed terms. As one of the Bank's key inherent risks, credit risk exists throughout the activities of a bank, including in the banking book, and both on- and off-balance sheet transaction. The credit risk exposure principally arises from investment in debt securities, lending of personal loan and commercial loan business.

The Bank has formulated a comprehensive set of policies and procedures that outlines the governance framework and appropriate credit limits to manage and monitor the credit risk that may arise from different credit portfolios in both portfolio level and individual level. The policies cover various areas including credit risk governance structure, customer selection criteria, customer acceptance criteria and post-approval monitoring.

The overall credit risk is managed through a hierarchy of approval authorities of the Bank. CC has the highest level of credit approval authority. Credit risk Management rests with risk management which in turn reports to RMC.

The Bank established a comprehensive monitoring process and intended to manage the risk level in the credit portfolio that aligns with the Bank's risk appetite and identify any early warning signal of credit deterioration. Refer to Section CRA for more details in relation to credit risk management.

2) Market Risk

Market risk is the risk of valuation loss or reduction in expected earnings stemming from adverse fluctuations in exchange rates, interest rates, credit spread, implied volatility and cross-currency basis spreads. The risk can exist in both non-trading and trading activities. Currently, the Bank does not involve in trading book business and market risk predominantly arises from the Bank's treasury activities. The major types of market risk come into three forms, interest rate risk, currency risk and price risk, and the risk mainly comes from the Bank's debt securities portfolio held as investment and/or liquidity management.

The Bank formulated a detailed Market Risk Management Policy and Debt Investment Securities Policy that outlines the procedures and controls to manage the market risk profile.

The policy details a clear strategy to manage different types of market risk that the Bank is exposed to. A market risk framework for different types of risk is established to clearly define risk profiles to ensure it is consistent with the overall risk appetite. Risk limits are developed by the risk department in conjunction with the treasury department.

The Board holds the ultimate responsibility for ensuring an appropriate organization structure is in place for managing market risk. Market risk oversight rests with the risk department which in turn reports to the RMC.

OVA: Overview of risk management (continued)

2) Market Risk (continued)

The Bank adopts factor sensitivities analysis to identify, measure and mitigate the market risk of the Bank. All transactions are captured for market risk measurements. The factor sensitivities are calculated, monitored and in most cases, limited for relevant risks taken. Reports regarding market risk limits are produced and reviewed regularly.

Refer to Section MRA for more details in relation to market risk management.

3) Operational Risk

Operation Risk Management (“ORM”) rests with risk department which in turn reports to RMC. The Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, systems, or human factors, or from external events. The Bank implements a centralized risk management framework and formulates an ORM Policy to assess and communicate operational risk and the overall effectiveness of controls across the Bank and products, while supporting adherence to regulatory requirements.

By implementing the ORM framework, the Bank aims to establish minimum standards for consistent identification, measurement, monitoring, reporting and management of operational risk across the Bank. The purpose of the ORM framework is to lead to effective anticipation and mitigation of operational risk, improve operational risk loss experience, identify and assess key operational risks and design controls to mitigate identified risks, as well as to establish key risk indicators and implement process for early problem recognition and timely escalation.

The Bank has established a sound governance structure to manage its operational risk profile, which would be monitored and reported on a regular basis.

4) Technology Risk

Technology risk is the potential for technology failures such as information security issues or service outages which could significantly impact the Bank’s business activities and operation. As a virtual bank, we recognize that technology risk is a key inherent risk across the Bank which should be identified, controlled and monitored with prudent and appropriate measures, and should subject to regular review and governance. The Bank has also put in place a number of risk appetite indicators to effectively manage potential technology risks on a regular basis, including data on losses caused by online fraud event which is reviewed monthly, and number of internal, business, or customer data breach which is reviewed and reported quarterly.

The Bank formulated a detailed Technology and Cyber Risk Policy, Information Risk Policy and related procedures to govern and manage technology risks while ensuring compliance with legal and regulatory requirements. The policies outlined the roles and responsibilities of information technology governance, a continuous technology risk management process and implementation of sound practices of information technology controls to achieve effective technology risk management across the Bank and enhance information security.

The Technology & Cyber Resilience Committee holds the responsibility to oversee technology risk management and technology-related issues supported by an independent technology risk management team.

One of the key controls to technology risk management is the control of information and system security, the Bank has thus established a number of measures to manage information and system security including authentication and access control, password policy, privileged account management, system security, end-user and mobile computing and physical security. Such measures are used in conjunction with project management, change management, information technology operations management and network management to ensure technology risks are properly assessed and mitigated at multiple areas during the Bank’s business activities and operations.

Cyber security awareness training programs are also provided to all staff members of the Bank to enhance general awareness and understanding of technology risks and threats to cyber/ information security.

5) Other risks

Other risks such as reputation risk, strategic risk, legal risk, etc. are overseen by different departments of the Bank. The Bank has established appropriate risk indicators for these risk types and such indicators are being reviewed at RMC on a monthly basis.

KM1 - Key prudential ratios

(HK\$ '000)		(a)	(b)	(c)	(d)	(e)
		31-Dec-20	30-Sep-20	30-Jun-20	31-Mar-20	31-Dec-19
Regulatory capital (amount)						
1	Common Equity Tier 1 (CET1)	1,542,783	1,087,417	1,172,664	1,256,327	1,298,769
2	Tier 1	1,542,783	1,087,417	1,172,664	1,256,327	1,298,769
3	Total capital	1,556,261	1,097,591	1,175,910	1,256,954	1,298,769
RWA (amount)						
4	Total RWA	5,093,790	3,415,156	2,135,868	883,734	524,132
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	30.3%	31.8%	54.9%	142.2%	247.8%
6	Tier 1 ratio (%)	30.3%	31.8%	54.9%	142.2%	247.8%
7	Total capital ratio (%)	30.6%	32.1%	55.1%	142.2%	247.8%
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 (%)	0.5%	1.0%	1.0%	1.0%	2.0%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	0.0%	0.0%	0.0%	0.0%	0.0%
11	Total AI-specific CET1 buffer requirements (%)	3.0%	3.5%	3.5%	3.5%	4.5%
12	CET1 available after meeting the AI's minimum capital requirements (%)	15.6%	16.8%	39.9%	127.2%	232.8%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	7,845,580	6,526,820	4,149,633	1,841,109	1,377,818
14	LR (%)	19.7%	16.7%	28.3%	68.2%	94.3%
Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)						
Applicable to category 1 institution only:						
15	Total high quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	N/A
16	Total net cash outflows	N/A	N/A	N/A	N/A	N/A
17	LCR (%)	N/A	N/A	N/A	N/A	N/A
Applicable to category 2 institution only:						
17a	LMR (%) ¹	91.3%	103.7%	158.1%	489.4%	271.5%
Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)						
Applicable to category 1 institution only:						
18	Total available stable funding	N/A	N/A	N/A	N/A	N/A
19	Total required stable funding	N/A	N/A	N/A	N/A	N/A
20	NSFR (%)	N/A	N/A	N/A	N/A	N/A
Applicable to category 2A institution only:						
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

The capital ratios and LMR remained above the minimum regulatory requirements.

Capital injection of HK\$600 million was the major driver leading to the increase in CET1 capital, Tier 1 capital and total regulatory capital. Increase in total RWA for credit risk for non-securitization exposures as of the quarter ended 31 December 2020 was mainly due to the increase in bank exposures, regulatory retail exposures and corporate exposures.

¹ The LMR disclosed above represent the arithmetic mean of the average value of its LMR for each calendar month within the quarter.

OV1: Overview of RWA

The following table provides an overview of capital requirements in terms of a detailed breakdown of RWAs for various risks as at 31 December 2020:

		(a)	(b)	(c)
		RWA		Minimum capital requirements
(HK\$ '000)		31-Dec-20	30-Sep-20	31-Dec-20
1	Credit risk for non-securitization exposures	4,878,565	3,132,006	390,285
2	Of which STC approach	4,878,565	3,132,006	390,285
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	Of which SA-CCR	-	-	-
7a	Of which CEM	-	-	-
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	-	-	-
10	CVA risk	-	-	-
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	-	-	-
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	325	400	26
21	Of which STM approach	325	400	26
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	214,900	282,750	17,192
24a	Sovereign concentration risk	N/A	N/A	N/A
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	-	-	-
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	Total	5,093,790	3,415,156	407,503

Increase in total RWA for credit risk for non-securitization exposures as of the quarter ended 31 December 2020 was mainly due to the increase in bank exposures, regulatory retail exposures and corporate exposures.

