



**WELAB BANK LIMITED**  
(Incorporated in Hong Kong with limited liability)

**REGULATORY DISCLOSURE STATEMENT**  
**For the period ended 31 December 2020**

**(Unaudited)**

# WELAB BANK LIMITED

## REGULATORY DISCLOSURE STATEMENT

### TABLE OF CONTENTS

	Pages
<b>1 Introduction</b> .....	<b>1</b>
1.1 Purpose .....	1
1.2 Basis of preparation.....	1
1.3 Basis of consolidation .....	1
<b>2 Key prudential ratios</b> .....	<b>2</b>
2.1 KM1: Key prudential ratios .....	2
<b>3 Overview of risk management and RWA</b> .....	<b>3</b>
3.1 OVA: Overview of risk management.....	3
3.2 OV1: Overview of RWA.....	5
<b>4 Linkages between financial statements and regulatory exposures</b> .....	<b>7</b>
4.1 LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories.....	7
4.2 LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements .....	8
4.3 LIA: Explanations of differences between accounting and regulatory exposure amounts.....	8
4.4 PV1: Prudential valuation adjustments.....	9
<b>5 Composition of regulatory capital</b> .....	<b>10</b>
5.1 CC1: Composition of regulatory capital .....	10
5.2 CC2: Reconciliation of regulatory capital to balance sheet .....	19
5.3 CCA: Main features of regulatory capital instruments .....	20
<b>6 Macroprudential supervisory measures</b> .....	<b>21</b>
6.1 CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer ("CCyB").....	21
<b>7 Leverage Ratio</b> .....	<b>22</b>
7.1 LR1: Summary comparison of accounting assets against leverage ratio exposure measure .....	22
7.2 LR2: Leverage ratio.....	23
<b>8 Liquidity</b> .....	<b>24</b>
8.1 LIQA: Liquidity Risk Management .....	24
<b>9 Credit Risk for non-securitization exposures</b> .....	<b>27</b>
9.1 CRA: General information about credit risk .....	27
9.2 CR1: Credit quality of exposures .....	28
9.3 CR2: Changes in defaulted loans and debt securities .....	28
9.4 CRB: Additional disclosure related to credit quality of exposures.....	29
9.5 CRC: Qualitative disclosures related to credit risk mitigation.....	29
9.6 CR3: Overview of recognized credit risk mitigation .....	29
9.7 CRD: Qualitative disclosures on use of ECAI ratings under STC approach .....	30
9.8 CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach .....	31
9.9 CR5: Credit risk exposures by asset classes and by risk weights – for STC approach.....	32

# WELAB BANK LIMITED

## REGULATORY DISCLOSURE STATEMENT

	Pages
10	<b>Counterparty Credit Risk</b> ..... 33
10.1	CCRA: Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs) ..... 33
10.2	CCR1: Analysis of counterparty default risk exposures (other than those to CCPs) by approaches ..... 33
10.3	CCR2: CVA capital charge ..... 34
10.4	CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach ..... 35
11	<b>Market Risk</b> ..... 36
11.1	MRA: Qualitative disclosures related to market risk ..... 36
11.2	MR1: Market risk under STM approach..... 36
12	<b>Interest rate risk in banking book</b> ..... 37
12.1	IRRBB: Interest rate exposures in banking book ..... 37
13	<b>International claims</b> ..... 38
14	<b>Loans and advances to customers</b> ..... 38
15	<b>Overdue and rescheduled assets</b> ..... 38
16	<b>Repossessed assets</b> ..... 38
17	<b>Off-balance sheet exposures</b> ..... 38
18	<b>Mainland activities</b> ..... 39
19	<b>Currency risk</b> ..... 40
20	<b>Remuneration</b> ..... 40
20.1	REMA: Remuneration Policy ..... 40
20.2	REM1: Remuneration awarded during financial year ..... 42
20.3	REM2: Special payments ..... 42
20.4	REM3: Deferred remuneration ..... 43
21	<b>Abbreviations</b> ..... 44

# **WELAB BANK LIMITED**

## **REGULATORY DISCLOSURE STATEMENT**

### **1 Introduction**

#### **1.1 Purpose**

The information contained in this document is for Welab Bank Limited (“the Bank”) to comply with the Banking (Disclosure) Rules (“BDR”) made under section 60A of the Banking Ordinance. The statement is prepared in accordance with the BDR and disclosure templates issued by the Hong Kong Monetary Authority (“HKMA”).

These banking disclosures are governed by the Bank’s disclosure policy, which has been approved by the Board of Directors. The disclosure policy sets out the approach to determine the content, appropriateness and frequency of the disclosures, the approach to ensure the relevance and adequacy of the disclosures, and the internal control over the process for making the disclosures. While the statement is not required to be externally audited, it has been subject to independent review in accordance with the Bank’s disclosure policy.

#### **1.2 Basis of preparation**

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

According to the BDR, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates.

Relevant information can be found in the Regulatory Disclosures section of our website, [www.welab.bank](http://www.welab.bank).

#### **1.3 Basis of consolidation**

As of 31 December 2020, the Bank does not have any subsidiaries for consolidation purpose.

# WELAB BANK LIMITED

## REGULATORY DISCLOSURE STATEMENT

### 2 Key prudential ratios

#### 2.1 KM1: Key prudential ratios

The following table provides an overview of the Bank's key prudential ratios.

		At 31 December 2020	At 30 September 2020	At 30 June 2020	At 31 March 2020*	At 31 December 2019*
In HK\$'000		(a)	(b)	(c)	(d)	(e)
	<b>Regulatory capital (amount)</b>					
1	Common Equity Tier 1 (CET1)	425,315	454,056	470,687	–	–
2	Tier 1	425,315	454,056	470,687	–	–
3	Total capital	425,315	454,056	470,687	–	–
	<b>RWA (amount)</b>					
4	Total RWA	326,663	258,577	239,104	–	–
	<b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>					
5	CET1 ratio (%)	130.20%	175.60%	196.85%	–	–
6	Tier 1 ratio (%)	130.20%	175.60%	196.85%	–	–
7	Total capital ratio (%)	130.20%	175.60%	196.85%	–	–
	<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>					
8	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	–	–
9	Countercyclical capital buffer requirement (%)	0.87%	0.88%	0.88%	–	–
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	0%	0%	0%	–	–
11	Total AI-specific CET1 buffer requirements (%)	3.37%	3.38%	3.38%	–	–
12	CET1 available after meeting the AI's minimum capital requirements (%)	115.20%	160.60%	181.85%	–	–
	<b>Basel III leverage ratio</b>					
13	Total leverage ratio (LR) exposure measure	1,651,156	1,165,099	729,879	–	–
14	LR (%)	25.76%	38.97%	64.49%	–	–
	<b>Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)</b>					
	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 (%)**	853.86%	3,268.70%	4,441.74%	–	–
	<b>Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)</b>					
	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 increase in RWAs from bank exposures was the major driver leading to the decrease in CET1 ratio, Tier 1 ratio, total capital ratio, and leverage ratio as of 31 December 2020. Combined with the increase in qualifying liabilities, as driven by deposits from customers, the average LMR decreased during Q4 2020.

