



AIRSTAR BANK LIMITED

REGULATORY DISCLOSURE STATEMENT

31 December 2020

(Unaudited)

AIRSTAR BANK LIMITED
REGULATORY DISCLOSURE STATEMENT (Unaudited)

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1. INTRODUCTION

Purpose

The information contained in this document is for Airstar Bank Limited ("the Bank") and should be read in conjunction with the Bank's Financial Statements for the year ended 31 December 2020. The Bank's Financial Statements and the Regulatory Disclosure Statement, taken together, comply with the Banking (Disclosure) Rules ("BDR") made under section 60A of the Banking Ordinance and the 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. 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 policies.

The Regulatory Disclosure Statement includes the majority of the information required under the BDR. The remainder of the disclosure requirements are covered in the Financial Statements for the year ended 31 December 2020 which can be found in the Financial Reports section of our website, www.airstarbank.com.

Basis of preparation

The approaches used in calculating the Bank's regulatory capital and risk-weighted assets ("RWA") are in accordance with the Banking (Capital) Rules ("BCR"). The Bank uses the standardized (credit risk) approach to calculate its credit risk for its non-securitization exposures. For counterparty credit risk, the Bank uses the current exposure method to calculate its default risk exposures. For market risk, the Bank uses the standardized (market risk) approach to calculate its market risk. For operation risk, the Bank uses the basic indicator approach to calculate its operational risk.

According to the BDR, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates. Prior period disclosures can be found in the Regulatory Disclosures section of our website, www.airstarbank.com.

Basis of consolidation

The Bank does not have any subsidiaries to consolidate the financial information in this Regulatory Disclosure Statement and its Financial Statements for the year ended 31 December 2020.

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2. TEMPLATE KM1: KEY PRUDENTIAL RATIOS

		As at 31 December 2020 HK\$'000	As at 30 September 2020 HK\$'000	As at 30 June 2020 HK\$'000	As at 31 March 2020 HK\$'000
	Regulatory capital (amount)				
1	Common Equity Tier 1 (CET1)	1,119,489	1,212,912	1,287,557	1,335,071
2	Tier 1	1,119,489	1,212,912	1,287,557	1,335,071
3	Total capital	1,124,609	1,213,880	1,287,875	1,335,071
	RWA (amount)				
4	Total RWA	1,696,275	1,246,673	840,401	906,021
	Risk-based regulatory capital ratios (as a percentage of RWA)				
5	CET1 ratio (%)	66.00%	97.29%	153.21%	147.36%
6	Tier 1 ratio (%)	66.00%	97.29%	153.21%	147.36%
7	Total capital ratio (%)	66.30%	97.37%	153.25%	147.36%
	Additional CET1 buffer requirements (as a percentage of RWA)				
8	Capital conservation buffer requirement (%)	2.50%	2.50%	2.50%	2.50%
9	Countercyclical capital buffer requirement (%)	0.89%	0.83%	1.00%	1.00%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	N/A	N/A	N/A	N/A
11	Total AI-specific CET1 buffer requirements (%)	3.39%	3.33%	3.50%	3.50%
12	CET1 available after meeting the AI's minimum capital requirements (%)	54.00%	85.29%	141.21%	135.36%
	Basel III leverage ratio				
13	Total leverage ratio (LR) exposures measure	2,798,515	2,267,604	1,788,581	1,589,305
14	LR (%)	40.00%	53.49%	71.99%	84.00%
	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
16	Total net cash outflows	N/A	N/A	N/A	N/A
17	LCR (%)	N/A	N/A	N/A	N/A
	Applicable to category 2 institution only:				
17a	LMR (%) ¹	281.00%	642.32%	1,454.70%	363.03%
	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
19	Total required stable funding	N/A	N/A	N/A	N/A
20	NSFR (%)	N/A	N/A	N/A	N/A
	Applicable to category 2A institution only:				
20a	CFR (%)	N/A	N/A	N/A	N/A

The increase in marketable debt securities held and loans and advances to customers were the major drivers leading to the decrease in CET1 ratio, Tier 1 ratio, total capital ratio and leverage ratio across the reporting periods. Combined with the increase in customer deposits, the average LMR dropped across the reporting periods.

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

3. OVERVIEW OF RISK MANAGEMENT

3.1 TABLE OVA: OVERVIEW OF RISK MANAGEMENT

The overall risk management approach of the Bank is governed by its Enterprise Risk Management Framework (ERMF). The ERMF provides a high-level risk management structure and processes that the Bank adopts to identify, assess, manage and monitor all type of risks faced by the Bank in achieving its strategic objectives. The objectives of the ERMF are to ensure a consistent risk management approach; to support a strong risk culture; to promote risk awareness and sound operational and strategic decision-making; and to ensure that the Bank's risk taking activities are within the risk appetite approved by the Board of Directors ("the Board").

Risk Governance

The Bank's risk governance model includes executive and non-executive governance committees, delegated authorities to individuals and an escalation path for material risks and issues.

The Board has overall ultimate responsibility for the risk related matters of the Bank. It approves the Bank's Risk Appetite Statement, setting the 'Tone from the Top' to embed a strong risk culture within the Bank.

The Board delegates non-executive responsibility for risk oversight to the Risk Committee. The Audit Committee has delegated oversight responsibility for independent assurance on the overall risk management framework.

The Board delegates day-to-day management responsibilities to the Chief Executive who chairs the Management Committee ("MANCO") which is an executive-level committee providing recommendation and advice to the Chief Executive in the discharge of his responsibilities to the Board. Specific accountabilities are further delegated to sub-committees including, Risk Management Committee ("RMC"), Asset and Liability Management Committee ("ALCO"), Compliance Committee ("CC") and Information and Technology Committee ("ITC"). The Chief Risk Officer ("CRO") is granted authority and accountability to make decisions to risk-related matters considered at the RMC while the executive accountability for Legal, Regulatory Compliance, Financial Crime and Fraud risks resides with the Chief Compliance Officer ("CCO") who chairs the CC.

Material risks and issues considered at RMC and CC should be escalated to the Risk Committee and/or the Board for adequate awareness, challenge and decisions at the non-executive governance committee level.

Roles and responsibilities

The Bank adopts the 3 Lines of Defense ("LOD") model to define the roles and responsibilities of different functions and individuals in risk management, based on the activities performed. It applies to all risk types. The model delineates management accountabilities and responsibilities for risk management and control environment with each LOD, thereby creating a robust control environment to manage risks.

The first LOD has ownership for risks and controls. It comprises Risk Owners and Control Owners. The first LOD may sit within Business units or other functions and are accountable for identifying, assessing, managing and reporting risk from frontline positions and ensure their business activities are in line with the Bank's approved risk appetite, policies and risk limits.

3.1 TABLE OVA: OVERVIEW OF RISK MANAGEMENT (continued)

The second LOD reviews and challenges activities of the first LOD to ensure they have met the minimum requirements set out in the relevant policies and procedures. The second LOD comprises CRO and Risk Stewards who typically sit within Risk Management Department and Legal and Compliance Department.

The third LOD is Internal Audit. It provides independent assurance to the senior management, Audit Committee and the Board on the effectiveness of risk management framework including design and implementation of processes and controls.