PV1: Prudent valuation adjustments

The following table shows a detailed breakdown of the constituent elements of valuation adjustment that have not been taken into account in the calculation of the amount of the Bank's retained earnings or other disclosed reserves. The Bank does not have any valuation adjustments as at 31 December 2020.

As at 31 December 2020 (HK\$ '000)		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
		Equity	Interest rates	FX	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
1	Close-out uncertainty, of which:	-	-	-	-	-	-	-	-
2	<i>Mid-market value</i>	-	-	-	-	-	-	-	-
3	<i>Close-out costs</i>	-	-	-	-	-	-	-	-
4	<i>Concentration</i>	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risks	-	-	-	-	-	-	-	-
8	Investing and funding costs	-	-	-	-	-	-	-	-
9	Unearned credit spreads	-	-	-	-	-	-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other adjustments	-	-	-	-	-	-	-	-
12	Total adjustments	-	-	-	-	-	-	-	-

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

The following table shows the differences between the carrying values as reported in the Bank's financial statements following the scope of accounting consolidation and the carrying values under the scope of regulatory consolidation, with a breakdown into regulatory risk categories of every item of the assets and liabilities reported in financial statements based on the scope of accounting consolidation. There is no difference between the carrying values as reported in published financial statements and the exposure amounts used for the calculation of regulatory capital in respect of the assets and liabilities based on the scope of regulatory consolidation.

	(a) & (b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements (a) & Carrying values under scope of regulatory consolidation (b)	Carrying values of items:				
		subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
As at 31 December 2020 (HK\$ '000)						
Assets						
Balances with central bank	646,127	646,127	-	-	-	-
Placements with and advances to banks	1,782,537	1,782,537	-	-	-	-
Loans and advances to customers	674,135	674,135	-	-	-	-
Investment securities measured at fair value through other comprehensive income	4,651,714	4,651,714	-	-	-	-
Intangible assets	18,598	-	-	-	-	18,598
Fixed assets	1,945	1,945	-	-	-	-
Other assets	86,122	86,122	-	-	-	-
Total assets	7,861,178	7,842,580	-	-	-	18,598
Liabilities						
Deposits from customers	6,036,580	-	-	-	-	6,036,580
Other accounts and accruals	263,217	-	-	-	-	263,217
Total liabilities	6,299,797	-	-	-	-	6,299,797

L12: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		(a)	(b)	(c)	(d)	(e)
		Total	Items subject to:			
			Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
As at 31 December 2020 (HK\$'000)						
1	Asset carrying value amount under scope of regulatory consolidation (as per template L11)	7,842,580	7,842,580	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template L11)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	7,842,580	7,842,580	-	-	-
4	Off-balance sheet amounts	30,000	30,000	-	-	-
5	Differences due to impairments	13,478	13,478	-	-	-
6	Exposure amounts considered for regulatory purposes	7,886,058	7,886,058	-	-	-

L1A: Explanations of differences between accounting and regulatory exposure amountsOff-balance sheet amounts

Off-balance sheet amounts subject to credit risk regulatory framework includes undrawn commitments which are unconditionally cancellable without prior notice by the Bank other than for "force majeure" reason.

Differences due to impairments

The carrying value of assets in accounting is net of impairments. From the regulatory perspective, non-defaulted exposure under the STC approach is reported in gross value.

CC1: Composition of regulatory capital

		(a)	(b)
		Amount (HK\$ '000)	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
As at 31 December 2020			
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,100,000	(3)
2	Retained earnings	(539,696)	(4)
3	Disclosed reserves	1,077	(5)
4	<i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	-	
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	CET1 capital before regulatory adjustments	1,561,381	
CET1 capital: regulatory deductions			
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	(1)
9	Other intangible assets (net of associated deferred tax liabilities)	18,598	(2)
10	Deferred tax assets (net of associated deferred tax liabilities)	-	
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A
22	Amount exceeding the 15% threshold	N/A	N/A
23	of which: significant investments in the ordinary share of financial sector entities	N/A	N/A
24	of which: mortgage servicing rights	N/A	N/A
25	of which: deferred tax assets arising from temporary differences	N/A	N/A
26	National specific regulatory adjustments applied to CET1 capital	-	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	
26b	Regulatory reserve for general banking risks	-	
26c	Securitization exposures specified in a notice given by the MA	-	

CC1: Composition of regulatory capital (continued)

		(a)	(b)
		Amount (HK\$ '000)	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
As at 31 December 2020			
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient Additional Tier 1 (AT1) capital and Tier 2 capital to cover deductions	-	
28	Total regulatory deductions to CET1 capital	18,598	
29	CET1 capital	1,542,783	
AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	<i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
36	AT1 capital before regulatory deductions	-	
AT1 capital: regulatory deductions			
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	Total regulatory deductions to AT1 capital	-	
44	AT1 capital	-	
45	Tier 1 capital (T1 = CET1 + AT1)	1,542,783	
Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	<i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	13,478	

CC1: Composition of regulatory capital (continued)

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		(a)	(b)
		Amount (HK\$ '000)	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
As at 31 December 2020			
51	Tier 2 capital before regulatory deductions	13,478	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	13,478	
59	Total regulatory capital (TC = T1 + T2)	1,556,261	
60	Total RWA	5,093,790	
	Capital ratios (as a percentage of RWA)		
61	CET1 capital ratio	30.3%	
62	Tier 1 capital ratio	30.3%	
63	Total capital ratio	30.6%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	3.0%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: bank specific countercyclical capital buffer requirement	0.5%	
67	of which: higher loss absorbency requirement	0.0%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	15.6%	

CC1: Composition of regulatory capital (continued)

		(a)	(b)
		Amount (HK\$ '000)	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
As at 31 December 2020			
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	N/A	N/A
70	National Tier 1 minimum ratio	N/A	N/A
71	National Total capital minimum ratio	N/A	N/A
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	N/A	N/A
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	N/A	N/A
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	-	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	-	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	<i>Current cap on CET1 capital instruments subject to phase-out arrangements</i>	N/A	N/A
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	N/A	N/A
82	<i>Current cap on AT1 capital instruments subject to phase-out arrangements</i>	-	
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	-	
84	<i>Current cap on Tier 2 capital instruments subject to phase-out arrangements</i>	-	
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	-	

Capital injection of HK\$600 million was the major driver leading to the increase in CET1 capital, Tier 1 capital and total regulatory capital. Increase in expected credit losses was the major driver leading to the increase in Tier 2 capital. For the key drivers of significant changes in RWA, please refer to OV1.

CC1: Composition of regulatory capital (continued)

Notes to the Template:

Elements where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

	Description	Hong Kong basis (HK\$ '000)	Basel III basis (HK\$ '000)
9	Other intangible assets (net of associated deferred tax liabilities)	18,598	18,598
	<p><u>Explanation</u></p> <p>As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights ("MSRs") may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</p>		
10	Deferred tax assets (net of associated deferred tax liabilities)	-	-
	<p><u>Explanation</u></p> <p>As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</p>		
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
	<p><u>Explanation</u></p> <p>For the purpose of determining the total amount of insignificant LAC investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p>		

CC1: Composition of regulatory capital (continued)

Notes to the Template (continued)

	Description	Hong Kong basis (HK\$ '000)	Basel III basis (HK\$ '000)
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
	<p><u>Explanation</u> For the purpose of determining the total amount of significant LAC investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p>		
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
	<p><u>Explanation</u> The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant LAC investments in AT1 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 39 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p>		
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	-
	<p><u>Explanation</u> The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant LAC investments in Tier 2 capital instruments and non-capital LAC liabilities may be smaller. Therefore, the amount to be deducted as reported in row 54 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 54 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</p>		
<p>Remarks: The amount of the 10% threshold and 5% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.</p>			

CC2: Reconciliation of regulatory capital to balance sheet

There is no difference between the balances reported under balance sheet in published financial statements and under regulatory scope of consolidation.

	(a) & (b)	(c)
	Balance sheet as in published financial statements (a) & Under regulatory scope of consolidation (b)	Reference
(HK\$ '000)	31-Dec-20	
Assets		
Balances with central bank	646,127	
Placements with and advances to banks	1,782,537	
Loans and advances to customers	674,135	
Investment securities measured at fair value through other comprehensive income	4,651,714	
Goodwill and intangible assets	18,598	
of which: goodwill	-	(1)
intangible assets	18,598	(2)
Fixed assets	1,945	
Other assets	86,122	
Total assets	7,861,178	
Liabilities		
Deposits from customers	6,036,580	
Other accounts and accruals	263,217	
Total liabilities	6,299,797	
Shareholders' Equity		
Paid-in share capital	2,100,000	
of which: amount eligible for CET1	2,100,000	(3)
Retained earnings	(539,696)	(4)
Accumulated other comprehensive income	1,077	(5)
Total shareholders' equity	1,561,381	
Total liabilities and shareholders' equity	7,861,178	

As at 31 December 2020, increase in total assets were mainly driven by the increase in loans and advances to customers and investment securities, increase in total liabilities and shareholders' equity were mainly driven by increase in deposits from customers and capital injection.