\* There is no comparative information available prior to 30 June 2020.

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

## **WELAB BANK LIMITED**

### **REGULATORY DISCLOSURE STATEMENT**

#### **3 Overview of risk management and RWA**

##### **3.1 OVA: Overview of risk management**

###### **Overview of risk management**

The Bank's risk management framework is designed to cover all business processes and ensure various risks are properly managed and controlled in the course of conducting business. The key financial risks related to the Bank's business include credit risk, counterparty credit risk, market risk, liquidity risk, interest rate risk, technology risk and operational risk. Further information on the management of these risks is set out below.

###### **Risk culture**

The Bank has implemented strong risk culture and considered it as one of the core values of the Bank and is endorsed by the Board of Directors ("the Board") and being followed by the senior management. The risk culture of the Bank is created through setting and complying with the risk management strategies and core risk management principles as well as establishing a sound risk management systems and effective risk management process to address material risks under normal and stressed conditions in a forward-looking approach. Risk awareness is promoted not only to business lines but also applied to all staff to enhance the Bank's overall risk management through appropriate training.

###### **Risk governance**

The Board has the ultimate responsibility for the effective management of risk and approves and oversees the Bank's overall risk management framework. The Board delegates its power to supervise the Bank's major functional areas, including products risk management, compliance, treasury and financial control, and the risks associated with them to the Risk Committee, the Audit Committee, and the Executive Committee. The Risk Committee in particular has the authority and responsibility to oversee and guide the overall management of the collective set of different risks undertaken by the Bank. The Chief Executive, Chief Risk Officer and the senior management have the responsibility to ensure various risk limits are appropriately established according to the risk management strategies set by the Board, and to oversee the effectiveness of managing and controlling risk in the day-to-day management of the Bank. At management level, Risk Management Committee ("RMC") and Asset and Liability Committee ("ALCO") oversee the risk management of the various risk types. Business units act as the first line of defence in risk management while other functional units, in particular, Risk, Compliance & Finance departments, which are independent from the business units, acts as the second line of defence, assist in managing different kinds of risks. Internal Audit Department, acts as the third line of defence, is responsible for providing independent assurance through conducting internal audits, and reporting to the Audit Committee on the quality of risk controls and management, the adequacy and the compliance of internal policies and procedures.

###### **Risk appetite**

The Bank's Risk Appetite Statement is reviewed and approved by the Board from time to time and at least annually with reference to evolving industry and market development, which describes the level of risk that the Bank is prepared to accept in pursuit of the Bank's strategic objectives. The Bank adopts a low risk appetite in managing and controlling risks in a prudent manner with a view to achieving steady growth and reasonable returns.

Various ratios and risk limits are set according to the legal and regulatory requirements to limit and control the risk exposure of the Bank under a risk tolerance level acceptable to the Bank and commensurate with the risk adverse culture as well as prudent management practice.

## **WELAB BANK LIMITED**

### **REGULATORY DISCLOSURE STATEMENT**

#### **3 Overview of risk management and RWA (continued)**

##### **3.1 OVA: Overview of risk management (continued)**

###### **Stress testing**

Stress testing is a risk management tool and involves the use of various techniques to assess the Bank's potential vulnerability to adverse changes in market conditions. It is conducted with hypothetical as well as historical assumptions. With the establishment of various alerting levels under different scenarios, it helps to alert the management to adverse unexpected outcomes related to a variety of risks and provides an indication to the amount of financial resources (including capital and liquidity) that might be necessary for absorbing losses caused by, or to withstand, severe stressed conditions.

###### **Risk information reporting, risk measurement and reporting systems**

The Bank has developed various systems for risk measurement and reporting for different risk exposures. Further information on the measurement and reporting of credit risk, market risk, liquidity risk and interest rate risk in the banking book exposures are provided in this statement. Regular report on risk exposures and risk management activities of the Bank is presented to the Risk Committee; which covers the assessment on major risk exposures including credit risk, market risk, interest rate risk in the banking book, liquidity risk, legal risk, compliance and regulatory risk, operational risk, reputation risk, strategic risk and technology risk. The Bank continues to invest significant resources in IT systems and processes in order to maintain and improve the risk management capabilities. A number of key initiatives and projects to enhance consistent data aggregation, reporting and management, and work towards meeting new regulatory standards are in progress.

###### **Risk mitigation**

The Bank applies different strategies and processes to mitigate different risks. The progresses of these mitigations are tracked in respective governance platforms.

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**3 Overview of risk management and RWA (continued)**

**3.2 OV1: Overview of RWA**

The following table sets out the Bank's RWA and the corresponding minimum capital requirements by risk types.

		At 31 December 2020	At 30 September 2020	At 31 December 2020
		(a)	(b)	(c)
In HK\$'000		RWA		Minimum capital requirements
1	Credit risk for non-securitization exposures	261,700	193,614	20,936
2	Of which STC approach	261,700	193,614	20,936
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	N/A	N/A	N/A
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	–	–	–
21	Of which STM approach	–	–	–
22	Of which IMM approach	–	–	–



**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**3 Overview of risk management and RWA (continued)**

**3.2 OV1: Overview of RWA (continued)**

		At 31 December 2020	At 30 September 2020	At 31 December 2020
		(a)	(b)	(c)
In HK\$'000		RWA		Minimum capital requirements
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	64,963	64,963	5,197
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	326,663	258,577	26,133

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**4 Linkages between financial statements and regulatory exposures**

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

In HK\$'000	At 31 December 2020						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	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		
<b>Assets</b>							
Balances with banks	871,413	871,413	871,413	–	–	–	–
Placements with banks	220,984	220,984	220,984	–	–	–	–
Financial assets at amortized cost	299,981	299,981	299,981	–	–	–	–
Financial assets at fair value through other comprehensive income	120,079	120,079	120,079	–	–	–	–
Property and equipment	20,965	20,965	20,965	–	–	–	–
Right-of-use assets	49,645	49,645	49,645	–	–	–	–
Intangible assets	69,502	69,502	–	–	–	–	69,502
Other assets	68,089	68,089	68,089	–	–	–	–
<b>Total assets</b>	<b>1,720,658</b>	<b>1,720,658</b>	<b>1,651,156</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>69,502</b>
<b>Liabilities</b>							
Deposits from customers	1,105,342	1,105,342	–	–	–	–	1,105,342
Lease liabilities	52,654	52,654	–	–	–	–	52,654
Other liabilities	55,645	55,645	–	–	–	–	55,645
Due to a fellow subsidiary	12,200	12,200	–	–	–	–	12,200
<b>Total liabilities</b>	<b>1,225,841</b>	<b>1,225,841</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,225,841</b>

## WELAB BANK LIMITED

### REGULATORY DISCLOSURE STATEMENT

#### 4 Linkages between financial statements and regulatory exposures (continued)

##### 4.2 LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

The following table shows the main sources of differences between regulatory exposure amounts and the carrying values in the financial statements.