Risk Appetite

Risk Appetite is defined as the level and types of risk that the Bank is willing to accept in achieving its strategic objectives. It is formally articulated in the Bank's Risk Appetite Statement ("RAS") approved by the Board. The RAS consists of both qualitative statements and quantitative metrics, covering all material risk types. The qualitative statements outline the Bank's core principles in dealing with and managing such risks and, where appropriate, supplemented by quantitative metrics with thresholds to support monitoring and embedding of Risk Appetite.

The Bank's RAS is embedded, or operationalized, in the Bank's risk management framework, through policies, procedures, limits, controls and/or key indicators to guide day-to-day operations and inform business decision-making.

Risk Management and Reporting Systems

The risk management process and management information reporting systems are in place to ensure material risks of the Bank are properly identified, measured, monitored and reported in different level of governance committee. Appropriate methodologies/techniques are adopted to support business development under Board approved risk appetite, together with evolving regulatory standards. Risk management systems of specific risk types are introduced, including policies and procedures, with risk metrics and applicable limits are properly documented to ascertain compliance of internal and regulatory requirements.

Risk Profile

Currently, the Bank is principally engaged in deposits and lending business, funded by retail deposits and shareholder equity. The Bank's excess funding resources are being employed for Treasury investment as part of the overall asset and liability management.

Below set out material risks inherent from the Bank's business.

Credit Risk

Credit risk is defined as the risk of financial loss from borrower or counterparty who fails to meet its obligations in accordance with agreed terms. It exists in both the trading and banking book and both on and off the balance sheet. The Bank's credit risk are principally arising from its lending and treasury activities.

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The Bank has formulated a comprehensive policies and procedures which laid down governance structure and the approaches on credit risk identification, assessment, control and reporting.

3.1 TABLE OVA: OVERVIEW OF RISK MANAGEMENT (continued)

Refer to section CRA for more details in relation to Credit Risk Management of the Bank.

Market Risk (Including IRRBB)

Market risk is defined as the risk of loss arising from adverse movements in market factors, e.g. exchange rates, interest rates, credit spread, equity price, etc. Currently, the Bank does not have any trading book exposures as mandated by its RAS. Market risk predominately arise from Treasury activities due to movements in interest rates and exchange rates.

Interest rate risk in banking book (“IRRBB”) refers to the risk to the Bank’s capital and earning arising from adverse movements in interest rates that affect the Bank’s banking book positions. The risk arises from the mismatches of repricing frequency of banking book assets and liabilities.

The Bank has established Market Risk Management Policy, Interest Rate Risk Management Policy and Treasury Investment Policy which set out the approaches to measure, monitor and control market risk, as well internal guidelines in relation to the investment activities carried out by Treasury function.

Refer to section MRA and IRRBB for more details related to Market Risk and IRRBB respectively.

Liquidity Risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligation as they fall due or requires additional cost in meeting such obligation. This may be caused by the adverse market conditions or liquidity dry up under which the Bank is unable to obtain funding or to liquidate the assets, unless with material haircut, to meet the liquidity needs.

The Bank has established Liquidity and Funding Risk Management Policy which defines the governance framework, roles and responsibilities of different parties as well as monitoring limits and metrics for liquidity risk management of the Bank.

Refer to LIQA for more details related to Liquidity Risk of the Bank.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal process, people and systems or external events. Operational risk arises from day to day operations or external events and is relevant to every aspect of the Bank.

The Bank has established and implemented an Operational Risk Management Framework which provides a comprehensive framework to identifying and managing operational risks. The framework defines roles and responsibilities across three lines of defense, Risk and Control Self-assessment process, issue and controls management as well as a comprehensive Key Risk Indicators for on-going monitoring and reporting.

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Monitoring report of Key Risk Indicators, material events and issues as well as material outstanding issues are submitted to RMC on a monthly basis for senior management review and oversight.

3.1 TABLE OVA: OVERVIEW OF RISK MANAGEMENT (continued)

Stress Testing

As an integral part of the Bank's risk management process, stress tests on principal risk are regularly performed, where appropriate, to identify the potential weaknesses of the Bank's business profile and associated risk positions. Stress testing methodologies and techniques, e.g. sensitivity tests, scenario analysis, are adopted to assess the potential impact on the Bank's financial positions, including capital adequacy, profitability and liquidity. Appropriate management actions will be prompted, whenever necessary to mitigate the risks.

3.2 TEMPLATE OV1: OVERVIEW OF RISK-WEIGHTED ASSETS

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

		RWA		Minimum capital requirements
		As at 31 December 2020	As at 30 September 2020	As at 31 December 2020
		HK\$'000	HK\$'000	HK\$'000
1	Credit risk for non-securitization exposures	1,568,997	1,089,135	125,520
2	Of which STC approach	1,568,997	1,089,135	125,520
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	802	-	64
7	Of which SA-CCR	-	-	-
7a	Of which CEM	802	-	64
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	-	-	-
10	CVA Risk	225	-	18
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA	-	-	-
13	CIS exposures – MBA	-	-	-
14	CIS exposures – FBA	-	-	-
14a	CIS exposures – combination of approaches	-	-	-
15	Settlement Risk	-	-	-
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	388	200	31
21	Of which STM approach	388	200	31
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)	-	-	-
24	Operational risk	125,863	157,338	10,069
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-

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26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	-	-	-

3.2 TEMPLATE OV1: OVERVIEW OF RISK-WEIGHTED ASSETS (continued)

		RWA		Minimum capital requirements
		As at 31 December 2020	As at 30 September 2020	As at 31 December 2020
		HK\$'000	HK\$'000	HK\$'000
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	1,696,275	1,246,673	135,702

Total RWA increased by HKD450 million since last quarter which was mainly driven by the increase in loans and advances to customers.

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4. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

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

	As at 31 December 2020						
	HK\$'000						
	(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:					not subject to capital requirements or subject to deduction from capital
		subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework		
Assets							
Balances with banks and other financial institutions	226,157	226,157	226,157	-	-	-	-
Placement with banks	688,000	688,000	688,000	-	-	-	-
Investment securities	1,224,274	1,224,275	1,224,275	-	-	-	-
Loans and advances to customers	552,026	552,026	552,026	-	-	-	-
Prepayment and other assets	28,559	28,556	28,529	27	-	-	-
Property, plant and equipment	47,152	47,152	47,152	-	-	-	-
Right-of-use assets	31,289	31,289	31,289	-	-	-	-
Intangible assets	83,012	83,012	-	-	-	-	83,012
Total assets	2,880,469	2,880,467	2,797,428	27	-	-	83,012
Liabilities							
Deposits from customers	1,577,775	1,577,775	-	-	-	-	1,577,775
Other payable and accruals	64,083	64,080	-	-	-	-	64,080
Lease liabilities	29,245	29,245	-	-	-	-	29,245
Make good provision	6,330	6,330	-	-	-	-	6,330
Total liabilities	1,677,433	1,677,430	-	-	-	-	1,677,430

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

		As at 31 December 2020 HK\$'000				
		(a)	(b)	(c)	(d)	(e)
		Total	Items subject to:			
			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	2,797,455	2,797,428	-	27	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1) ²	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	2,797,455	2,797,428	-	27	-
4	Off-balance sheet amounts	8,205	-	-	-	-
5	Differences due to consideration of provision	4,584	4,584	-	-	-
6	Differences due to potential exposures for counterparty credit risk	775	-	-	775	-
7	Exposure amounts considered for regulatory purposes	2,811,019	2,802,012	-	802	-

¹ The amount shown in column (a) is equal to column (b) less column (g) in Total assets row in template LI1

² The amount shown in column (a) is equal to column (b) less column (g) in Total liabilities row in template LI1

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

The main differences between accounting values and amounts considered for regulatory purpose are as follow:

- (i) Off-balance sheet items under regulatory purpose are converted into credit equivalent amount through the use of credit conversion factors (CCFs);
- (ii) Carrying amounts reported in financial statements are net of stage 1, 2 and 3 provisions, whereas exposure amount under regulatory purpose are net of stage 3 provision only;
- (iii) Counterparty credit risk exposures under regulatory purpose not only include the current exposures but also the potential exposures.