CCA: Main features of regulatory capital instruments

		CET 1 Capital HKD Ordinary Shares²
1	Issuer	ZA Bank Limited
2	Unique identifier - ISIN	N/A
3	Governing law(s) of the instrument	Hong Kong
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules ³	N/A
5	Post-transitional Basel III rules ⁴	CET1
6	Eligible at solo / group / solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognized in regulatory capital (currency in millions, as of most recent reporting date)	HK\$2,100 Million
9	Par value of instrument	N/A
10	Accounting classification	Equity
11	Original date of issuance	8 August 2018: 100 ordinary shares 24 August 2018: 999,999,900 ordinary shares 8 October 2019: 500,000,000 ordinary shares 16 November 2020: 600,000,000 ordinary shares
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Full discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

² Terms and conditions of the capital instruments issued can be found in the link [Terms and conditions - Ordinary share capital](#).

³ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the BCR.

⁴ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the BCR.

CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer (“CCyB”)

The following table presents the geographical breakdown of RWA in relation to private sector credit exposures as at 31 December 2020:

		(a)	(c)	(d)	(e)
	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect	RWA used in computation of CCyB ratio	AI-specific CCyB ratio	CCyB amount
		(%)	(HK\$ '000)	(%)	(HK\$ '000)
1	Hong Kong SAR	1.0%	1,778,280		
2	Sum		1,778,280		
3	Total		3,311,037	0.5%	17,783

The geographical allocation of private sector credit exposures to the jurisdiction is determined based on the ultimate risk basis where the risk ultimately lies to the best of the knowledge and information obtained by the Bank.

At 31 December 2020, the jurisdictional CCyB of Hong Kong used in the calculation of CCyB requirement was 1.0%, which was reduced from 2.0% at 31 December 2019 in accordance with the announcement made by the HKMA on 16 March 2020. Key drivers for the changes in RWA used in computation of CCyB ratio was mainly due to the increase in regulatory retail exposures and corporate exposures as at 31 December 2020.

LR1: Summary comparison of accounting assets against Leverage Ratio exposure measure

As at 31 December 2020

	Item	Value under the LR framework (HK\$ '000)
1	Total consolidated assets as per published financial statements	7,861,178
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4	Adjustments for derivative contracts	-
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet (OBS) items (i.e. conversion to credit equivalent amounts of OBS exposures)	3,000
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	-
7	Other adjustments	(18,598)
8	Leverage ratio exposure measure	7,845,580

The differences between the total balance sheet assets as reported in the financial statements and the on-balance sheet exposures set out in LR2 are being the regulatory deduction and adjustment for OBS items. As at 31 December 2020, increase in total assets were mainly driven by the increase in loans and advances to customers and investment securities. Increase in adjustment for OBS items was mainly due to the commitments granted to customers.

LR2: Leverage ratio

		(HK\$ '000)	
		31-Dec-20	30-Sep-20
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	7,875,427	6,556,581
2	Less: Asset amounts deducted in determining Tier 1 capital	(18,598)	(19,587)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	7,856,829	6,536,994
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)	-	-
5	Add-on amounts for PFE associated with all derivative contracts	-	-
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	-	-
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	30,000	-
18	Less: Adjustments for conversion to credit equivalent amounts	(27,000)	-
19	Off-balance sheet items	3,000	-
Capital and total exposures			
20	Tier 1 capital	1,542,783	1,087,417
20a	Total exposures before adjustments for specific and collective provisions	7,859,829	6,536,994
20b	Adjustments for specific and collective provisions	(14,249)	(10,174)
21	Total exposures after adjustments for specific and collective provisions	7,845,580	6,526,820
Leverage ratio			
22	Leverage ratio	19.7%	16.7%

Increase in LR as at the quarter ended 31 December 2020 was mainly due to the increase in Tier 1 capital after the capital injection, offset by the increase in total on-balance sheet exposures which was driven by the increase in loans and advances to customers and investment securities.

LIQA: Liquidity Risk Management

Liquidity risk is the risk that the Bank cannot meet its financial obligations when they fall due without incurring significant loss. This may be caused by market disruption or liquidity event whereby the Bank is unable to liquidate assets or to obtain funding to meet its liquidity needs. Liquidity risk arises from various areas including deposits withdrawal either on demand or at contractual maturity or repayment to matured borrowings.

The Bank aims to maintain diversified and stable funding sources with an appropriate mix of liabilities including borrowing from the interbank market and customer deposits. Appropriate amount of HQLA is held in order to obtain funding and the sources of liquefiable assets is diversified in accordance with the Debt Investment Securities Policy to avoid concentration on assets with similar natures. The Bank seeks to maintain a diversified and stable source of funding to avoid over-reliance on a funding category or a small group of fund providers through setting up monitoring on funding concentration and setting up appropriate funding strategy and structure in the budgeting process.

The Bank has formulated Liquidity Risk Management policy that outlines the liquidity risk management framework according to the requirements of the HKMA's SPM on "Regulatory Framework for Supervision of Liquidity Risk" ("LM1") and "Sound Systems and Controls for Liquidity Risk Management" ("LM2"). The purpose of the policy is to ensure sufficient cash flows to meet all financial obligation and to comply with regulatory requirement.

The Bank has established a governance framework to oversee the overall liquidity risk. The Board is ultimately responsible for ensuring an effective liquidity risk management framework. The EXCO is delegated by the Board to provide guidance on the Bank's liquidity risk related activities and reviewing the liquidity risk profile and risk appetite of the Bank. A management committee namely ALCO is set up under the EXCO and is responsible for reviewing relevant liquidity reports regularly, reviewing material changes to liquidity risk models and model assumptions, overseeing the development and maintenance of Contingency Funding Plan ("CFP") and reviewing liquidity risk management controls such as limits and indicators in light of liquidity risk appetite of the Bank on a regular basis.

Different functional departments work closely to implement liquidity risk management controls, to monitor the liquidity position of the Bank and to comply with regulatory requirement. Treasury department is responsible for liquidity management but not limited to:

- Manage liquidity risk management including intraday liquidity and implement liquidity risk management strategies;
- Manage and control the funding in different currencies;
- Advise ALCO on latest market movement and expectation related to liquidity;
- Propose funding strategy and structure in the budget process for ALCO endorsement and approval; and
- Defining and implementing funds transfer pricing across all lines of business.

Finance department is responsible for coordinating the liquidity risk disclosure process, measuring and monitoring liquidity risk and advising ALCO in establishing limits and indicator; liquidity risk reporting for senior management review and compiling regulatory reports of liquidity position of the Bank.

The Bank has established a set of liquidity risk management limits and indicators to identify, assess, monitor and control liquidity risk, along with ongoing monitoring processes based on regulatory requirements and risk appetite. The Bank has also set up policies to govern such liquidity risk limits and indicators under regulatory requirements. The liquidity risk limits include statutory limits and internal risk limits, and these limits are reviewed and approved by ALCO.

The Bank applies cash flow analysis to assess the adequacy of the bank's liquidity position under both normal and stress scenarios. The Bank seeks to maintain sufficient liquidity to cover the project cash outflow under various stress scenarios.

In case of any breaches to the statutory limits and internal risk limits, different authorized parties in the governance framework including ALCO, EXCO and the Board if necessary will be informed and remedial action will be executed.

The intraday cash inflows and outflows are continuously being monitored during business day to ensure payment obligation can be met at all time. The Bank holds cash or other eligible securities as intra liquidity reserve.

The Bank has established CFP which details clear strategies to identify the occurrence of a liquidity event and the operational procedures for addressing emergency funding situation so that the impact of such adverse situation to the Bank is minimized. The CFP is reviewed and approved by the ALCO, and revised upon changing business and market conditions.

The details of the implementation of the plan are documented including the procedures, action plans to estimate the potential funding capacity need and responsibilities of relevant parties. The plan sets out the deployable funding sources, funding measures, potential step to meet critical payment, operational procedures and the estimated time to monetize assets.