In HK\$'000		At 31 December 2020				
		(a)	(b)	(c)	(d)	(e)
		Items subject to:				
		Total	credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	1,651,156	1,651,156			
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	0	0			
3	Total net amount under regulatory scope of consolidation	1,651,156	1,651,156			
4	Off-balance sheet amounts	0	0			
5	Differences due to consideration of provisions	206	206			
6	Exposure amounts considered for regulatory purposes	1,651,362	1,651,362			

##### 4.3 LIA: Explanations of differences between accounting and regulatory exposure amounts

The key differences between accounting and regulatory exposure amounts is the differences due to consideration of provisions: The carrying values of assets in the financial statement are net of allowances. However, regulatory exposures under STC approach are net of specific allowances.

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**4 Linkages between financial statements and regulatory exposures (continued)**

**4.4 PV1: Prudential valuation adjustments**

The table below provides a breakdown of the constituent elements of valuation. There were no valuation adjustments for all assets measured at fair value (marked to market or marked to model), including non-derivative and derivative instruments, during the year.

In HK\$'000		At 31 December 2020							
		(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	<b>Total adjustments</b>	-	-	-	-	-	-	-	-

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**5 Composition of regulatory capital**

**5.1 CC1: Composition of regulatory capital**

The table below provides a breakdown of the constituent elements of total regulatory capital.

		<b>At 31 December 2020</b>	
		<b>(a)</b>	<b>(b)</b>
		<b>Amount HK\$'000</b>	<b>Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation</b>
<b>CET1 capital: instruments and reserves</b>			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	870,000	(2)
2	Retained earnings	(382,962)	(3)
3	Disclosed reserves	7,779	(4)
4	<i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	<b>Not applicable</b>	Not applicable
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	<b>CET1 capital before regulatory deductions</b>	494,817	
<b>CET1 capital: regulatory deductions</b>			
7	Valuation adjustments	–	
8	Goodwill (net of associated deferred tax liabilities)	–	
9	Other intangible assets (net of associated deferred tax liabilities)	69,502	(1)
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)	–	

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**5 Composition of regulatory capital (continued)**

**5.1 CC1: Composition of regulatory capital (continued)**

		At 31 December 2020	
		(a)	(b)
		Amount HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
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)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
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	–	
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 AT1 capital and Tier 2 capital to cover deductions	–	
28	<b>Total regulatory deductions to CET1 capital</b>	69,502	
29	<b>CET1 capital</b>	425,315	
<b>AT1 capital: instruments</b>			
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	–	

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**5 Composition of regulatory capital (continued)**

**5.1 CC1: Composition of regulatory capital (continued)**

		At 31 December 2020	
		(a)	(b)
		Amount HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
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	<b>AT1 capital before regulatory deductions</b>	–	
<b>AT1 capital: regulatory deductions</b>			
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	<b>Total regulatory deductions to AT1 capital</b>	–	
44	<b>AT1 capital</b>	–	
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	425,315	
<b>Tier 2 capital: instruments and provisions</b>			
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	–	

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**5 Composition of regulatory capital (continued)**

**5.1 CC1: Composition of regulatory capital (continued)**

		At 31 December 2020	
		(a)	(b)
		Amount HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
51	<b>Tier 2 capital before regulatory deductions</b>	–	
<b>Tier 2 capital: regulatory deductions</b>			
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	<b>Total regulatory adjustments to Tier 2 capital</b>	–	
58	<b>Tier 2 capital (T2)</b>	–	
59	<b>Total regulatory capital (TC = T1 + T2)</b>	425,315	
60	<b>Total RWA</b>	326,663	
<b>Capital ratios (as a percentage of RWA)</b>			
61	<b>CET1 capital ratio</b>	130.20%	
62	<b>Tier 1 capital ratio</b>	130.20%	
63	<b>Total capital ratio</b>	130.20%	



**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**5 Composition of regulatory capital (continued)**

**5.1 CC1: Composition of regulatory capital (continued)**

		At 31 December 2020	
		(a)	(b)
		Amount HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
64	<b>Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)</b>	3.37%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: bank specific countercyclical capital buffer requirement	0.87%	
67	of which: higher loss absorbency requirement	–	
68	<b>CET1 (as a percentage of RWA) available after meeting minimum capital requirements</b>	<b>115.20%</b>	
<b>National minima (if different from Basel 3 minimum)</b>			
69	National CET1 minimum ratio	<b>Not applicable</b>	Not applicable
70	National Tier 1 minimum ratio	<b>Not applicable</b>	Not applicable
71	National Total capital minimum ratio	<b>Not applicable</b>	Not applicable
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
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)	<b>Not applicable</b>	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	<b>Not applicable</b>	Not applicable
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>			
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	–	

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**5 Composition of regulatory capital (continued)**

**5.1 CC1: Composition of regulatory capital (continued)**

		At 31 December 2020	
		(a)	(b)
		Amount HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>			
80	<i>Current cap on CET1 capital instruments subject to phase-out arrangements</i>	<b>Not applicable</b>	Not applicable
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	<b>Not applicable</b>	Not applicable
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>	–	

**Notes to the Template**

Row No.	Description	Hong Kong basis HK\$'000	Basel III basis HK\$'000
9	<b>Other intangible assets (net of associated deferred tax liabilities)</b>	<b>69,502</b>	<b>69,502</b>
	<p><u>Explanation</u> 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>		

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**5 Composition of regulatory capital (continued)**

**5.1 CC1: Composition of regulatory capital (continued)**

**Notes to the Template (continued)**

Row No.	Description	Hong Kong basis HK\$'000	Basel III basis HK\$'000
10	<b>Deferred tax assets (net of associated deferred tax liabilities)</b>	–	–
	<p><u>Explanation</u> 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 MSR, 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	<b>Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	–	–
	<p><u>Explanation</u> 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>		

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**5 Composition of regulatory capital (continued)**

**5.1 CC1: Composition of regulatory capital (continued)**

**Notes to the Template (continued)**

<b>Row No.</b>	<b>Description</b>	<b>Hong Kong basis HK\$'000</b>	<b>Basel III basis HK\$'000</b>
19	<b>Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	–	–
	<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	<b>Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	–	–
	<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>		

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**5 Composition of regulatory capital (continued)**

**5.1 CC1: Composition of regulatory capital (continued)**

**Notes to the Template (continued)**

Row No.	Description	Hong Kong basis HK\$'000	Basel III basis HK\$'000
54	<p><b>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)</b></p>	–	–
	<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:</p> <p>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>			

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**5 Composition of regulatory capital (continued)**