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4.4 Template PV1: Prudent valuation adjustments

The following table provides a detailed breakdown of the constituent elements of valuation adjustments. There were no valuation adjustments as of 31 December 2020.

		As at 31 December 2020 HK\$'000							
		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	-	-	-	-	-	-	-	-

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5. COMPOSITION OF REGULATORY CAPITAL

5.1 Template CC2: Reconciliation of Regulatory Capital to Balance Sheet

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at 31 December 2020	As at 31 December 2020	
	HK\$'000	HK\$'000	
Assets			
Balances with banks and other financial institutions	226,157	226,157	
Placement with banks	688,000	688,000	
Investment securities	1,224,274	1,224,275	
<i>of which: Impairment allowances eligible for inclusion in Tier 2 capital</i>		(78)	[1]
Loans and advances to customers	552,026	552,026	
<i>of which: Impairment allowances eligible for inclusion in Tier 2 capital</i>		(4,506)	[2]
Prepayment and other assets	28,559	28,556	
Property, plant and equipment	47,152	47,152	
Right-of-use assets	31,289	31,289	
Intangible assets	83,012	83,012	[3]
Total assets	2,880,469	2,880,467	
Liabilities			
Deposits from customers	1,577,775	1,577,775	
Other payable and accruals	64,083	64,080	
Lease liabilities	29,245	29,245	
Make good provision	6,330	6,330	
Total liabilities	1,677,433	1,677,430	
Shareholders' equity			
Share capital	1,500,000	1,500,000	
<i>of which: amount eligible for CET1</i>		1,500,000	[4]
Other reserves	18,346	18,347	[5]
<i>of which: Regulatory reserve for general banking risks</i>		536	[6]
Accumulated losses	(315,310)	(315,310)	[7]
Total shareholders' equity	1,203,036	1,203,037	

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5.2 Template CC1: Composition of Regulatory Capital

		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		As at 31 December 2020	
		HK\$'000	
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	1,500,000	[4]
2	Retained earnings	(315,310)	[7]
3	Disclosed reserves	18,347	[5]
4	<i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	N/A	N/A
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 deductions	1,203,037	
CET1 capital: regulatory deductions			
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	83,012	[3]
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	536	
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	536	[6]
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)	-	

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5.2 Template CC1: Composition of Regulatory Capital (continued)

		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		As at 31 December 2020	
		HK\$'000	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	Total regulatory deductions to CET1 capital	83,548	
29	CET1 capital	1,119,489	
	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)	1,119,489	
	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	5,120	[1] + [2] + [6]
51	Tier 2 capital before regulatory deductions	5,120	
	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)	-	

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5.2 Template CC1: Composition of Regulatory Capital (continued)

		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		As at 31 December 2020	
		HK\$'000	
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)	5,120	
59	Total regulatory capital (TC = T1 + T2)	1,124,609	
60	Total RWA	1,696,275	
Capital ratios (as a percentage of RWA)			
61	CET1 capital ratio	66.00%	
62	Tier 1 capital ratio	66.00%	
63	Total capital ratio	66.30%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	3.39%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: bank specific countercyclical capital buffer requirement	0.89%	
67	of which: higher loss absorbency requirement	-	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	54.00%	
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	-	

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5.2 Template CC1: Composition of Regulatory Capital (continued)

		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		As at 31 December 2020	
		HK\$'000	
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>	-	

5.3 TABLE CCA: Main features of regulatory capital instruments

		Quantitative / qualitative information
		As at 31 December 2020
1	Issuer	Airstar 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 ¹	Common Equity Tier 1
5	Post-transitional Basel III rules ²	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 recognized in regulatory capital (currency in millions, as of most recent reporting date)	HKD1,500 million
9	Par value of instrument	Not applicable
10	Accounting classification	Shareholders' equity
11	Original date of issuance	13 July 2018 issued 300 million ordinary shares 24 July 2018 issued 1,200 million ordinary shares
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
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

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

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

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

		Quantitative / qualitative information
		As at 31 December 2020
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
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

Full terms and conditions

[Ordinary shares](#)

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6. COUNTERCYCLICAL CAPITAL BUFFER

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

The following table provides an overview of the geographical distribution of private sector credit exposures relevant for the calculation of the Bank’s CCyB ratio.

		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	1.000	747,488		
	Sum		747,488		
	Total		843,859	0.886	7,475

1 This represents the sum of RWA for the private sector credit exposures in jurisdictions with a non-zero countercyclical buffer rate.

2 The total RWA used in the computation of the CCyB ratio in column (c) represents the total RWA for the private sector credit exposures in all jurisdictions to which the bank is exposed, including jurisdictions with no countercyclical buffer rate or with a countercyclical buffer rate set at zero. The CCyB amount in column (e) represents the total RWA multiplied by the AI-specific CCyB ratio in column (d).

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7. LEVERAGE RATIO

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

	Item	As at 31 December 2020
		Value under the LR framework HK\$'000
1	Total consolidated assets as per published financial statements	2,880,469
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	802
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)	821
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(4,584)
7	Other adjustments	(78,993)
8	Leverage ratio exposure measure	2,798,515

Compared with 30 June 2020, leverage ratio exposure measure increased by HKD1,010 million which was mainly due to the increase in marketable debt securities held and loans and advances to customers.

7.2 Template LR2: Leverage ratio

		As at 31 December 2020	As at 30 September 2020
		HK\$'000	HK\$'000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	2,885,024	2,335,408
2	Less: Asset amounts deducted in determining Tier 1 capital	(83,548)	(67,649)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	2,801,476	2,267,759
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (whether applicable net of eligible cash variation margin and/or with bilateral netting)	27	-
5	Add-on amounts for PFE associated with all derivative contracts	775	-
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 derivatives 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	802	-
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	-	-

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7.2 Template LR2: Leverage ratio (continued)

		As at 31 December 2020	As at 30 September 2020
		HK\$'000	HK\$'000
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	8,205	3,535
18	Less: Adjustments for conversion to credit equivalent amounts	(7,384)	(3,181)
19	Off-balance sheet items	821	354
Capital and total exposures			
20	Tier 1 capital	1,119,489	1,212,912
20a	Total exposures before adjustments for specific and collective provisions	2,803,099	2,268,113
20b	Adjustments for specific and collective provisions	(4,584)	(509)
21	Total exposures after adjustments for specific and collective provisions	2,798,515	2,267,604
Leverage ratio			
22	Leverage ratio (%)	40.00%	53.49%

The decrease in leverage ratio as of the quarter ended 31 December 2020 was mainly due to the increase in total on-balance sheet exposures that was caused by the increase in loans and advances to customers.