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LIQA: Liquidity Risk Management (continued)

The plan defines a clear set of EWIs and triggering events for activation. Finance department is responsible for monitoring the EWIs and alert the ALCO if the EWIs are breached. Crisis management team is formed to manage the implementation of the plan. As at 31 December 2020, the Bank maintains the LMR of 90.23%.

In addition, the following tables show the Bank's on and off-balance sheet maturity profile as at 31 December 2020, broken down by maturity buckets and the resultant liquidity gaps. The below information is prepared based on the completion instructions of the Return of Liquidity Monitoring Tools.

(HK\$'000)	Total amount	Contractual maturity of cash flows and securities flows arising from the relevant items										
		Next day	2 to 7 days	8 days to 1 month	> 1 month up to 3 months	> 3 months up to 6 months	> 6 months up to 1 year	> 1 year up to 2 years	> 2 years up to 3 years	> 3 years up to 5 years	Over 5 years	Balancing amount
On-balance sheet liabilities												
Deposits from non-bank customers												
(a) Pledged deposits	-	-	-	-	-	-	-	-	-	-	-	-
(b) Demand, savings and current account deposits	3,911,977	3,911,977										
(c) Term, call and notice deposits	2,130,435	40,915	132,993	299,896	1,522,653	128,743	5,235	-	-	-	-	-
Other Liabilities	271,634	-	-	224,443	26,140	259	604	832	-	148	-	19,208
Capital and reserves	1,561,381	-	-	-	-	-	-	-	-	-	-	1,561,381
Total on-balance sheet liabilities	7,875,427	3,952,892	132,993	524,339	1,548,793	129,002	5,839	832	-	148	-	1,580,589
Total off-balance sheet liabilities	6,000	-	6,000	-	-	-	-	-	-	-	-	-
On-balance sheet assets												
Due from MA for a/c of Exchange Fund	646,128	646,128	-	-	-	-	-	-	-	-	-	-
Due from overseas central banks	-	-	-	-	-	-	-	-	-	-	-	-
Due from banks	1,783,995	117,788	147,291	453,540	827,172	238,204	-	-	-	-	-	-
Debt securities, prescribed instruments and structured financial instruments held (net of short positions)												
Readily monetizable	4,691,007	4,691,007										
Loans and advances to non-bank customers	683,495	1,371	9,935	46,362	80,538	103,609	178,455	220,472	21,388	20,526	-	839
Other assets	70,802	-	-	21,789	-	-	82	-	-	-	-	48,931
Total on-balance sheet assets	7,875,427	5,456,294	157,226	521,691	907,710	341,813	178,537	220,472	21,388	20,526	-	49,770
Contractual maturity mismatch		1,503,402	18,233	(2,648)	(641,083)	212,811	172,698	219,640	21,388	20,378	-	
Cumulative contractual maturity mismatch		1,503,402	1,521,635	1,518,987	877,904	1,090,715	1,263,413	1,483,053	1,504,441	1,524,819	1,524,819	

CRA: General information about credit risk

Credit risk is the potential that a borrower or counterparty will fail to meet its obligations with agreed terms. Credit risk exists throughout the activities of a bank, including in the banking book and both on- and off-balance sheet transaction. The credit risk exposure principally arises from investment in debt securities, lending of personal loan and commercial loan business.

The Bank has formulated a comprehensive set of policies and procedures that outlines the governance framework and appropriate credit limits to manage and monitor the credit risk that may arise from different credit portfolios in both portfolio level and individual level. The policies cover various areas including credit risk governance structure, customer selection criteria, customer acceptance criteria and post-approval monitoring. The principal objectives of such mechanism are:

- To analyze the credit risks of various credit portfolios, geographic locations of borrowers and types of loans, etc.;
- To forecast and monitor any changes in the credit rating and risk return dynamics in each credit portfolio;
- To evaluate the components and allocations of the credit portfolios regularly and make timely adjustments in case of changes in the economic environment/industry situations; and
- To implement effective capital and resources allocation over different types of credit-related activities, mainly through the re-balancing and controlling of the portfolios and the migration of the overall portfolio's credit risk hedging.

The overall credit risk is managed through a hierarchy of approval authorities of the Bank. CC has the highest level of credit approval authority. Credit risk management rests with risk management which in turn reports to RMC.

The Bank established a comprehensive monitoring process and intended to manage the risk level in the credit portfolio that aligns with the Bank's risk appetite and identify any early warning signal of credit deterioration. Various metric is adopted to assess and monitor the quality of credit exposure in both acquisition stage and post-approval stage.

Accounts are classified into different risk levels based on their latest credit status and history. For loan facilities that miss the scheduled payment are managed separately with proper follow-up action.

In addition to the condition of the customers, the quality of credit exposure may deteriorate due to adverse economic environment. The Bank monitors the performance of key macro-economic indicators. The Bank also applies stress testing technique periodically to assess the vulnerability of the credit portfolio under adverse market condition. Ad hoc stress assessment will also be conducted when market seem to deteriorate.

The quality of the overall credit portfolio is assessed and monitored monthly by a few key indicators including 30 days-past-due ratio and gross credit charge-off amount in a calendar year. Senior management of the Bank is alerted if the indicators breach the limit defined in risk appetite. Remedial action may be taken if necessary.

The Bank also aims at holding a credit portfolio that has diversified characteristic to minimize the concentration risk. The Bank identifies credit concentration risk by nature of products, geography, customer, counterparty and industry. The Bank is currently with simple business strategy and operations, the limits are largely with the financial institutions and trading counterparty by following the statutory limitations on large exposures and risk concentrations limits. Concentration risk of retail loan business is inherently diversified and loans to commercial credit are granular in nature also.

The Bank does not hold collateral or other credit enhancement associated with the financial assets as at 31 December 2020.

CR1: Credit quality of exposures

The table below provides an overview of the credit quality of on- and off-balance sheet exposures as at 31 December 2020. Loans includes loans and advances to customers and related accrued interest receivables.

		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Gross carrying amounts of		Allowances / impairments	Of which ECL accounting provisions for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
(HK\$ '000)								
1	Loans	769	682,726	8,619	769	7,850	-	674,876
2	Debt securities	-	4,691,007	5,248	-	5,248	-	4,685,759
3	Off-balance sheet exposures	-	30,000	45	-	45	-	29,955
4	Total	769	5,403,733	13,912	769	13,143	-	5,390,590

CR2: Changes in defaulted loans and debt securities

The table below provides information on the changes in defaulted loans and debt securities, including any changes in the amount of defaulted exposures, movements between non-defaulted and defaulted exposures, and reductions in the defaulted exposures due to write-offs as at 31 December 2020:

(HK\$ '000)		(a)
		Amount
1	Defaulted loans and debt securities at end of the previous reporting period (30 June 2020)	-
2	Loans and debt securities that have defaulted since the last reporting period	870
3	Returned to non-defaulted status	-
4	Amounts written off	(101)
5	Other changes*	-
6	Defaulted loans and debt securities at end of the current reporting period (31 December 2020)	769

* Other changes include loan repayment, disposal of the impaired loans and exchange rate difference

CRB: Additional disclosure related to credit quality of exposures

As at 31 December 2020, the Bank has exposure in retail banking and commercial banking segment.

A financial instrument or loan is defined as credit-impaired when one or more the following events that have a major adverse impact on the estimated future cash flows of the financial instrument or loan have taken place:

- Major financial difficulties of a borrower, guarantor or issuer;
- A breach of contract resulting in default or past due event;
- A Borrower, guarantor or issuer is bankrupted or wound up;
- A financial instrument or loan is reported as sub-standard, doubtful or loss in accordance with the HKMA's requirements; or
- An absence of an active market for a security because of its own financial and non-financial difficulties.

All financial instruments and loans and advances which are past due for more than 90 days are classified as credit-impaired. The approach adopted by the Bank for determining provisions are set out in Note 3 of the Bank's Financial Statements for the year ended 31 December 2020.

Rescheduled loans and advances are those in which concessions on interest or principal have been provided to a borrower in a way these loans are offered on "non-commercial" terms to the Bank.

CRB: Additional disclosure related to credit quality of exposures (continued)

The following tables show the breakdown of the Bank's exposures by geographical areas, industry and residual maturity as at 31 December 2020. Any non-significant segment (i.e. constitutes less than 10% of the Bank's total RWA for credit risk after taking into account any recognized CRM) is disclosed on an aggregated basis under the category "Others".