**5.2 CC2: Reconciliation of regulatory capital to balance sheet**

In HK\$'000	At 31 December 2020		
	(a)	(b)	(c)
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
<b>Assets</b>			
Balances with banks	871,413	871,413	
Placements with banks	220,984	220,984	
Financial assets at amortized cost	299,981	299,981	
Financial assets at fair value through other comprehensive income	120,079	120,079	
Property and equipment	20,965	20,965	
Right-of-use assets	49,645	49,645	
Intangible assets	69,502	69,502	(1)
Other assets	68,089	68,089	
<b>Total assets</b>	<b>1,720,658</b>	<b>1,720,658</b>	
<b>Liabilities</b>			
Deposits from customers	1,105,342	1,105,342	
Lease liabilities	52,654	52,654	
Other liabilities	55,645	55,645	
Due to a fellow subsidiary	12,200	12,200	
<b>Total liabilities</b>	<b>1,225,841</b>	<b>1,225,841</b>	
<b>Equity</b>			
Share capital	870,000	870,000	
Of which: amount eligible for CET1		870,000	(2)
Of which: amount eligible for AT1		–	
Reserves	(375,183)	(375,183)	
Of which: Retained earnings		(382,962)	(3)
Of which: Reserves		7,779	(4)
<b>Total equity</b>	<b>494,817</b>	<b>494,817</b>	
<b>Total liabilities and equity</b>	<b>1,720,658</b>	<b>1,720,658</b>	

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**5 Composition of regulatory capital (continued)**

**5.3 CCA: Main features of regulatory capital instruments**

		(a)
		<b>CET 1 Capital Ordinary shares</b>
1	Issuer	Welab Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable
3	Governing law(s) of the instrument	Hong Kong law
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules <sup>1</sup>	Not applicable
5	Post-transitional Basel III rules <sup>2</sup>	Common Equity Tier 1
6	Eligible at solo / group / solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HK\$870 million (as of 31 December 2020)
9	Par value of instrument	Not applicable
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity date
14	Issuer call subject to prior supervisory approval	Not applicable
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully 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)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No

<sup>1</sup> Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the BCR.

<sup>2</sup> Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the BCR.

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**5 Composition of regulatory capital (continued)**

**5.3 CCA: Main features of regulatory capital instruments (continued)**

		(a)
		<b>CET 1 Capital Ordinary shares</b>
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

**6 Macroprudential supervisory measures**

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

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	1.00%	120,479		
2	Sum		120,479		
3	Total		138,307	0.87%	2,842



**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**7 Leverage Ratio**

**7.1 LR1: Summary comparison of accounting assets against leverage ratio (“LR”) exposure measure**

In HK\$'000		At 31 December 2020
		(a)
		Value under the LR framework
1	Total consolidated assets as per published financial statements	1,720,658
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 recognised 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)	–
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	–
7	Other adjustments	(69,502)
8	<b>Leverage ratio exposure measure</b>	<b>1,651,156</b>

WELAB BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

7 Leverage Ratio (continued)

7.2 LR2: Leverage ratio

		At 31 December 2020	At 30 September 2020
In HK\$'000		(a)	(b)
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	1,720,864	1,230,879
2	Less: Asset amounts deducted in determining Tier 1 capital	(69,502)	(65,631)
3	<b>Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>	<b>1,651,362</b>	<b>1,165,248</b>
<b>Exposures arising from derivative contracts</b>			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	–	–
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	<b>Total exposures arising from derivative contracts</b>	<b>–</b>	<b>–</b>
<b>Exposures arising from SFTs</b>			
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	<b>Total exposures arising from SFTs</b>	<b>–</b>	<b>–</b>
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	–	–
18	Less: Adjustments for conversion to credit equivalent amounts	–	–
19	<b>Off-balance sheet items</b>	<b>–</b>	<b>–</b>
<b>Capital and total exposures</b>			
20	<b>Tier 1 capital</b>	<b>425,315</b>	<b>454,056</b>
20a	<b>Total exposures before adjustments for specific and collective provisions</b>	<b>1,651,362</b>	<b>1,165,248</b>
20b	<b>Adjustments for specific and collective provisions</b>	<b>(206)</b>	<b>(149)</b>
21	<b>Total exposures after adjustments for specific and collective provisions</b>	<b>1,651,156</b>	<b>1,165,099</b>
<b>Leverage ratio</b>			
22	<b>Leverage ratio</b>	<b>25.76%</b>	<b>38.97%</b>

## **WELAB BANK LIMITED**

### **REGULATORY DISCLOSURE STATEMENT**

#### **8 Liquidity**

##### **8.1 LIQA: Liquidity Risk Management**

###### ***Qualitative disclosure related to liquidity risk management***

###### **Governance of liquidity risk management**

The Bank's risk appetite is the risk level that the Bank is prepared to accept to achieve its strategic and business objectives. ALCO has been delegated by the Board to manage the Bank's liquidity risk strategy, procedures and practices. ALCO membership consists of the Chief Executive, Alternate Chief Executives, Chief Risk Officer and senior management members. The risk appetite and related limits are reviewed and approved by the Board and Risk Committee at least annually in order to align with industry standards, market developments and business conditions of the Bank.

An acceptable risk appetite is adopted in managing and controlling risks in a prudent manner to balance the risk and return that the Bank is prepared to take. Various ratios and risk limits are set with reference to the legal and regulatory requirements to limit and control the risk exposure under an acceptable risk appetite level and commensurate with prudent liquidity risk management practices.

The Bank's liquidity risk is monitored by the Risk Management Department, management and ALCO in accordance with the guidelines and procedures laid down in the liquidity risk management policy that has been reviewed and approved by the Board and ALCO periodically.

###### **Liquidity risk management**

The Bank's operation is mainly funded by customer deposits and shareholder's fund. Diversified and stable funding sources are maintained by determining the appropriate mix of liabilities and building strong and lasting relationships with key fund providers in accordance with the liquidity risk management policy.

Adequate liquidity will be maintained at all times to meet obligations when they fall due in normal circumstances and an appropriate mix of additional stock of high-quality liquid assets will be maintained to provide contingent liquidity in the event of a funding crisis.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

###### **Stress testing**

The liquidity stress-testing results form an important component in assisting the Risk Committee with reviewing and endorsing the Bank's risk appetite levels, which are defined by internal limits on various risk ratios, as well as assisting the ALCO in managing the overall liquidity of the Bank and to make informed strategic business decisions.

###### **Contingency funding plan**

The contingency funding plan is a component of the Bank's business contingency plan which describes the Bank's strategy for dealing with any liquidity problems, and the procedures for making up cash flow deficits in emergency situations.

## **WELAB BANK LIMITED**

### **REGULATORY DISCLOSURE STATEMENT**

#### **8 Liquidity (continued)**

##### **8.1 LIQA: Liquidity Risk Management (continued)**

###### ***Quantitative disclosure related to liquidity risk management***

###### **Customised measurement tools or metrics**

A cash-flow approach is adopted to manage liquidity risk by ensuring that a net positive cash-flow position is maintained or otherwise sufficient cash can be generated from assets or funding sources to cover any funding shortfalls. The projections are forward-looking and covers liquidity risks stemming from on-balance sheet assets and liabilities and off-balance sheet positions. Cash-flow projections are made over daily time bands of up to 7 days ahead and wider time bands of up to 1 year ahead. Internal limits are set to control the size of the cumulative net mismatch positions for the shorter-term time bands. Cash-flow projections cover positions in HK dollar and in all currencies aggregated. Separate cash-flow projections are also performed for individual foreign currencies in which there are of significant positions, such as US dollar.