8. LIQUIDITY

8.1 Table LIQA: Liquidity Risk Management

Overview

Liquidity Risk is the risk that the Bank does not have sufficient financial resources to meet its obligation as they fall due or requires additional costs in meeting such obligation. This may be caused by the adverse market conditions or liquidity dry up under which the Bank is unable to obtain funding or to liquidate the assets, unless with significant haircut, to meet the liquidity needs.

Governance

The Bank has established the Liquidity and Funding Risk Management Policy which sets out the approaches for liquidity and funding risk management and oversight in accordance with the requirements stipulated in the HKMA SPM LM-1 “Regulatory Framework for Supervision of Liquidity Risk” and LM-2 “Sound Systems and Controls for Liquidity Risk Management”. The Policy aims to ensure that the Bank maintains adequate level of liquidity and cash flows to meet all contractual obligations, maintains diversified funding base and fulfills the relevant regulatory liquidity requirements.

The policy defines the governance framework, roles and responsibilities of different parties, together with monitoring limits and metrics for liquidity risk management of the Bank.

The Board is ultimately responsible for the overall liquidity management and asset and liability management. ALCO and RMC are delegated with executive responsibility to manage liquidity risk from first and second LOD perspectives, respectively. ALCO 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”).

The Bank sets up various risk measures, including Liquidity Maintenance Ratio (“LMR”), and Loan to Deposit ratio, to identify emerging risks in liquidity risk positions and potential funding needs. The internal limits for such liquidity measures are established, with sufficient buffer to regulatory minimum requirements to ensure the on-going compliance. Monitoring results of liquidity risk metrics are presented to ALCO and RMC on a monthly basis and to the Board Risk Committee on a quarterly basis.

As at 31 December 2020, the Bank maintained the following liquidity related ratio well above the HKMA required level.

	As at 31 December 2020
Liquidity Maintenance Ratio	156.80%
Loan to Deposit ratio	35.27%

Cash flow projection and stress testing

The Bank applied cash flow analysis and projection to identify funding needs arising from balance sheet items in specific time frame. The cash flow analysis covers both normal and stress scenarios to obtain a comprehensive view of cash flow positions and maturity profile of the balance sheet for ensuring sufficient liquidity can be maintained and informing necessary actions in advance when needed. According to HKMA SPM LM-2, three stress

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8.1 Table LIQA: Liquidity Risk Management (continued)

scenarios (institution specific, market-wide and combined) are designed and employed where the Bank is required to maintain positive net cash flow.

The table below analyses the Bank's maturity profile as at 31 December 2020, breaking down on- and off-balance sheet items by maturity buckets and the resultant liquidity gaps based on the completion instructions of MA(BS)23 Return on Liquidity Monitoring Tools.

	Contractual maturity of cash flows and securities flows arising from the relevant items						
	As at 31 December 2020						
	In HK\$'000						
Total amount	Next day	Less than 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year	Over 1 year	Undated	
On-balance sheet liabilities							
Deposits from non-bank customers							
(a) Pledged deposits	-	-	-	-	-	-	-
(b) Demand, savings and current account deposits	437,830	437,830					
(c) Term, call and notice deposits	1,142,854	19,209	404,155	513,539	205,951	-	
Amount payable arising from derivative contracts	-	-	-	-	77,520	-	
Other liabilities	96,749	2,755	9,357	51,423	16,937	16,141	136
Capital and reserves	1,203,037	-	-	-	-	-	1,203,037
Total liabilities	2,880,470	459,794	413,512	564,962	300,408	16,141	1,203,173
On-balance sheet assets							
Amount receivable arising from derivative contracts	27	-	-	-	77,527	-	-
Due from MA for a/c of Exchange Fund	141,054	141,054	-	-	-	-	-
Due from banks	773,384	85,103	200,079	293,083	195,119	-	-
Debt securities, prescribed instruments and structured financial instruments held (net of short positions)							
Readily monetizable	1,224,841	1,224,841					
Loans and advances to non-bank customers	558,593	782	54,125	119,898	103,676	280,067	45
Other assets	177,592	912	799	3,424	15,645	14,565	142,247
Total Assets	2,875,491	1,452,692	255,003	416,405	391,967	294,632	142,292
Off-balance sheet obligations							
Irrevocable loan commitments or facilities granted	8,205	-	-	-	8,205	-	-
Total Off-balance sheet obligations	8,205	-	-	-	8,205	-	-
Contractual Maturity Mismatch⁽ⁱ⁾		992,898	(158,509)	(148,557)	83,354	278,491	
Cumulative Contractual Maturity Mismatch⁽ⁱ⁾		992,898	834,389	685,832	769,186	1,047,677	

⁽ⁱ⁾ Positive indicates a position of liquidity surplus. Negative indicates a liquidity shortfall that has been funded.

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

Contingency Funding Plan

As an integral part of the Bank's liquidity and funding risk management framework, the Contingency Funding Plan ("CFP") is established, in accordance with HKMA's requirements stipulated in SPM LM-2, to facilitate the Bank proactively address liquidity shortfalls in emergency situations, including idiosyncratic and market wide liquidity stress events. A set of early warning indicators are utilized, covering both internal and external factors, for monitoring potential threats, at an early stage, towards the Bank's liquidity profile.

Should there be any breach of early warning indicators, immediate investigation will be conducted and escalated to ALCO for further consideration on remedial action, if applicable, and the potential activation of the CFP.

A Liquidity Crisis Management Team, chaired by the Chief Executive, will be formed to implement the CFP, including formulating strategies and actions, facilitating internal/external coordination and communication, arranging and allocating appropriate resources on handling the liquidity stress event.

Drill testing on the CFP is conducted, at least annually, to demonstrate the availability and operational feasibility of the funding options and the CFP is subject to regular review in order to accommodate any changes in business environment.

9. CREDIT RISK

9.1 Table CRA: General information about credit risk

Overview

Credit Risk is defined as the risk of financial loss from borrower or counterparty who fails to meet its obligations in accordance with agreed terms. It exists in both the trading and banking book and both on and off the balance sheet. The Bank's credit risk is principally arising from its lending and treasury activities.

Governance

The Bank has established policies and procedures, outlining the governance framework and requirements in identify, measure, monitor, control and reporting the credit risk arising from its business. The approach on credit risk management, including the credit underwriting criteria and credit monitoring process, are align with the business strategy and risk appetite of the Bank as well as the relevant regulatory requirements.

The Board represents the highest authority of the Bank's credit risk management. RMC is delegated with the executive responsibility for overseeing and monitoring the credit risk arising from retail and corporate transactions, including but not limit to approval of respective risk management policies. This includes, setting of relevant policies and procedures; monitoring the credit quality and associated risk profile to ensure alignment with risk appetite and compliance with regulatory requirements; and review the appropriateness credit approval authority being delegated by different governance body. Internal Audit Department, as the third line of defense provides independent assurance on the overall effectiveness on the Bank's credit risk management framework, including the control processes.

Credit approval limit operates through a hierarchy approach on authority delegation. The Board delegates the credit approval authority limits to Chief Executive with the power of sub-delegation to Chief Risk Officer. Credit approvers are empowered by Chief Risk Officer on the credit approval authority limit.

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9.2 Template CR1: Credit quality of exposures

Loans are generally referred to as any on-balance sheet exposures included as credit risk for non-securitization exposures, covering exposures to customers, banks, sovereigns and others. Cash items and non-financial assets are excluded.