(i) Breakdown of credit risk exposures as at 31 December 2020 by industry sector, geographical region and residual maturity

HK\$'000	Gross carrying amounts	Of which:		
		Impaired exposures	Amounts written-off	Impairment allowances
<i>Credit risk exposure – by geographical areas</i>				
Hong Kong	3,885,224	872	(101)	771
China	3,196,513	-	-	-
Others	775,090	-	-	-
Total	7,856,827	872	(101)	771
<i>Credit risk exposure – by industry sector</i>				
Banks and financial institutions	4,616,699	-	-	-
Non-bank private sector				
<i>Financial concerns</i>	1,891,216	-	-	-
<i>Individuals</i>	653,414	872	(101)	771
<i>Others</i>	49,370	-	-	-
Others	646,128	-	-	-
Total	7,856,827	872	(101)	771
<i>Credit risk exposure – by remaining maturity</i>				
Up to and including one year	5,477,535			
Over 1 year and up to and including 2 years	472,826			
Over 2 years	1,875,243			
Undated or overdue	31,223			
Total	7,856,827			

(ii) Aging analysis of accounting past due exposures as at 31 December 2020

Past due period	Gross carrying amounts (HK\$'000)
Over 3 months but less than 6 months	771
Total	771

(iii) The Bank has no restructured exposures as at 31 December 2020.

CRC: Qualitative disclosures related to credit risk mitigation

Credit policy is set to mitigate the potential credit risk with the approval process involving identification of borrower, source of repayment and loan purpose, etc. The Bank also takes personal or corporate guarantee as other risk mitigants where necessary.

CR3: Overview of recognized credit risk mitigation

The following table presents the extent of credit risk exposures covered by different types of recognized CRM as at 31 December 2020:

		(a)	(b1)	(b)	(d)	(f)
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
(HK\$ '000)						
1	Loans	674,876	-	-	-	-
2	Debt securities	4,685,759	-	-	-	-
3	Total	5,360,635	-	-	-	-
4	Of which defaulted	-	-	-	-	-

Increase in the unsecured exposures as at 31 December 2020 was mainly due to the increase in loans and advances to customers and marketable debt securities held.

CRD: Qualitative disclosures on use of ECAI ratings under STC approach

The Bank uses the following external credit assessment institutions ("ECAIs") to calculate its capital adequacy requirements under the STC approach prescribed in the BCR:

- Moody's Investors Service
- Standard & Poor's Ratings Services
- Fitch Ratings

As at 31 December 2020, credit risk arises mainly from loans and advances to customers, cash and cash equivalents, placements with banks and investment securities. The counterparties in investment securities are rated at investment grade based on the ratings published by above-mentioned ECAIs.

CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach

The following table illustrates the effect of any recognized CRM (including recognized collateral under both comprehensive and simple approaches) on the calculation of credit risk capital requirements under STC approach as at 31 December 2020:

		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure Classes	On-balance sheet amount (HK\$ '000)	Off-balance sheet amount (HK\$ '000)	On-balance sheet amount (HK\$ '000)	Off-balance sheet amount (HK\$ '000)	RWA (HK\$ '000)	RWA density
1	Sovereign exposures	646,363	-	646,363	-	-	-
2	PSE exposures	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	3,460,350	-	3,460,350	-	1,567,528	45.3%
5	Securities firm exposures	-	-	-	-	-	-
6	Corporate exposures	3,052,238	-	3,052,238	-	2,784,611	91.2%
7	CIS exposures	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-
10	Regulatory retail exposures	682,726	30,000	682,726	30,000	512,045	75.0%
11	Residential mortgage loans	-	-	-	-	-	-
12	Other exposures which are not past due exposures	14,381	-	14,381	-	14,381	100.0%
13	Past due exposures	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	Total	7,856,058	30,000	7,856,058	30,000	4,878,565	62.1%

Increase in credit risk exposures as at 31 December 2020 was mainly due to the increase in bank exposures, regulatory retail exposures and corporate exposures driven from loans and advances to customers and marketable debt securities held.

CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

The following table presents a breakdown of credit risk exposures under STC approach by asset classes and by risk weights as at 31 December 2020:

(HK\$ '000)		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
Risk Weight		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
Exposure Class												
1	Sovereign exposures	646,363	-	-	-	-	-	-	-	-	-	646,363
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	608,903	-	2,811,398	-	40,049	-	-	-	3,460,350
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	535,254	-	2,516,984	-	-	-	3,052,238
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10	Regulatory retail exposures	30,000	-	-	-	-	682,726	-	-	-	-	712,726
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
12	Other exposures which are not past due exposures	-	-	-	-	-	-	14,381	-	-	-	14,381
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	Total	676,363	-	608,903	-	3,346,652	682,726	2,571,414	-	-	-	7,886,058

Increase in credit risk exposures as at 31 December 2020 was mainly due to the increase in bank exposures, regulatory retail exposures and corporate exposures driven from loans and advances to customers and marketable debt securities held.

CCRA: Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)

As at 31 December 2020, the Bank does not have counterparty default risk exposure and credit-related derivative contracts.

Securitization exposures

As at 31 December 2020, the Bank does not have any securitization exposures.

MRA: Qualitative disclosures related to market risk

Market risk is the risk of valuation loss or reduction in expected earnings stemming from adverse fluctuations in exchange rates, interest rates, credit spread, implied volatility and cross-currency basis spreads. The risk can exist in both non-trading and trading activities. Currently, the Bank does not involve in trading book business and market risk predominantly arises from the Bank's treasury activities. The major types of market risk come into three forms, interest rate risk, currency risk and price risk, and the risk mainly comes from the Bank's debt securities portfolio held as investment and/or liquidity management.

The Bank has formulated Market Risk Management Policy and Debt Investment Securities Policy that outlines the governance structure and measurements and controls of market risk in the Bank.

The policy details a clear strategy to manage different types of market risk that the Bank is exposed to. A market risk framework for different types of risk is established to clearly define risk profiles to ensure it is consistent with the overall risk appetite. Risk limits are developed by the Risk Department in conjunction with the treasury department. Price risk in transactions and open positions is monitored by the risk limits established.

The Board is ultimately responsible for ensuring an appropriate organization structure is in place for managing market risk. Market risk oversight rests with the Risk Department which in turn reports to the RMC.

The Bank adopts factor sensitivities analysis to identify, measure, monitor and control the market risk of the Bank. All transactions are captured for market risk measurements. The factor sensitivities are calculated, monitored and in most cases, limited for all relevant risks taken. Reports regarding market risk limits are produced and reviewed regularly.

As at 31 December 2020, the Bank has currency risk exposure. Refer to Section Currency risk for more details in relation to currency risk exposure.

MR1: Market risk under STM approach

The following table discloses the components of the market risk capital requirements calculated using the STM approach as at 31 December 2020:

(HK\$ '000)		(a)
		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	-
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	325
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	Total	325

Increase in foreign exchange exposures as at 31 December 2020 was mainly due to the increase in the net long position in RMB.

IRRBA: Interest Rate Risk in banking book

Interest rate risk in banking book (“IRRBB”) refers to the risk to the Bank resulting from adverse movements in interest rates that affects the banking book positions of the Bank. The Bank currently does not engage in trading book business. Interest rate risk arises from banking activities including lending and taking deposit with differing repricing maturities and interest rates; also, the impact from the treasury investment securities portfolio and other treasury related activities. Excessive interest rate risk can pose significant adverse impact to both bank’s capital adequacy and earning.

The Bank has formulated the IRRBB Management Policy to govern the management framework which details the governance structure, the key measurement metrics and the reporting and monitoring responsibility.

The Board is ultimately responsible for ensuring appropriate organizational structure for IRRBB management. The EXCO is delegated by the Board and is responsible for providing governance on Bank’s IRRBB related exposure. A management committee namely ALCO is set up under EXCO for overseeing IRRBB of the Bank, this includes providing advice to EXCO on IRRBB related issue, reviewing material changes to IRRBB model and model assumptions, reviewing the IRRBB profile of the Bank and discussing remedial actions in case of any breaches of the EWIs or risk limits and reviewing and approval of the IRRBB Management Policy.

The Bank measures and monitors IRRBB with two key metrics, Economic Value Sensitivity (“EVS”) and Earning at Risk (“EaR”). The two metrics, EVS and EaR, measures the IRR exposures on economic value of equity (“EVE”) perspective and on earning perspective (“NII”) which aims to provide a more comprehensive view on the IRRBB profile of the Bank. The risk limits and EWIs are set up based on the two metrics. Finance department is responsible for monitoring these limits at least on a quarterly basis.

The potential mitigation actions mainly relate to market operations and balance sheet restructuring, these include rebalancing of repricing gap through management strategy on time deposits and other liabilities and disposal of marketable securities.

The Bank adopts stress testing techniques to assess the vulnerability to losses regularly due to interest rate change in the six stress scenarios specified in the HKMA’s SPM “Interest Rate Risk in the Banking Book” (“IR-1”).