###### **Concentration limits on collateral pools and sources of funding**

Retail deposits are the major and important part of the Bank's funding base, and the composition and quality of such deposits are carefully monitored and managed.

###### **Liquidity exposures and funding needs of the Bank**

The Bank, designated as a Category 2 bank, is not required to calculate the liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") under the Banking (Liquidity) Rules. Instead, the Liquidity Maintenance Ratio ("LMR") is used to measure the short-term liquidity exposures of the Bank against its funding needs. The LMR is a ratio, expressed as a percentage, of the amount of a category 2 institution's "liquefiable assets" to the amount of the institution's "qualifying liabilities" (after deductions) over a calendar month. Under the Banking Ordinance and communication with HKMA, the Bank is subject to the statutory limit of the LMR, which is prescribed at 25%, whereas our Risk Appetite Statement limit for LMR has been set at 50% for prudent measures.

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**8 Liquidity (continued)**

**8.1 LIQA: Liquidity Risk Management (continued)**

**Contractual maturity profile**

The table below analyses the on-balance sheet items, broken down into maturity buckets of the Bank as of 31 December 2020 based on the completion instructions of the HKMA MA(BS)23 – Liquidity Monitoring Tools:

In HK\$'000	At 31 December 2020											Balancing amount
	Total amount	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	
<b>On-balance sheet assets</b>												
Due from MA for a/c of Exchange Fund	776,801	776,801	-	-	-	-	-	-	-	-	-	-
Due from banks	315,794	94,770	35,003	169,020	17,001	-	-	-	-	-	-	-
Debt securities, prescribed instruments and structured financial instruments held (net of short positions)	420,089	420,089	-	-	-	-	-	-	-	-	-	-
Other assets	208,176	-	-	-	40	-	-	-	366	4,164	-	203,606
<b>Total</b>	<b>1,720,860</b>	<b>1,291,660</b>	<b>35,003</b>	<b>169,020</b>	<b>17,041</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>366</b>	<b>4,164</b>	<b>-</b>	<b>203,606</b>
<b>On-balance sheet liabilities</b>												
Deposits from non-bank customers												
(a) Pledged deposits	-	-	-	-	-	-	-	-	-	-	-	-
(b) Demand, savings and current account deposits	106,300	106,300	-	-	-	-	-	-	-	-	-	-
(c) Term, call and notice deposits	1,000,280	25	-	125,808	874,447	-	-	-	-	-	-	-
Other Liabilities	128,252	-	211	53,197	14,596	3,876	6,565	14,614	18,860	16,333	-	-
Capital and reserves	494,817	-	-	-	-	-	-	-	-	-	-	494,817
<b>Total</b>	<b>1,729,649</b>	<b>106,325</b>	<b>211</b>	<b>179,005</b>	<b>889,043</b>	<b>3,876</b>	<b>6,565</b>	<b>14,614</b>	<b>18,860</b>	<b>16,333</b>	<b>-</b>	<b>494,817</b>
<b>Contractual Maturity Mismatch</b>		<b>1,185,335</b>	<b>34,792</b>	<b>(9,985)</b>	<b>(872,002)</b>	<b>(3,876)</b>	<b>(6,565)</b>	<b>(14,614)</b>	<b>(18,494)</b>	<b>(12,169)</b>	<b>-</b>	
<b>Cumulative Contractual Maturity Mismatch</b>		<b>1,185,335</b>	<b>1,220,127</b>	<b>1,210,142</b>	<b>338,140</b>	<b>334,264</b>	<b>327,699</b>	<b>313,085</b>	<b>294,591</b>	<b>282,422</b>	<b>282,422</b>	

## **WELAB BANK LIMITED**

### **REGULATORY DISCLOSURE STATEMENT**

#### **9 Credit Risk for non-securitization exposures**

##### **9.1 CRA: General information about credit risk**

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to discharge an obligation. The Bank's exposure to credit risk arises from treasury products.

The approach used for defining credit risk management policy and setting credit risk limits is described in note 3(a) to the audited financial statements.

Various analytical reports on credit risk exposures and credit risk management are provided regularly to senior management, including the portfolio distribution and credit quality, credit portfolio risk monitoring and compliance, impairment allowance and large exposures and risk concentrations.

The Bank's organization structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits. The Credit Risk Team is responsible for establishing credit policies, monitoring portfolio quality and impairment charge, ensuring compliance with statutory and internal lending limits, evaluating credit applications, making credit decisions etc.

The Chief Risk Officer takes charges of the Bank's overall credit risk management. He is responsible for ensuring that the Bank's risk management framework, all related policies and control procedures, and business processes are effective, adequate, properly implemented and consistent with the overall risk appetite of the Bank and credit related regulatory requirements. He is also responsible for assessing, evaluating and monitoring the use of risk limits and ensuring that quantifiable risks are within the approved limits.

Various units of the Bank have their respective credit risk management responsibilities. Business departments, being the first line of defence, are responsible for performing on-going 'know your customer' checks. The Credit Risk Team is independent from the business departments, acts as the second line of defence, is responsible for independent evaluation of credit applications, performing credit monitoring and review, and ensuring that all the relevant regulatory and statutory requirements and limits are complied with by the Bank. The Internal Audit Department, being the third line of defence, is responsible for examining and evaluating the adequacy and effectiveness of the internal controls, risk management and governance systems and processes of the Bank, and assessing compliance with regulatory and statutory requirements.

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**9 Credit Risk for non-securitization exposures (continued)**

**9.2 CR1: Credit quality of exposures**

The following table sets out an overview of the credit quality of on- and off-balance sheet exposures.

In HK\$'000		At 31 December 2020						
		(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					
1	Loans	–	1,092,596	175	–	175	–	1,092,421
2	Debt securities	–	420,459	31	–	31	–	420,428
3	Off-balance sheet exposures	–	–	–	–	–	–	–
4	<b>Total</b>	<b>–</b>	<b>1,513,055</b>	<b>206</b>	<b>–</b>	<b>206</b>	<b>–</b>	<b>1,512,849</b>

Loans included balances with banks and placements with banks.

**9.3 CR2: Changes in defaulted loans and debt securities**

The following table 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 of 31 December 2020. The Bank has not yet launched loans and advances to customers up to 31 December 2020.

There were no defaulted debt securities and does not have exposures in loans and advances to customers as of 31 December 2020.

In HK\$'000		(a)
1	<b>Defaulted loans and debt securities at end of the previous reporting period</b>	–
2	Loans and debt securities that have defaulted since the last reporting period	–
3	Returned to non-defaulted status	–
4	Amounts written off	–
5	Other changes	–
6	<b>Defaulted loans and debt securities at end of the current reporting period</b>	<b>–</b>

## WELAB BANK LIMITED

### REGULATORY DISCLOSURE STATEMENT

#### 9 Credit Risk for non-securitization exposures (continued)

##### 9.4 CRB: Additional disclosure related to credit quality of exposures

The accounting definition of impaired exposures and the regulatory definition of defaulted exposures are generally aligned. In general, treasury products overdue for more than 90 days are considered impaired unless other information is available to indicate the contrary. Treasury products with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Treasury products repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Treasury products repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

The approach for determining impairment of financial assets is provided in notes 2(k) and 3(a) to the audited financial statements.