		As at 31 December 2020 HK\$'000						
		(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	-	1,473,030	4,506	-	4,506	-	1,468,524
2	Debt securities	-	1,229,819	78	-	78	-	1,229,741
3	Off-balance sheet exposures	-	-	-	-	-	-	-
4	Total	-	2,702,849	4,584	-	4,584	-	2,698,265

9.3 Template CR2: Changes in defaulted loans and debt securities

		As at 31 December 2020 HK\$'000
1	Defaulted loans and debt securities at end of the previous reporting period	-
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	Defaulted loans and debt securities at end of the current reporting period	-

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

In order to meet the impairment measurement requirement under HKFRS 9, a forward-looking expected credit loss ("ECL") model is adopted to measure impairment allowance. It estimates the expected credit losses at reporting date based on either an estimate of 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in the credit risk of the financial instrument since initial recognition.

Financial instruments are classified into three stages using up-to-date information at reporting date to determine whether 12-month ECL or lifetime ECL is used:

Stage 1: Financial instruments that are not considered to have significant increase in credit risk since initial recognition or low credit risk at reporting date are classified in Stage 1 and are evaluated for impairment using 12-month ECL.

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

Stage 2: Financial instruments that are considered to have significant increase in credit risk since initial recognition but not credit-impaired are classified in Stage 2. Financial instruments classified in Stage 2 are evaluated using lifetime ECL.

Stage 3: Financial instruments, which are credit-impaired, are classified in Stage 3. Financial instruments classified in Stage 3 are evaluated using lifetime ECL.

The calculation of ECL incorporates forward-looking information that several key macroeconomic factors and their forecast are included in the ECL model. Taking into account of different potential economic condition, probability weighted ECL under possible outcomes of different economic scenario is measured.

Rescheduled loans refer to loans: (i) that have been restructured and re-negotiated between borrowers and the Bank because of a deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and (ii) for which the revised repayment terms, either of interest or the repayment period, are non-commercial to the Bank.

Additional information on the credit quality of exposures are provided in sections 9.4.1 to 9.4.6 below to supplement the quantitative information provided under templates CR1 and CR2 as at 31 December 2020.

9.4.1 CRB1: Exposures by geographical location

	Gross carrying amounts at 31 December 2020 HK\$'000
Hong Kong SAR	1,346,546
China	1,136,737
Other ¹	219,566
Total	2,702,849

¹ "Other" constitutes segment less than 10% of total RWA and is disclosed on aggregated basis.

9.4.2 CRB2: Exposures by industry

	Gross carrying amounts at 31 December 2020 HK\$'000
Bank	1,359,491
Official sector	232,986
Non-bank private sector	
- Financial concerns	501,936
- Wholesale and retail trade	143,928
- Information technology	49,845
- Individuals	412,662
- Other	2,001
Total	2,702,849

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9.4.3 CRB3: Exposures by residual maturity

	Gross carrying amounts As at 31 December 2020
	HK\$'000
Less than 1 year	1,829,753
Between 1 and 5 years	870,481
More than 5 years	2,615
Total	2,702,849

9.4.4 CRB4: Impaired exposures and related allowances and write-offs by geographical location and industry

There were no impaired exposures as at 31 December 2020.

9.4.5 CRB5: Aging analysis of accounting past due unimpaired exposures

Past due unimpaired exposures are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities. Exposures past due for more than 90 days are considered impaired.

	As at 31 December 2020			
	Up to 30 days	31 – 60 days	61 – 90 days	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans and advances to customers				
- Individuals	98	44	-	142
Total	98	44	-	142

9.4.6 CRB6: Breakdown of restructured exposures between impaired and unimpaired

There were no restructured exposures as at 31 December 2020.

9.5 Table CRC: Qualitative disclosures related to credit risk mitigation

The Credit Risk Management Policy sets out the approach on credit risk mitigation of the Bank.

As of 31 December 2020, the Bank only offer unsecured credit products to individual and corporate customers. Hence, no collateral or guarantee would be accepted as mitigation for credit exposure.

9.6 Template CR3: Overview of recognized credit risk mitigation

		As at 31 December 2020 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	1,468,524	-	-	-	-
2	Debt securities	1,229,741	-	-	-	-
3	Total	2,698,265	-	-	-	-
4	Of which defaulted	-	-	-	-	-

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

The Bank adopted the standardized approach for assessing the capital adequacy of credit risk exposure, as mandated by Banking (Capital) Rules (BCR), according to the credit rating announced by recognized External Credit Assessment Institutions (ECAIs), i.e. Moody's Investors Services; Standard & Poor's Rating Services and Fitch Ratings to determine the risk-weight of the following exposure, if applicable:

1. Sovereign;
2. Public sector entity;
3. Bank;
4. Securities Firm; and
5. Corporate.

The Bank adopts the issue specific rating of the debt security in risk-weighting the exposure for capital requirements. The issuer rating will be substituted if the security does not have issue specific credit rating provided that the security is a senior obligation of the issuer.

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

Exposure classes		As at 31 December 2020					
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		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	232,986	-	232,986	-	8,387	4
2	PSE exposures	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	1,359,491	-	1,359,491	-	638,310	47
5	Securities firm exposures	-	-	-	-	-	-
6	Corporate exposures	695,709	8,205	695,709	-	512,139	74
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	414,663	-	414,663	-	310,998	75
11	Residential mortgage loans	-	-	-	-	-	-
12	Other exposures which are not past due exposures	99,163	-	99,163	-	99,163	100
13	Past due exposures	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	Total	2,802,012	8,205	2,802,012	-	1,568,997	56

Compared with 30 June 2020, total credit risk exposures and total RWA as at 31 December 2020 increased by HKD1,016 million and HKD910 million respectively. The increase was mainly driven by the combined effect of the increase in marketable debt securities held and loan growth.

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

		As at 31 December 2020 HK\$'000											Total credit risk exposures amount (post CCF and post CRM)
	Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others		
	Exposure class												
1	Sovereign exposures	191,051	-	41,935	-	-	-	-	-	-	-	232,986	
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-	
4	Bank exposures	-	-	463,316	-	701,056	-	195,119	-	-	-	1,359,491	
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-	
6	Corporate exposures	-	-	-	-	367,140	-	328,569	-	-	-	695,709	
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	-	-	-	-	-	414,663	-	-	-	-	414,663	
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-	
12	Other exposures which are not past due exposures	-	-	-	-	-	-	99,163	-	-	-	99,163	
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-	
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-	
15	Total	191,051	-	505,251	-	1,068,196	414,663	622,851	-	-	-	2,802,012	

Compared with 30 June 2020, total credit risk exposures increased by HKD1,016 million which was mainly due to the increase in marketable debt securities held and loans and advances to customers.

10. COUNTERPARTY CREDIT RISK

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

Overview

Counterparty Credit Risk is the bilateral risk of loss to a transaction from counterparty default before the final settlement of the transaction with a positive economic value at the time of default. Due to the uncertainty of underlying market factors, market value movement of the transaction can vary over time and either be positive or negative, which therefore creates a bilateral risk towards both parties.

Business activities that create CCR are referring to derivative contracts, security financing transactions (SFTs) and cash transactions, which comprising another form of credit risk. Specifically, the CCR has two components, pre-settlement risk and settlement risk.