The Bank has conducted behavioral assumption analyses for non-maturity deposit and retail unsecured installment loan, the analysis is used in calculation of IRRBB metrics where applicable. The Bank conducts independent periodic review of the IRRBB assessment process to ensure its integrity and accuracy.

Non-maturity deposits (“NMDs”)

1. Proxy deposits balance by using data from external sources
2. Adopt behavioral maturity analysis to estimate core ratio and average maturity
3. Consider estimation from businesses, any variation is explained

The average and longest maturity assigned to NMD are both “the earliest repricing date”.

Retail unsecured installment loan

1. Proxy loan balance by using data from external source (e.g., HKMA monthly statistical bulletin)
2. Estimate the prepayment rate as the percentage loan amount change due to the refinancing incentive, i.e., drop in loan amount when market interest rate decreases
3. Shock the market interest rate (i.e., interest rate decreases) to project the percentage drop in loan amount due to prepayment
4. Consider estimation from businesses, any variation is explained

IRRBB1: Quantitative information on interest rate risk in banking book

(HK\$'millions)		(a)	(b)	(c)	(d)
		ΔEVE		ΔNII	
	Period	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
1	Parallel up	161	3	36	(25)
2	Parallel down	-	-	(36)	25
3	Steeper	-	-		
4	Flattener	56	3		
5	Short rate up	113	3		
6	Short rate down	-	-		
7	Maximum	161	3	36	25
	Period	31-Dec-20		31-Dec-19	
8	Tier 1 capital	1,542		1,299	

ΔEVE remained at healthy level as at 31 December 2020. Compare to the previous year, the ΔEVE and ΔNII increased mainly due to increase in investment activities and loans and advances to customers.

Segmental information

(a) Segmental information by class of business

During the year of 2020, the principal activities of the Bank are to provide banking services to its retail customers. Please refer to the Statement of Comprehensive Income and Statement of Financial Position in the Financial Statements of the Bank for the details of operating assets and profit or loss information of this major business activity.

(b) Segmental information by booking location

The business operations of the Bank are in Hong Kong during the year of 2020.

Loans and advances to customers**a) Sector information**

The analysis of gross loans and advances to customers by industry sectors are based on the categories and definitions stated in the MA(BS)2A “Quarterly Analysis of Loans and Advances and Provisions”.

(HK\$000)	As at 31 December 2020	
	Gross loans and advances to customers	% of gross loans and advances covered by collateral or other security
<i>Loans for use in Hong Kong</i>		
Industrial, commercial and financial:		
Wholesale and retail trade	15,500	-
Transport and transport equipment	1,000	-
Information technology	1,000	-
Others	12,500	-
Individuals		
Others	652,754	-
Total	682,754	-

b) Impaired and overdue information

The analysis of impaired and overdue loans and advances, impairment allowances for industry sector which constitutes not less than 10% of the Bank’s total amount of loans and advances.

(HK\$000)	As at 31 December 2020				2020		
	Impaired loans and advances	Overdue loans and advances		Collective provision	Specific provision	New provisions charged to profit and loss	Amounts written off
		more than 3 months but not more than 6 months	% to total loans and advances				
<i>Loans for use in Hong Kong</i>							
Individuals							
Others	754	754	0.1%	-	754	855	(101)

The impaired and overdue loans and advances reported above represents the gross amount of impaired and overdue loans and advances to customers as at 31 December 2020. The overdue loans and advances were not covered by any collateral nor other forms of credit risk mitigation. No rescheduled loans and advances to customers as at 31 December 2020.

Loans and advances to customers (continued)**c) Geographical areas**

The following table shows the gross loans and advances to customers by country or geographical area in accordance with the location of counterparties after taking into account any risk transfers. Risk transfers in relation to loans and advances to customers means that the loans and advances are guaranteed by a person different from that of the customer. Major geographical segment constitutes not less than 10% of the Bank's total amount of loans and advances to customers after taking into account any recognized risk transfer.

	Gross loans and advances to customers HK\$'000	Impaired loans and advances to customers HK\$'000	Overdue loans and advances to customers HK\$'000	Specific provisions HK\$'000	Collective provisions HK\$'000
31 December 2020					
Hong Kong	682,754	754	754	(754)	(7,850)
	<u>682,754</u>	<u>754</u>	<u>754</u>	<u>(754)</u>	<u>(7,850)</u>
	<u><u>682,754</u></u>	<u><u>754</u></u>	<u><u>754</u></u>	<u><u>(754)</u></u>	<u><u>(7,850)</u></u>

Loans and advances to banks

No loans and advances to banks has been overdue as at 31 December 2020. No rescheduled loans and advances to banks as at 31 December 2020.

Other assets

Other than the penalty charged to the customers on overdue loans amounted to HK\$2,400 which have been overdue for more than 3 months but not more than 6 months, no other assets has been overdue as at 31 December 2020.

Rescheduled and repossessed assets

The Bank does not hold any rescheduled and repossessed assets as at 31 December 2020.

Off-balance sheet exposures (other than derivative transactions)

The following table shows the nominal contract amounts and RWA of off-balance sheet exposures other than derivative transactions. The information is consistent with that in the Return of Capital Adequacy Ratio submitted to the HKMA.

HK\$'000	31 December 2020
Commitments that are unconditionally cancellable without prior notice	30,000
Total	30,000
RWA	-

ZA Bank Limited

Regulatory Disclosure Statement

International claims

The following illustrates the major country or geographical segment breakdown of international claims by types of counterparties which the Bank is required to disclose, of which constitute not less than 10% of the Bank's total international claims after taking into account any recognized risk transfer. International claim refers to the sum of the cross-border claims in all currencies and local claims in foreign currencies determined in accordance with the calculation methodology specified in completion instructions for the Return of International Banking Statistics (MA(BS)21A and MA(BS)21B).

(HK\$'millions) As at 31 December 2020	Banks	Official Sector	Non-bank private sector		Others	Total
			Non-bank financial institutions	Non- financial private sector		
Developed countries	328	-	-	-	-	328
Offshore centres	314	-	413	422	-	1,149
- of which: Hong Kong	83	-	397	422	-	902
Developing Asia-Pacific	1,692	-	564	1,142	-	3,398
- of which: China	1,490	-	564	1,142	-	3,196

Currency risk

The Bank is exposed to foreign exchange risk, primarily United States dollar ("USD") and Renminbi ("RMB").

The Bank's exposure to foreign currency risk at the end of the reporting period, expressed in Hong Kong dollar, was as follows:

(HK\$ millions)	31 December 2020		
	RMB	USD	Total
a. Spot assets	77	2,630	2,707
b. Spot liabilities	(77)	(21)	(98)
c. Forward purchases	-	-	-
d. Forward sales	-	-	-
e. Net options position	-	-	-
f. Net long position (i.e. sum of (a) to (e))	-	2,609	2,609
	RMB	USD	Total
Net structural position	-	-	-

ZA Bank Limited

Regulatory Disclosure Statement

Mainland activities

The following illustrates the disclosure the Bank is required to make under the prevailing Return of Mainland Activities (MA(BS)20) in respect of its Non-bank Mainland China exposures.

(HK\$ '000)	As at 31 December 2020		Total
	On-balance sheet exposure	Off-balance sheet exposure	
Type of counterparties			
Central government, central government-owned entities and their subsidiaries and joint ventures	229,195	-	229,195
Local governments, local government-owned entities and their subsidiaries and joint ventures	1,296,350	-	1,296,350
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	628,868	-	628,868
Other entities of central government not reported in item 1 above	224,980	-	224,980
Other entities of local governments not reported in item 2 above	40,957	-	40,957
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
Total	2,420,350	-	2,420,350
Total assets after provision	7,861,178		
On-balance sheet exposures as percentage of total assets	30.8%		

Asset under security

The Bank does not have any secured liabilities and assets used as security as at 31 December 2020.

REMA: Remuneration policy

Disclosure of Remuneration Policy

The Board has delegated responsibility to the REMC to oversee the design and operation of the Bank's remuneration system. The REMC shall comprise of no fewer than three members, including at least two Independent Non-executive Directors ("INED"). In 2020, the bank held once REMC meeting in August 2020 for overseeing the remuneration related matters for the Bank.

The REMC is independent of management and the main responsibilities of the Committee include but not limited to:

- Provide recommendation to the Board the remuneration packages, including fixed pay, variable pay and sign-on bonus (if any) for senior management and key personnel and the variable remuneration of the Bank as specified;
- Review and approve for the annual salary review increment percentage and/or discretionary bonus pool proposals; and
- Conduct review on the Remuneration Policy and its implementation annually or when necessary.