As of 31 December 2020, none of the treasury products has any indication of impairment.

##### 9.5 CRC: Qualitative disclosures related to credit risk mitigation

The Bank has set out maximum credit exposure limit to each individual or counterparty in relations to the Banking (Exposures Limits) Rules. For capital calculation, the Bank has not used any on-balance sheet or off-balance sheet recognised netting for credit risk mitigation.

##### 9.6 CR3: Overview of recognized credit risk mitigation

The following table sets out the extent of credit risk exposures covered by different types of recognised credit risk mitigation.

		At 31 December 2020				
		(a)	(b1)	(b)	(d)	(f)
In HK\$'000		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
1	Loans	1,092,421	–	–	–	–
2	Debt securities	420,428	–	–	–	–
3	<b>Total</b>	<b>1,512,849</b>	–	–	–	–
4	Of which defaulted	–	–	–	–	–



## **WELAB BANK LIMITED**

### **REGULATORY DISCLOSURE STATEMENT**

#### **9 Credit Risk for non-securitization exposures (continued)**

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

Under the standardised approach (“STC”) for the calculation of credit risk within the Basel capital framework, banks are required to use credit assessments provided by external credit assessment institutions (“ECAI”), recognised by the HKMA for the purposes of regulatory capital calculation, to determine the risk-weights of the banks’ credit exposures.

Standard & Poor’s Ratings Services, Moody’s Investors Service and Fitch Ratings are the ECAI that the Bank has used for the determination of risk weightings for the following exposures:

- Sovereign exposures
- Bank exposures
- Corporate exposures

The mapping of ECAI ratings of the above exposures to the risk weights under standardised approach follows the process as prescribed in Part 4 of the BCR. Where an exposure of debt securities has an issue-specific external credit assessment, such assessment will be used. In case there is no specific issue rating published by the ECAI, the issuer rating is applied to the senior unsecured claims of that issuer subject to the conditions prescribed by the BCR.

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**9 Credit Risk for non-securitization exposures (continued)**

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

The table below shows the effect of any recognized credit risk mitigation (“CRM”) on the calculation of credit risk capital requirements under STC approach with additional information of RWA density showing a synthetic metric on riskiness of each exposure class.

In HK\$'000		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	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	1,076,793	–	1,076,793	–	–	0%
2	PSE exposures	–	–	–	–	–	–
2a	Of which: domestic PSEs	–	–	–	–	–	–
2b	Of which: foreign PSEs	–	–	–	–	–	–
3	Multilateral development bank exposures	–	–	–	–	–	–
4	Bank exposures	436,262	–	436,262	–	123,393	28%
5	Securities firm exposures	–	–	–	–	–	–
6	Corporate exposures	25,417	–	25,417	–	25,417	100%
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	–	–	–	–	–	–
11	Residential mortgage loans	–	–	–	–	–	–
12	Other exposures which are not past due exposures	112,890	–	112,890	–	112,890	100%
13	Past due exposures	–	–	–	–	–	–
14	Significant exposures to commercial entities	–	–	–	–	–	–
15	<b>Total</b>	<b>1,651,362</b>	<b>–</b>	<b>1,651,362</b>	<b>–</b>	<b>261,700</b>	<b>16%</b>

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**9 Credit Risk for non-securitization exposures (continued)**

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

The table below provides the breakdown of credit risk exposures by asset classes and by risk weights under STC approach.

In HK\$'000		At 31 December 2020										Total credit risk exposures amount (post CCF and post CRM)
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	
Exposure class	Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	
1	Sovereign exposures	1,076,793	-	-	-	-	-	-	-	-	-	1,076,793
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	315,795	-	120,467	-	-	-	-	-	436,262
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	25,417	-	-	-	25,417
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	-	-	-	-	-	-	-	-	-	-	-
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
12	Other exposures which are not past due exposures	-	-	-	-	-	-	112,890	-	-	-	112,890
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	<b>Total</b>	<b>1,076,793</b>	<b>-</b>	<b>315,795</b>	<b>-</b>	<b>120,467</b>	<b>-</b>	<b>138,307</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,651,362</b>

## WELAB BANK LIMITED

### REGULATORY DISCLOSURE STATEMENT

#### 10 Counterparty Credit Risk

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

Counterparty credit risk (“CCR”) arises for derivatives and Securities Financing Transaction (“SFTs”). It is calculated in both the trading and non-trading books, and is the risk that a counterparty may default before settlement of the transaction. An economic loss occurs if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default. Credit equivalent amount and capital charge for the relevant counterparty credit exposures are determined following the regulatory capital requirements. The Bank adopts the current exposure method to measure the credit equivalent amount, which comprises current exposures and potential future exposures. Credit equivalent amount and capital charge for the relevant counterparty credit exposures are determined following the regulatory capital requirements. The Bank adopts the current exposure method to measure the credit equivalent amount, which comprises current exposures and potential future exposures.

As of 31 December 2020, the Bank does not have default risk exposures in respect of derivative contracts and SFTs.

##### 10.2 CCR1: Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

The following table sets out a comprehensive breakdown of default risk exposures (other than those to CCPs), RWAs, and, where applicable, main parameters under the approaches used to calculate default risk exposures in respect of derivative contracts and SFTs as of 31 December 2020.

		At 31 December 2020					
		(a)	(b)	(c)	(d)	(e)	(f)
	In HK\$'000	Replacement cost (RC)	PFE	Effective EPE	Alpha ( $\alpha$ ) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR (for derivative contracts)	–	–		1.4	–	–
1a	CEM	–	–		–	–	–
2	IMM (CCR) approach			–	–	–	–
3	Simple Approach (for SFTs)					–	–
4	Comprehensive Approach (for SFTs)					–	–
5	VaR (for SFTs)					–	–
6	<b>Total</b>						–

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**10 Counterparty Credit Risk (continued)**

**10.3 CCR2: CVA capital charge**

The table below provides information on CVA capital charge and the CVA calculations based on standardised CVA method.

		At 31 December 2020	
		(a)	(b)
HK\$'000		EAD post CRM	RWA
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	–	–
1	(i) VaR (after application of multiplication factor if applicable)		–
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		–
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	–	–
4	Total	–	–

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**10 Counterparty Credit Risk (continued)**

**10.4 CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach**

The counterparty default risk exposures by asset classes and by risk weights under STC approach are shown in the table below.