Governance

Currently, the Bank has only immaterial exposure of CCR arising from foreign exchange contracts. The Bank has adopted the Current Exposure Method (CEM) as described in Banking (Capital) Rules (BCR) for measuring the exposure of counterparty credit risk. Limits for CCR are established and enforced, as an integral part of overall credit limit, through formal credit approval procedures to control and monitor the limit utilization for the counterparty.

Credit Risk Mitigation

As of 31 December 2020, the Bank does not have any eligible credit risk mitigation (CRM) measures as defined in Banking (Capital) Rules (BCR).

Wrong-way Risk

Wrong-way risk, which categorized into (i) general wrong-way risk, the probability of default of counterparties is positively correlated with general market risk factors; and (ii) specific wrong-way risk, the exposure to a particular counterparty is positively correlated with the probability of default of the counterparty. As of 31 December 2020, the Bank has immaterial exposure towards wrong-way risk.

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

		As at 31 December 2020 HK\$'000					
		Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
1	SA-CCR (for derivative contracts)	-	-		-	-	-
1a	CEM	27	775		N/A	802	802
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	Total						802

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10.3 Template CCR2: CVA capital charge

		As at 31 December 2020	
		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	802	225
4	Total	802	225

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

		As at 31 December 2020 In HK\$'000										
	Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
Exposure class												
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	-	-	-	-	802	-	-	-	802
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	Total	-	-	-	-	-	-	802	-	-	-	802

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10.5 Template CCR5: Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

	As at 31 December 2020 In HK\$'000					
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	-	-

10.6 Template CCR6: Credit-related derivatives contracts

	As at 31 December 2020 HK\$'000	
	(a)	(b)
	Protection bought	Protection sold
Notional amounts		
Single-name credit default swaps	-	-
Index credit default swaps	-	-
Total return swaps	-	-
Credit-related options	-	-
Other credit-related derivative contracts	-	-
Total notional amounts	-	-
Fair values		
Positive fair value (asset)	-	-
Negative fair value (liability)	-	-

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10.7 Template CCR8: Exposures to CCPs

		As at 31 December 2020 HK\$'000	
		(a)	(b)
		Exposure after CRM	RWA
1	Exposures of the AI as clearing member or client to qualifying CCPs (total)		-
2	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	-	-
3	(i) OTC derivative transactions	-	-
4	(ii) Exchange-traded derivative contracts	-	-
5	(iii) Securities financing transactions	-	-
6	(iv) Netting sets subject to valid cross-product netting agreements	-	-
7	Segregated initial margin	-	-
8	Unsegregated initial margin	-	-
9	Funded default fund contributions	-	-
10	Unfunded default fund contributions	-	-
11	Exposures of the AI as clearing member or client to non-qualifying CCPs (total)		-
12	Default risk exposures to non-qualifying CCPs (excluding items disclosed in rows 17 to 20), of which:	-	-
13	(i) OTC derivative transactions	-	-
14	(ii) Exchange-traded derivative contracts	-	-
15	(iii) Securities financing transactions	-	-
16	(iv) Netting sets subject to valid cross-product netting agreements	-	-
17	Segregated initial margin	-	-
18	Unsegregated initial margin	-	-
19	Funded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

11. SECURITIZATION EXPOSURES

There were no securitization exposures as at 31 December 2020 and 30 June 2020.

12. MARKET RISK

12.1 Table MRA: Qualitative disclosures related to market risk

Overview

Market Risk is defined as the risk of loss arising from adverse movements in market factors, e.g. exchange rates, interest rates, credit spread, equity price, etc. Currently, the Bank does not have any trading book exposures as mandated by its RAS. Market risk predominately arise from Treasury activities due to movements in interest rates and exchange rates.

Governance

The Bank has established Market Risk Management Policy, Interest Rate Risk Management and Treasury Investment Policy which set out the approaches to measure and monitor market risk; and particularly, the internal guidelines in relation to the investment activities carried out by Treasury respectively. The governance framework for market risk management and treasury investment activities are defined in the policies, together with responsibilities of different parties and various limits for control and monitor the risk associated.

The Board is ultimately responsible for the overall market risk and treasury investment management to ensure the risks are properly identified, measured and monitored by different level of parties. ALCO and RMC represent the first line and second line senior management oversight and monitoring on market risk and treasury investment related exposure.

Market risk limits are defined in different dimensions, such as price sensitivity and open positions for foreign currencies, to monitor and control the market risk associated with business activities of the Bank. In addition, Treasury is required to prepare and submit the Treasury Investment Proposal, as mandated by Treasury Investment Policy, for ALCO review and approval. The performance and risk on Treasury investment portfolio will be presented in monthly ALCO meeting where the monitoring result on market risk related metrics will be presented both in ALCO and RMC on monthly basis.

12.2 Template MR1: Market risk under STM approach

		As at 31 December 2020
		RWA
		HK\$'000
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	-
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	388
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	Total	388

13. INTEREST RATE RISK IN BANKING BOOK

13.1 Table IRRBB: Interest Rate Exposures in Banking Book

Overview

Interest Rate Risk in Banking Book (IRRBB) refers to the risk to the Bank’s capital and earning arising from adverse movements in interest rates that affect the Bank’s banking book positions. The risk arises from the mismatches of repricing frequency of banking book assets and liabilities.

Governance

The Bank has formulated Interest Rate Risk Management Policy which outlines the governance framework on IRRBB management according to the requirements stipulated in HKMA Supervisory Policy Manual IR-1 – Interest Rate Risk in the Banking Book. The Board is ultimately responsible for ensuring effective interest rate risk management of the Bank. ALCO and RMC are responsible for senior management risk oversight at first and second LOD respectively in relation to interest rate risk management.

The interest rate risk impact on capital and earnings, which measured by Economic Value Equity (“EVE”) sensitivity and Net Interest Income (NII) respectively, are introduced to measure and monitor the interest rate risk exposure of the Bank. Regular monitoring of IRRBB risk profile are conducted and presented for review in ALCO and RMC on a monthly basis and to Board Risk Committee on a quarterly basis.

Key assumptions

As of December 2020, The Bank applies the contractual maturity of customer deposits and loan repayment on measuring the IRRBB risk exposure.

Exemption on IRRBB standardization method

The HKMA has granted the Bank an exemption from the implementation of the IRRBB Standardized Approach and reporting IRRBB exposure on MA(BS)12A – “Return of Interest Rate Risk in the Banking Book” till March 2021 to allow the Bank sufficient time for collating customer behavior data. As of 31 December 2020, the Bank uses the banking return MA(BS)12 – “Return of Interest Rate Risk Exposures” on reporting the IRRBB exposure.

IRRBB – Sensitivity analysis

	As at 31 December 2020	
	HK\$’m	
	HKD	USD
Interest rate risk shock +200 basis points		
- Increase / (decline) in earnings	(10)	9
- Increase / (decline) in economic value	22	16

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14. CONTINGENT LIABILITIES AND COMMITMENTS

	As at 31 December 2020 HK\$'000	
	Notional amount	RWA
Direct credit substitutes	-	-
Transaction-related contingencies	-	-
Trade-related contingencies	-	-
Note issuance and revolving underwriting facilities	-	-
Forward forward deposits placed	-	-
Other commitments		
- Which are unconditionally cancellable	8,205	-
- With an original maturity of not more than one year	-	-
- With an original maturity of more than one year	-	-
Total	8,205	-

15. INTERNATIONAL CLAIMS

The country risk exposures in the table below are prepared according to the location and types of the counterparties as defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk.