The human resources department develops the Remuneration Policy and related practices based on pay trends and pay levels in the comparable market, and the REMC reviews and makes recommendation in respect of the policy to the Board for approval. The policy applied to all employees who are employed under the contract of service of the Bank.

The Bank defines senior management as those persons responsible for oversight of the Bank's firm-wide strategy or activities or those of the Bank's material business lines (e.g. Chief Executive ("CE") and Alternative Chief Executive). Key personnel are defined as the individual employees whose duties or activities in the course of their employment involve the assumption of material risk or the taking on of material exposure on behalf of the Bank.

General Principles

The Remuneration Policy is designed to reward employees competitively in a manner that supports the achievement of the Bank's long-term strategic objectives whilst attracting and retaining the best people by rewarding high levels of performance. The Bank has set out several guiding principles of the policy as follows:

- Remuneration and reward frameworks are developed in a manner to encourage employee behavior while supporting the Bank's risk tolerance, risk management framework, long-term financial soundness, corporate culture and values, as well as to support and reinforce the achievement of the Bank's vision and strategy.
- The process of remuneration management shall be transparent, conducted in good faith and in accordance with appropriate levels of confidentiality.
- The Bank shall remunerate all employees fairly and reasonably in return for the requisite levels of competence and performance.
- The Bank shall measure its remuneration practices against local market through the use of remuneration surveys and through benchmarking with other similar institutions.
- Remuneration and reward offerings should demonstrate sufficient flexibility to meet both the need of individual and those of the Bank whilst complying with relevant legal and regulatory requirements.
- The Bank shall entrench a culture of performance-driven remuneration for the purpose of encouraging achievement of performance targets aligned with the interest of the Bank's stakeholders. The Bank also adopt a culture of risk-adjusted remuneration. Deterioration on risk factors, breaches of risk limits and/or compliance events will have an effect on the remuneration to ensure business units and individuals are not rewarded for taking on excessive risks.
- The Board may exercise discretion to adjust the amount of variable remuneration (where applicable) to protect financial soundness of the Bank.

The Remuneration Policy was reviewed and endorsed by REMC in August 2020. The major changes were to include updated the deferral payment schedule to 3 years and document the roles and responsibilities of the risk control personnel.

The Bank also engaged an external consultant, KPMG, to review the bank's remuneration system of governance, remuneration structure, performance measurement and remuneration payouts in 2020.

REMA: Remuneration policy (continued)

Remuneration Structure

The Bank's remuneration package comprises fixed remuneration and variable remuneration to motivate, reward and retain both high individual contribution and sound team performance. The proportion and amount of fixed and variable remuneration shall vary according to employees' seniority, roles and responsibilities within the Bank as well as the Bank's past year's performance, coming year's prospect and the risks associated.

Fixed remuneration refers to base salary and directors' fee. Variable remuneration comprise discretionary bonus, incentive and equity-related instruments. Discretionary bonus refers to the remuneration distributed when the Bank's achievement meets or exceeds the pre-determined yearly target, in order to motivate eligible employees meeting performance targets set by relevant business units as well as demonstrated ethical behaviours and adherence to corporate values. Incentive refers to a risk-based and performance-driven reward to employee's achievements, which is usually paid monthly, quarterly or half-yearly towards their pre-set shorter-term qualitative and quantitative goals. Equity-related instruments refers to the shares or share options for designated senior management, directors, key personnel and staff members with significant performance to the Bank.

Employees' performance measurements and the award of variable remuneration

The Bank adopts a culture of performance-driven remuneration and would reward employees by directly linking pay to performance outcomes. The fulfilment of performance criteria include both financial and non-financial factors including the overall short-term and long-term performance of the Bank, performance of the relevant business units or strategic projects, contribution of individual employees, core competencies of individual employees, behavior principles adherence of the individual employees and management discretion.

On top of the financial and non-financial performance factors, the Bank has put in place a risk modifier and incorporated into the performance management system to take into account any risk factors such as its asset quality, liquidity position, business environments and compliance event and its impact as a final adjustment over and above the performance with regards to the risk tolerance level of the Bank's risk appetite and risk management framework.

The award of remuneration to senior management or key personnel should be subject to the recommendation by REMC for the Board's approval. Remuneration of risk control personnel shall be in accordance with their performance objectives and commensurate with their key role in the Bank, and should be remunerated independent of the performance of the business areas which they oversee.

Deferral arrangements

The deferral period and vesting conditions will apply for discretionary bonus exceeding a certain multiple of monthly base salary or a certain amount with deferral arrangement as set out in the Remuneration Policy. The deferral of the payment of a portion of variable remuneration will allow employees' performance (including the associated risks) to be observed and validated over a period before the payment is actually made.

The deferral remuneration should generally be subject to fulfilment and validation of the pre-defined performance conditions. The vesting period and vesting conditions should be determined by the Board (or as delegated to the REMC) and reviewed as appropriate. If the vesting conditions are not fulfilled in any year during the vesting period, all or part of the unvested portion of the deferred remuneration should be foregone ("clawed-back"). Claw-back would also apply to circumstances where any performance measurement was based on data which is later proven to have been manifestly misstated, or later established that there has been fraud or other malfeasance on the part of the relevant employee, or violations by the employee of internal control policies.

On-going monitoring of the remuneration system

The Board holds the ultimate responsibility for overseeing the formulation and implementation of the Remuneration Policy, systems and related control processes. The REMC conducts review on the policy and its implementation on an annual basis or when necessary to ensure that the policy remains adequate and effective and that the operation of the remuneration system is consistent with the intended purpose and long-term interest of the Bank, while in consistent with the principles set out under the HKMA' SPM on "Corporate Governance of Locally Incorporated Authorized Institutions" ("CG-1") and "Guideline on a Sound Remuneration System" ("CG-5") and other legal or regulatory requirements. Internal audit would provide support in such review process, and the REMC could also engage independent consultants to assist in the review if deemed necessary. Remuneration outcomes, risk measurements, and risk outcomes should be reviewed for consistency with intentions, and any material weaknesses which are identified, shall be reported to the REMC and the Board, with the support of internal audit as appropriate.

REM1: Remuneration awarded during financial year

Total value of remuneration in 2020 is set out in the table below:

Remuneration amount and quantitative information (HK\$ '000)			Senior management & Key personnel
1	Number of employees	Senior management	2
		Key personnel	15 ⁵
2	Fixed remuneration	Total fixed remuneration	22,522 ⁶
3		Of which: cash-based	22,522
4		Of which: deferred	-
5		Of which: shares or other share-linked instruments	-
6		Of which: deferred	-
7		Of which: other forms	-
8		Of which: deferred	-
9	Variable remuneration	Total variable remuneration	5,603 ⁷
10		Of which: cash-based	5,466
11		Of which: deferred	1,721
12		Of which: shares or other share-linked instruments	137
13		Of which: deferred	137 ⁸
14		Of which: other forms	-
15		Of which: deferred	-
16	Total remuneration		28,125

Compared with 2019 total remuneration, the major reasons for the changes are due to the increasing number of staff appointed as key personnel during the year and also the newly introduced shares granted in 2020 for senior management and key personnel.

REM2: Special payments

Total value of special payments paid to senior management and key personnel is set out in the table below:

(HK\$'000)		(a)	(b)	(c)	(d)	(e)	(f)
Special payments		Guaranteed bonuses		Sign-on awards		Severance payments	
		Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
1	Senior management	-	-	-	-	-	-
2	Key personnel	-	-	2	542	-	-

REM3: Deferred remuneration

There is deferred remuneration of HK\$ 538,700 cumulated over the previous years as at 31 December 2020.

⁵ Number of employees disclosed above includes 6 leavers who may have zero variable pay.

⁶ Fixed remuneration includes base salary, cash allowance and pension contribution where applicable.

⁷ The forms of variable remuneration and the proportion deferred are based on the seniority, role and responsibilities of employees and their level of total variable compensation.

⁸ The values of share options for 2020 are calculated based on the fair value of the shares of a subsidiary of ZhongAn Online P&C Insurance Co., Ltd on 31 December 2020. The values are for indicative purpose only.

Corporate governance

According to the HKMA's SPM on CG-1, the Board should review the structure, size and composition (including the skills, knowledge and experience) of the Board and its specialized committees at least annually and make recommendations on any proposed changes to the Board to complement the Bank's corporate strategy. The Bank has been in material compliance with the HKMA's SPM on CG-1.