		At 31 December 2020										
In HK\$'000		(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
Risk Weight												
Exposure class		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	—	—	—	—	—	—	—	—	—	—	—
2	PSE exposures	—	—	—	—	—	—	—	—	—	—	—
2a	Of which: domestic PSEs	—	—	—	—	—	—	—	—	—	—	—
2b	Of which: foreign PSEs	—	—	—	—	—	—	—	—	—	—	—
3	Multilateral development bank exposures	—	—	—	—	—	—	—	—	—	—	—
4	Bank exposures	—	—	—	—	—	—	—	—	—	—	—
5	Securities firm exposures	—	—	—	—	—	—	—	—	—	—	—
6	Corporate exposures	—	—	—	—	—	—	—	—	—	—	—
7	CIS exposures	—	—	—	—	—	—	—	—	—	—	—
8	Regulatory retail exposures	—	—	—	—	—	—	—	—	—	—	—
9	Residential mortgage loans	—	—	—	—	—	—	—	—	—	—	—
10	Other exposures which are not past due exposures	—	—	—	—	—	—	—	—	—	—	—
11	Significant exposures to commercial entities	—	—	—	—	—	—	—	—	—	—	—
12	<b>Total</b>	—	—	—	—	—	—	—	—	—	—	—

# WELAB BANK LIMITED

## REGULATORY DISCLOSURE STATEMENT

### 11 Market Risk

#### 11.1 MRA: Qualitative disclosures related to market risk

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices. Market risk exposures are separated into trading portfolios and non-trading portfolios.

The Bank's market risk exposures mainly arise from non-trading portfolios which comprise positions that related to the interest rate risk management of our banking assets and liabilities, financial investments designated as financial assets measured at Fair Value through Other Comprehensive Income ("FVOCI"), financial assets measured at amortised cost and exposures arising from our daily risk management operations.

The Bank has formulated market risk management policy to identify, measure, monitor, control, and report on the market risk, where appropriate, to allocate adequate capital to cover those risks.

Risk appetite has been defined in accordance with the Bank's business strategies and objectives to govern the market risk activities; and under the approved risk appetite, risk limits and management action triggers are set with reference to the nature, volume of transaction and risk appetite of the Bank. Market Risk Appetite is approved by the Board and the market risk limits are approved by the RC. Various systems are employed to facilitate the calculation, measurement, analysis and reporting of market risk and risk reports are prepared for different level of governance on a regular basis. Through different policies, sensitivity analysis, stress testing and limit structures, market risk analysis is conducted on different dimensions, including but not limited to risk factors, concentration, currencies and duration in the form of potential loss and impact to capital adequacy.

#### 11.2 MR1: Market risk under STM approach

The table below provides information on market risk RWA.

In HK\$'000		At 31 December 2020
		(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	—
4	Commodity exposures	—
	Option exposures	
5	Simplified approach	—
6	Delta-plus approach	—
7	Other approach	—
8	Securitization exposures	—
9	<b>Total</b>	—

## WELAB BANK LIMITED

### REGULATORY DISCLOSURE STATEMENT

#### 12 Interest rate risk in banking book

##### 12.1 IRRBB: Interest rate exposures in banking book

Interest rate risk is referred to the risk to the Bank's financial condition resulting from adverse movements in interest rates. This consists of repricing risk, basis risk, option risk and yield curve risk. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movement arises. The Bank's interest rate risk exposure is mainly contributed by non-trading portfolio.

The Bank manages interest rate risks within the limits approved by the Board and Risk Committee and under the monitoring of ALCO. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. For a prudent practice, additional limits on interest rate sensitivities (also known as PV01) are being enforced on daily basis.

The Bank maintains controllable interest rate positions on its non-trading portfolio. Interest rate risk arises primarily from the timing differences in the repricing of and the different bases of pricing interest-bearing assets, liabilities and off-balance-sheet positions. Interest rate risk is regularly monitored by regular sensitivity analysis of the net re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

The Bank measures interest rate risks on a daily basis. The key assumptions the Bank uses in the measurements of the risk include:

- (a) for fixed rate items, the earliest interest repricing date is the maturity dates of the assets or liabilities concerned;
- (b) for variable rate items, the earliest interest repricing date is the next repricing date of the assets or liabilities concerned;
- (c) for managed rate items, the earliest interest repricing date is the next business day;
- (d) a parallel shift in interest rate throughout the time spectrum and
- (e) for deposits without a fixed maturity, the earliest interest repricing date is the next business day.

Variations in earnings for significant upward and downward interest rate movements in accordance with the method the Bank uses for return, the exposures show as below:

	Currency		
	HKD HK\$'000	USD HK\$'000	Total HK\$'000
Equivalent in Hong Kong Dollars			
Interest Rate Shock (200 basis point upward) Increase/ (decline) in earnings	(6,591)	341	(6,250)

Due to data insufficiency of business, the Bank is not able to adopt the format of IRRBB (Table IRRBBA and Template IRRBB1) under section 16(2) of Banking (Disclosure) Rules.



## WELAB BANK LIMITED

### REGULATORY DISCLOSURE STATEMENT

#### 13 International claims

International claims are on-balance sheet exposures of counterparties based on the location of those counterparties after taking into account the transfer of risk. Recognized risk transfer refers to the reduction of exposure to a particular country by an effective transfer of credit risk to a different country. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated.

International claims on individual countries or segments, after risk transfer, amounting to 10% or more of the aggregated international claims are shown as below:

In HK\$ Million	At 31 December 2020		
	<u>Non-bank private sector</u>		Total
	Banks	Non-bank financial institutions	
Developed countries, of which	140	18	158
– Spain	75	–	75
– United States	65	18	83
Developing Asia and Pacific, of which	139	–	139
– China	139	–	139

#### 14 Loans and advances to customers

The Bank does not have loans and advances to customers as of 31 December 2020.

#### 15 Overdue and rescheduled assets

There were no impaired, overdue nor rescheduled assets as of 31 December 2020.

#### 16 Repossessed assets

The Bank does not hold any repossessed assets as of 31 December 2020.

#### 17 Off-balance sheet exposures

The Bank does not have off-balance sheet exposure as of 31 December 2020.

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**18 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.

In HK\$'000		At 31 December 2020		
		(a)	(b)	(c)
		On-balance sheet exposure	Off-balance sheet exposure	Total
1	Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	–	–	–
2	Local governments, local government-owned entities and their subsidiaries and JVs	–	–	–
3	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	–	–	–
4	Other entities of central government not reported in item 1 above	–	–	–
5	Other entities of local governments not reported in item 2 above	–	–	–
6	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	–	–	–
7	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	–	–	–
8	Total	–	–	–
9	Total assets after provision	1,720,658		
10	On-balance sheet exposures as percentage of total assets	0%		

## WELAB BANK LIMITED

### REGULATORY DISCLOSURE STATEMENT

#### 19 Currency risk

The Bank is exposed to foreign currency exposures arising from non-trading and non-structural position which constitute 10% or more of the total net position in all foreign currencies are as follows, primarily United States dollar (“USD”).

	At 31 December 2020
In HK\$'000	(a)
US dollars exposures	
Spot assets	26,395
Spot liabilities	–
Forward purchases	–
Forward sales	–
<b>Net long non-structural position</b>	<b>26,395</b>

There was no foreign currency structural positions and option positions as of 31 December 2020.