International claims attributable to individual countries or areas not less than 10% of the Bank's total international claims, after recognized risk transfer, are shown as follows:

	As at 31 December 2020					Total HK\$m
	Banks HK\$m	Official Sector HK\$m	Non-bank private sector		Others HK\$m	
			Non-bank financial institutions HK\$m	Non-financial private sector HK\$m		
Offshore Centres	53	-	360	144	-	557
of which: Hong Kong SAR	53	-	312	144	-	509
Developing Asia and Pacific	416	42	86	49	-	593
of which: China	416	42	86	49	-	593

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16. LOANS AND ADVANCES TO CUSTOMERS

16.1 Loans and advances to customers by loan usage

The analysis of the Bank's gross loans and advances to customers by loan usage and the corresponding balances covered by collateral are as follows:

	As at 31 December 2020	
	Outstanding balance	% of gross advances covered by collateral
	HK\$'000	%
Loans and advances for use in Hong Kong		
Industrial, commercial and financial:		
- Property development	-	-
- Property investment	-	-
- Financial concerns	-	-
- Stockbrokers	-	-
- Wholesale and retail trade	142,959	-
- Manufacturing	-	-
- Transport and transport equipment	-	-
- Recreational activities	-	-
- Information technology	-	-
- Others	2,000	-
Individuals:		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	-	-
- Loans for the purchase of other residential properties	-	-
- Credit card advances	-	-
- Others private purposes	411,573	-
Gross loans and advances for use in Hong Kong	556,532	-
Trade financing	-	-
Gross loans and advances for use outside Hong Kong	-	-
Gross loans and advances to customers	556,532	-

Analysis of impaired advances, specific and collective provisions for the individual loan usage category which accounted for 10% or more of the Bank's advances to customers:

	As at 31 December 2020			
	Impaired advances to customers	Specific provisions	Collective provisions	Overdue loans and advances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Industrial, commercial and financial:				
- Wholesale and retail trade	-	-	-	-
- Others	-	-	-	-
Individuals - other private purposes	-	-	-	-
Total	-	-	-	-

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16.2 Loans and advances to customers by geographical area

The analysis of the Bank's gross advances to customers by geographical area is based on the location of the counterparty after taking into account the transfer of risk. In general, transfer of risk applies if the claim is guaranteed by a party in a country which is different from that of the counterparty.

	As at 31 December 2020		
	Loans	Trade financing	Total
	HK\$'000	HK\$'000	HK\$'000
Hong Kong	556,532	-	556,532
Total	556,532	-	556,532

Analysis of impaired advances, impairment allowances for loans and trade financing which accounted for 10% or more of the Bank's gross advances to customers:

	As at 31 December 2020			
	Impaired advances to customers	Specific provisions	Collective provisions	Overdue loans and advances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	-	-	-	-
Total	-	-	-	-

16.3 Loans and advances to customers by movements in specific and collective provision during the year.

This was no specific and collective provision as at 31 December 2019.

	Balance at 1 January 2020	Charge/(Write-back) to income statement	Recoveries	Write-off	Exchange and other movements	Balance at 31 December 2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans and advances to customers						
Specific provisions	-	-	-	-	-	-
Collective provisions	-	4,506	-	-	-	4,506
Total	-	4,506	-	-	-	4,506

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17. OVERDUE AND RESCHEDULED ASSETS

17.1 Overdue loans and advances to customers

The overdue loans and advances of the Bank are analyzed as follows:

	As at 31 December 2020	
	HK\$'000	% of gross loans and advances to customers
Overdue loans and advances		
more than three months but not more than six months	-	-
more than six months but not more than one year	-	-
more than one year	-	-
Total	-	-
Individual impairment allowances made in respect of the above overdue loans and advances	-	-
Current market value of collateral held against the covered portion of the above overdue loans and advances	-	-
Covered portion of the above overdue loans and advances	-	-
Uncovered portion of the above overdue loans and advances	-	-

17.2 Rescheduled advances

There were no rescheduled loans and advances of the Bank as at 31 December 2020 and 30 June 2020.

17.3 Repossessed assets

There were no repossessed assets of the Bank as at 31 December 2020 and 30 June 2020.

17.4 Overdue other assets

There were no impaired, overdue or rescheduled placings with and advances to banks, nor overdue or rescheduled other assets as at 31 December 2020 and 30 June 2020.

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18. MAINLAND ACTIVITIES

The table below summarizes the non-bank Mainland China exposure of the Bank, categorized by types of counterparties:

Types of Counterparties		As at 31 December 2020 HK\$'000		
		On-balance sheet exposure	Off-balance sheet exposure	Total
(a)	Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	319,125	-	319,125
(b)	Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
(c)	PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	301,683	-	301,683
(d)	Other entities of central government not reported in part (a) above	-	-	-
(e)	Other entities of local governments not reported in part (b) above	-	-	-
(f)	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	49,844	-	49,844
(g)	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
Total		670,652	-	670,652
Total assets after provisions		2,880,813		
On-balance sheet exposures as percentage of total assets		23.28%		

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19. CURRENCY RISK

The net positions in foreign currencies are disclosed when each currency constitutes 10% or more of the respective total net position in all foreign currencies.

	As at 31 December 2020 HK\$m		
	CNY	USD	Total foreign currencies
Spot assets	58	923	981
Spot liabilities	(58)	(853)	(911)
Forward purchases	-	-	-
Forward sales	-	(78)	(78)
Net long (short) position	-	(8)	(8)

There were no foreign currency structural positions and option positions as at 31 December 2020.

20. ASSET UNDER SECURITY

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

21. SEGMENTAL INFORMATION

The Bank is a newly incorporated bank in Hong Kong, with the virtual banking license granted in 2019. The core business activity in 2020 was retail banking and there was only one reportable segment. Therefore, no additional reportable segment and geographical information were presented.

22. REMUNERATION

22.1 Table REMA: Remuneration policy

Mechanism

The Remuneration Policy of Airstar Bank Limited (the “Bank”) is designed to encourage employee behaviour that supports the Bank’s risk management framework, corporate values and long-term financial soundness. It is in line with the objectives, business strategies and long-term goals of the Bank and is structured in a way that does not encourage excessive risk-taking by employees but allows the Bank to attract and retain employees with relevant skills, knowledge and expertise to discharge their specific functions.

The Policy addresses the remuneration of the following personnel in particular.

- 1) Senior Management who are responsible for oversight of the Bank’s firm-wide strategy or activities or those of the Bank’s material business lines (including, but not limited to, executive directors, the chief executive, and other senior executives).
- 2) Key Personnel whose duties or activities in the course of their employment involve the assumption of material risk or the taking on of material exposures on behalf of the Bank.
- 3) Groups of employees whose activities in the aggregate may expose the Bank to material amounts of risk and who are subject to the same or similar incentive arrangements.
- 4) Senior staff within risk control functions including, but not limited to, risk management, financial control, compliance, legal and internal audit functions.

The Board of the Bank (the “Board”) is ultimately responsible for overseeing the formulation and implementation of the Bank’s remuneration policy, systems and related control process. In exercising such oversight, the Board ensures that the Bank’s remuneration system is appropriate and consistent with the Bank’s culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements. The Board’s judgements and decisions relating to remuneration arrangements are taken independently of the management and in the best interests of the Bank.