Board of Directors

The Board is accountable for the Bank's governance and overall performance. Among other all responsibilities, the Board is ultimately responsible for the following key responsibilities, among others:

- To set and oversee the objectives of the Bank and the strategies for achieving those objectives within the applicable legal and regulatory framework;
- To oversee capital adequacy assessment process, capital and liquidity planning, including the relevant compliance policies and internal control systems;
- To establish and oversee risk governance, including approval of risk appetite statement;
- To appoint and oversight of senior management;
- To set corporate values and standards;
- To establish appropriate staffing and remuneration policies for all employees as required;
- To establish and oversee the implementation and operation of effective policies to identify actual and potential conflicts of interest;
- To ensure effective audit functions; and
- To ensure an appropriate degree of transparency in respect of the structure, operation and risk management of the Bank.

The Board shall at least comprise of one Non-executive Director ("NED"), three INEDs and one Executive Director ("ED").

The Board currently comprises of seven members: one ED, three NEDs and three INEDs.

Below lists out the roles, functions and composition of the committees established by the Board.

Executive Committee

EXCO is authorized by the Board to act on its behalf in day-to-day operations of the Bank in accordance with its terms of reference and such other policies and directives as the Board may determine from time to time, including but not limited to sub-delegate its powers, authorities and discretions conferred on it to any management-level committee(s) or individual(s) as it thinks fit from time to time. EXCO shall have the following key responsibilities, powers, authorities and discretion:

- To monitor and implement business and capital plans (including but not limited to the recovery plan and exit plan), budgets and other strategic initiatives of the Bank as approved by the Board, and to review annually these plans, budgets and strategies and make recommendations to the Board;
- To apprise the members of the Board of the latest development of the Bank so as to enable them to discharge their duties;
- To manage the day-to-day capital management activities and operations of the Bank in conformity with its policies and procedures adopted by the Bank from time to time;
- To review and maintain effective systems of financial and capital control, risk management, operational and management control of the Bank to ensure conformity with all regulatory requirements and relevant internal policies of the Bank; and
- To review and approve the Bank's policies and make recommendations to the Board when necessary.

The management-level committees established by EXCO include New Product Committee, Disciplinary Committee, Technology and Cyber Resilience Committee, ALCO, Anti-Money Laundering Committee, CC, RMC and Wealth Management Committee.

The members of EXCO currently comprises of ED (CE), Chief Technical Officer, Chief Risk Officer, Head of Human Resources, Head of Treasury, Head of Finance, Heads of Retail Banking and Head of Wholesale Banking. During 2020, nine meetings were held.

Nomination Committee ("NC")

NC shall have the following key responsibilities, powers, authorities and discretions:

- To review the structure, size and composition of the Board;
- To approve appointments to the position of manager and senior management; and
- To appoint, employ or retain professional advisers.

The members of NC shall comprise of no fewer than three directors of the Bank, and the majority of the members should be INED. The chairperson of the NC should be an INED. NC currently comprises of two INEDs and 1 NED. During 2020, one meeting was held.

Corporate governance (continued)

Audit Committee

AC shall have the following key non-executive responsibilities, powers, authorities and discretions:

- To monitor the integrity of the financial statements of the Bank;
- To review the financial and accounting policies and practices of the Bank;
- To appoint a suitably qualified Head of Internal Audit, to review the performance of the Head of Internal Audit, to review and approve the annual remuneration of the internal audit function;
- To monitor the effectiveness of the internal audit function, and to ensure the internal audit function has appropriate standing within the Bank;
- To make recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process;
- To consider any findings of major investigations of internal control as delegated by the Board or on the committee's initiative and assess management's response; and
- To review annually the audit charter, audit plan, committee's terms of reference and its own effectiveness and recommend to the Board any necessary changes.

The members of AC shall comprise of no less than three members from the Board appointed by the Board and the majority of the AC members should be INED. The chairperson should be an INED with a background in accounting, banking or other relevant financial industry. To ensure independence, the chairperson of the AC should not also be the chair of the Board or of any other committee. AC currently comprises of three INEDs. During 2020, four meetings were held.

Remuneration Committee

REMC is authorized by the Board to obtain legal, remuneration or other professional advice as it shall deem appropriate and shall be responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference of remuneration consultants to advise it on all aspects of remuneration. Please refer to section REMA for the roles and responsibilities and composition of REMC.

Risk Committee

RC is delegated by the Board to oversee the Bank's risk management strategies over all risks. Types of risks covered by RC include but not limited to the following: credit risk, interest rate risk, legal and compliance risk, liquidity risk, market risk, operational risk (including protection of customer data), reputation risk, strategic risk, business continuity risk and technology risk (including cyber security risks).

RC shall have the following key non-executive responsibilities, powers, authorities and discretions:

- To review and recommend for the Board's approval the Bank's risk appetite;
- To review and recommend for the Board's approval the Bank's risk management strategies taking into consideration the risk appetite and other risk related matters;
- To review and recommend for the Board's approval the Bank's risk management framework and risk governance framework including their appropriateness, effectiveness and independence of risk management functions;
- To review and recommend for the Board's approval the Bank's Risk Management Policy;
- To review and monitor the Bank's risk profiles taking into consideration the Bank's risk appetite and the prevailing and forward-looking aspects of risk exposures;
- To review the robustness of the Bank's Internal Capital Adequacy Assessment Process ("ICAAP") and recommend for the Board's approval the capital buffer derived from the ICAAP;
- To review the regulatory updates on risk management related issues and consider their material implications to the Bank's risk appetite and risk profiles;
- To oversee the implementation of risk management policies and the compliance with the respective statutory rules and regulations; and
- To report any significant risk management issues to the Board.

The members of RC shall comprise of no less than three members from the Board appointed by the Board and the majority of the RC members should be INED of the Bank. RC currently comprises of two INEDs and 1 NED. During 2020, three meetings were held.

Glossary

<u>Abbreviations</u>	<u>Descriptions</u>
AI	Authorized Institution
ALCO	Asset and Liability Management
ALM	Asset and Liability Committee
AT 1	Additional Tier 1
BCR	Banking (Capital) Rules
BDR	Banking (Disclosure) Rules
BSC	Basic Approach
CAR	Capital Adequacy Ratio
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical capital buffer
CE	Chief Executive
CEM	Current Exposure Method
CET1	Common Equity Tier 1
CFP	Contingency Funding Plan
CFR	Core Funding Ratio
CIS	Collective Investment Scheme
CRM	Credit Risk Mitigation
CVA	Credit Valuation Adjustment
D-SIB	Domestic Systemically Important Banks
DTA	Deferred Tax Asset
EaR	Earning at Risk
ECAI	External Credit Assessment Institution
ECL	Expected Credit Loss
EL	Expected Loss
EXCO	Executive Committee
EVE	Economic Value of Equity
EVS	Economic Value Sensitivity
EWI	Early warning indicators
FBA	Fall-back Approach
FX	Foreign Exchange
G-SIB	Global Systemically Important Banks
HKMA	Hong Kong Monetary Authority
HQLA	High Quality Liquid Assets
IMM	Internal Models Method
INED	Independent Non-executive Directors
IRB	Internal Ratings-Based
IR-1	Interest Rate Risk in the Banking Book

Regulatory Disclosure Statement

<u>Abbreviations</u>	<u>Descriptions</u>
ISIN	International Securities Identification Number
JCCyB	Jurisdictional Countercyclical capital buffer
LAC	Loss-absorbing Capability
LCR	Liquidity Coverage Ratio
LMR	Liquidity Maintenance Ratio
LR	Leverage Ratio
LTA	Look-through Approach
MA	Monetary Authority
MBA	Mandate-based Approach
MSRs	Mortgage servicing rights
NII	Net Interest Income
NMDs	Non-maturity deposits
NSFR	Net Stable Funding Ratio
OBS	Off-balance sheet
ORM	Operational Risk Management
PFE	Potential Future Exposure
PSE	Public Sector Entity
RAS	Risk Appetite Statement
RMC	Risk Management Committee
RC	Risk Committee
RW	Risk Weight
RWA	Risk Weighted Amount
SA-CCR	Standardised Approach (Counterparty Credit Risk)
SEC-ERBA	Securitization External Ratings-Based Approach
SEC-FBA	Securitization Fall-back Approach
SEC-IRBA	Securitization Internal Ratings-Based Approach
SEC-SA	Securitization Standardized Approach
SFT	Securities Financing Transaction
SPM	Supervisory Policy Manual
STC	Standardized (Credit Risk)
STM	Standardized (Market Risk)
T1	Tier 1 Capital
T2	Tier 2 Capital
TC	Total regulatory capital