#### 20 Remuneration

##### 20.1 REMA: Remuneration Policy

###### Disclosure on Remuneration System

The Remuneration Committee is delegated by the Board of the Bank and is independent of management. The Remuneration Committee is responsible to review remuneration policies and practices on annual basis or when necessary to ensure the remuneration policy is consistent with the principles set out under the HKMA Supervisory Policy Manual CG-1, CG-5 and other legal requirements. Two thirds of the Remuneration Committee are Independent Non-executive Director (“INED”). One Remuneration Committee meeting was held in the year of 2020.

###### *Key Principles of Remuneration Policy*

The remuneration policy and its implementation are subject to regular (at least annual) review by the Board of the Bank or the Remuneration Committee to ensure that the policy remains adequate and market competitive and that the operation of the remuneration system is consistent with the prevailing regulatory requirements and long term interests of the Bank. The policy applies to all staff members who are employed by the Bank. The principles of the Policy are as follows:

- Reinforce a business culture based on the highest ethical standards
- Manage risks to the Bank by encouraging prudent decision-making and in line with the objectives, business strategies and long-term goals of the Bank
- Reflect regulatory guidance in compensation program
- Attract and retain the best talent to lead the Bank to success
- Remunerate all staff members fairly and reasonably according to the individual level of competence and performance
- Performance evaluation is based on the balance of financial and non-financial factors including effective risk and people management
- Remuneration practices are set against comparable industry norms and to promote a “pay for performance” culture

## WELAB BANK LIMITED

### REGULATORY DISCLOSURE STATEMENT

#### 20 Remuneration (continued)

##### 20.1 REMA: Remuneration Policy (continued)

###### Disclosure on Remuneration System (continued)

###### *Structure of Remuneration*

The Bank's remuneration structure shall promote behaviour amongst staff members that supports the Bank's risk management framework and long-term financial soundness. The Bank's remuneration package consists of both fixed and variable (discretionary) compensation. Fixed remuneration refers to base salary (guaranteed) and allowance. Variable remuneration refers to variable bonus and shares or share-linked instruments such as share options or awards. An appropriate balance between fixed and variable remuneration will reflect the seniority, role and responsibilities of each staff member. The proportion of variable remuneration to total remuneration will increase in line with the seniority and job responsibilities of each staff member.

###### *Senior Management & Key Personnel*

Senior Management (including Chief Executive and Alternate Chief Executives) are responsible for oversight of the Bank's strategy or activities or material business lines. Key Personnel are those reported under HKMA as "Managers" whose action may have a material impact on the risk exposure of the Bank.

###### *Performance Measurement for Variable Remuneration*

The award of variable remuneration shall depend on the fulfilment of budget income, peer group performance comparison and risk control factors. These criteria should include both financial, non-financial and risk factors. In allocating variable remuneration, the following factors should be taken into consideration:

- a. Overall performance of the Bank;
- b. Performance of the relevant business units;
- c. Contribution of individual staff member to such performance; and
- d. Risk control functions' input on the performance of relevant business unit and its staff members

The total amount of variable remuneration may be reduced in the event of an actual or expected deterioration in the financial performance of the Bank or staff misconduct (e.g. internal fraud, data leakage or damage to property etc.). The Chief Executive of the Bank has the authority to exercise discretion and flexibility to withhold all or part of the variable remuneration.

The remuneration of staff members in risk control functions should be determined in accordance with their performance objectives and should be independent of the performance of business units which they oversee.

###### *Deferral Arrangement*

A portion of variable remuneration may subject to deferral which will allow staff members' performance, including the associated risks, to be observed and validated over a period of time before payment is actually made and the adjustment of the amount to be paid will enable the remuneration ultimately received by staff members to more accurately reflect risk and risk outcomes.

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**20.2 REM1: Remuneration awarded during financial year**

In HK\$'000			(a)	(b)
Remuneration amount and quantitative information			Senior management	Key personnel
1	Fixed remuneration	Number of employees	3	6
2		Total fixed remuneration	6,586	8,222
3		Of which: cash-based	6,586	8,222
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	4,216	4,726
10		Of which: cash-based	1,333	2,276
11		Of which: deferred	–	–
12		Of which: shares or other share-linked instruments	2,883	2,450
13		Of which: deferred	2,883	2,450
14		Of which: other forms	–	–
15		Of which: deferred	–	–
16	<b>Total remuneration</b>		<b>10,802</b>	<b>12,948</b>

**20.3 REM2: Special payments**

In 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	–	–	1	500	–	–
2	Key personnel	–	–	1	500	–	–

**WELAB BANK LIMITED**

**REGULATORY DISCLOSURE STATEMENT**

**20 Remuneration (continued)**

**20.4 REM3: Deferred remuneration**

In HK\$'000		(a)	(b)	(c)	(d)	(e)
Deferred and retained remuneration		Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out/vested in the financial year
1	Senior management					
2	Cash					
3	Shares or other share-linked instruments	3,457				1,352
4	Cash-linked instruments					
5	Other					
6	Key personnel					
7	Cash					
8	Shares or other share-linked instruments	1,906				478
9	Cash-linked instruments					
10	Other					
11	<b>Total</b>	5,363				1,830

# WELAB BANK LIMITED

## REGULATORY DISCLOSURE STATEMENT

### 21 Abbreviations

<b>Abbreviations</b>	<b>Brief Description</b>
AI	Authorized Institution
AT1	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
CEM	Current Exposure Method
CET1	Common Equity Tier 1
CFR	Core Funding Ratio
CIS	Collective Investment Scheme
CRM	Credit Risk Mitigation
CVA	Credit Valuation Adjustment
DTAs	Deferred Tax Assets
D-SIBs	Domestic Systematically Important Authorized Institution
EAD	Exposure At Default
ECL	Expected Credit Loss
EL	Expected Loss
EPE	Expected Positive Exposure
FBA	Fall-Back Approach
FVOCI	Fair Value Through Other Comprehensive Income
G-SIBs	Global Systematically Important Authorized Institution
HKMA	Hong Kong Monetary Authority
HQLA	High Quality Liquid Assets
IAA	Internal Assessment Approach
IMM	Internal Models Approach
IMM (CCR)	Internal Models (Counterparty Credit Risk) Approach
IRB	Internal Ratings-Based Approach
J	Jurisdiction
JCCyB	Jurisdiction Countercyclical Capital Buffer
JVs	Joint Ventures
LAC	Loss-Absorbing Capacity
LCR	Liquidity Coverage Ratio
LMR	Liquidity Maintenance Ratio
LTA	Look Through Approach
LR	Leverage Ratio

## WELAB BANK LIMITED

### REGULATORY DISCLOSURE STATEMENT

#### 21 Abbreviations (continued)

<b>Abbreviations</b>	<b>Brief Description</b>
MA	Monetary Authority
MBA	Mandate-Based Approach
MSRs	Mortgage Servicing Rights
N/A	Not Applicable
NSFR	Net Stable Funding Ratio
OBS	Off-Balance Sheet
PFE	Potential Future Exposure
PRC	People's Republic of China
PSE	Public Sector Entity
RW	Risk-Weight
RWA	Risk-Weighted Asset/Risk-Weighted Amount
SA-CCR	Standardized 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
STC	Standardized (Credit Risk) Approach
STM	Standardized (Market Risk) Approach
VaR	Value at Risk