The Board approves the remuneration packages (and any subsequent adjustments) of the Bank’s Senior Management and Key Personnel. This approval can, except for the remuneration packages of the chief executive and the alternate chief executive(s), be delegated to the Board’s Nomination and Remuneration Committee (the “Committee”).

The Committee

- makes recommendations in respect of remuneration policy and practices to the Board;
- exercises competent and independent judgement on remuneration policies and practices and the incentives thereby created for managing risk, capital and liquidity; and
- reports any material issues in relation to the Bank’s remuneration system to the Board.

The Human Resources Department of the Bank presents proposals on the remuneration policy, remuneration review as well as the arrangement of variable remuneration to the Committee for review and approval.

To avoid possible undue influence from business units, risk control personnel are compensated in a manner that is independent of the performance of the business areas which they oversee. Management of business units is not able to determine the remuneration of personnel in the risk control functions.

22.1 Table REMA: Remuneration policy (*continued*)

Structure of Remuneration

Remuneration packages typically consist of fixed and variable remuneration. The Bank seeks to achieve an appropriate balance between these elements in accordance with the employees' role, responsibilities, seniority and activities. The proportion of variable remuneration to the total remuneration is generally expected to increase in line with the seniority and responsibility of an employee such that a substantial proportion of the remuneration of the Senior Management and Key Personnel is paid in the form of variable remuneration.

In restraining the risk-taking incentives of Senior Management and Key Personnel whose activities could have a material impact on the overall financial performance of the Bank, the payment of a substantial proportion of their variable remuneration in the form of shares could be effective in aligning incentives with risk and longer term value creation.

Performance Measurement for Variable Remuneration

The award of variable remuneration depends on the fulfilment of performance criteria including both financial (including, but not limited to, profit and loss, market share, intake of new customers, etc) and non-financial factors so that the quality of the performance of employees in the overall course of their employment (and not solely their financial performance) can be assessed as an integral part of their performance measurement and hence be appropriately reflected in their awards of variable remuneration.

Performance in relation to non-financial factors such as adherence to risk management policies, compliance with legal, regulatory and ethical standards, results of internal audit reviews and adherence to corporate values forms a significant part of the overall performance measurement of employees, given that poor performance in these factors can be indicative of significant risks to the Bank. For employees who play a role in supervising other staff within the Bank, additional non-financial factors are also considered (e.g. assessing their oversight responsibilities in relation to the management and mitigation of risks, and the risk of misconduct). Adverse performance in non-financial factors, where appropriate, should override outstanding financial achievements, and be reflected by a reduction to, or elimination of, any variable remuneration.

Deferral of Variable Remuneration

As some of the risks to which the Bank is exposed and the outcomes of such risks can only be adequately measured or observed over the longer term, deferral of the payment of a portion of variable remuneration allows employees' 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 employees to more accurately reflect risk and risk outcomes. Generally, the proportion of variable remuneration made subject to deferment would be expected to increase in line with the seniority and responsibility of the relevant employees.

Deferred variable remuneration is paid in the form of shares which vest over a period of 4 years. Shares are awarded subject to the performance of eligible employees. The shares will lapse upon termination of employment.

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22.2 Template REM1: Remuneration awarded during financial year

The following table summarized quantitative information on remuneration for the financial year ended 31 December 2020.

Remuneration amount and quantitative information			As at 31 December 2020	
			In HK\$'000	
			Senior management	Key personnel
1	Fixed remuneration	Number of employees	8	2
2		Total fixed remuneration	16,755	3,500
3		Of which: cash-based	16,755	3,500
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	Number of employees	8	2
10		Total variable remuneration	12,771	854
11		Of which: cash-based	4,423	854
12		Of which: deferred	-	-
13		Of which: shares or other share-linked instruments	8,348	-
14		Of which: deferred	5,800	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	Total remuneration		29,526	4,354

22.3 Template REM2: Special payments

The following table summarized quantitative information on special payment for the financial year ended 31 December 2020.

As at 31 December 2020							
In HK\$'000							
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	3	1,410	2	728	-	-
2	Key personnel	-	-	-	-	-	-

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22.4 Template REM3: Deferred remuneration

The following table summarized quantitative information on deferred and retained remuneration for the financial year ended 31 December 2020.

		As at 31 December 2020				
		In HK\$'000				
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 in the financial year
1	Senior management					
2	Cash	-	-	-	-	-
3	Shares	12,296	-	-	-	4,484
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel					
7	Cash	-	-	-	-	-
8	Shares	-	-	-	-	-
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	Total	12,296	-	-	-	4,484

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23. ABBREVIATIONS

Abbreviations	Brief Description
AI	Authorized Institutions
ALCO	Asset and Liability Management Committee
AT1	Additional Tier 1 Capital
Bank	Airstar Bank Limited
BSC	Basic Approach
BCR	Banking (Capital) Rules
BDR	Banking (Disclosure) Rules
Board	Board of Director
CC	Compliance Committee
CCF	Credit Conversion Factor
CCO	Chief Compliance Officer
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
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
CRO	Chief Risk Officer
CVA	Credit Valuation Adjustment
D-SIB	Domestic Systemically Important Authorized Institution
EAD	Exposure at Default
ECAI	External Credit Assessment Institutions
ECL	Expected Credit Loss
EL	Expected Loss
EPE	Expected Positive Exposure
ERMF	Enterprise Risk Management Framework
EVE	Economic Value Equity
FBA	Fall-Back Approach
G-SIB	Global Systemically Important Authorized Institution
HKFRS	Hong Kong Financial Reporting Standards
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
IRBBB	Interest Rate Risk in Banking Book
ITC	Information and Technology Committee
JCCyB	Jurisdictional Countercyclical Capital Buffer
JVs	Joint Ventures
LAC	Loss-absorbing Capacity
LCR	Liquidity Coverage Ratio
LM-1	Regulatory Framework for Supervisory of Liquidity Risk
LM-2	Sound Systems and Controls for Liquidity Risk Management
LMR	Liquidity Maintenance Ratio
LOD	Line of Defense
LR	Leverage Ratio
LTA	Look Through Approach
MA	Monetary Authority
MANCO	Management Committee
MBA	Mandate-based Approach
N/A	Not Applicable
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
OBS	Off-Balance Sheet

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22. ABBREVIATIONS (*continuous*)

Abbreviations	Brief Description
OTC	Over-The-Counter
PFE	Potential Future Exposure
PSE	Public Sector Entities
RAS	Risk Appetite Statement
RC	Replacement Cost
RMC	Risk Management Committee
RMD	Risk Management Department
RWA	Risk Weighted Assets
SA-CCR	Standardized Approach (Counterparty Credit Risk)
SEC-IRBA	Securitization Internal Ratings-Based Approach
SEC-ERBA	Securitization External Ratings-Based Approach
SEC-FBA	Securitization Fall-back Approach
SEC-SA	Securitization Standardized Approach
SFT	Securities Financing Transaction
SPM	Supervisory Policy Manual
STC	Standardized (Credit Risk) Approach
STM	Standardized (Market Risk) Approach
T1	Tier 1 Capital
T2	Tier 2 Capital
TC	Total Capital
VaR	Value at Risk