Fubon Bank 富邦銀行

Fubon Bank (Hong Kong) Limited

Regulatory Disclosures Statement

As at 31 December 2020

Fubon Bank 富邦銀行

FUBON BANK (HONG KONG) LIIMITED
REGULATORY DISCLOSURES STATEMENT
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Introduction

This Regulatory Disclosures Statement is prepared in accordance with the Banking (Disclosures) Rules ("BDR") for Fubon Bank (Hong Kong) Limited and its subsidiaries (the "Group"). The information contained in this statement, together with the Group's consolidated financial statements for the year ended 31 December 2020 and disclosures made in the Bank's website under the page "Regulatory Disclosures", comply fully with the applicable disclosure provisions of the BDR issued by the Hong Kong Monetary Authority ("HKMA") under section 60A of the Hong Kong Banking Ordinance ("HKBO").

These disclosures are governed by the Group's policy on financial disclosures, which has been approved by the Board. The policy set out the governance, control and assurance requirements for publication of these disclosures. While this statement is not required to be externally audited, it has been subject to independent review in accordance with the policy and its financial reporting and governance processes.

This statement is prepared based on the consolidated basis for regulatory purposes, which is different from the basis of consolidation for accounting basis. For the details of the basis of consolidation, please refer to Note (A) of the Group's consolidated financial statements.

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

The terms "collective impairment allowances / collective provision" represents impairment allowances recognised for financial assets categorized as Stage 1 and Stage 2 under the Group's accounting policies, while the terms "individual impairment allowances / specific provision" represents impairment allowances recognised on financial assets categorized as Stage 3 under the Group's accounting policies. For details of the categorization of different stages of a financial asset and the methodology in arriving the impairment allowances on each stage, please refer to Note 2(g), 2(p) and 35(a)(viii) of the Group's consolidated financial statements.

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Template KM1: Key prudential ratios

		(a)	(b)	(c)	(d)	(e)
		As at 31 December 2020	As at 30 September 2020	As at 30 June 2020	As at 31 March 2020	As at 31 December 2019
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	Regulatory capital (amount)					
1	Common Equity Tier 1 (CET1)	12,254,986	12,110,246	11,940,911	11,539,979	11,632,902
2	Tier 1	12,254,986	12,110,246	11,940,911	11,539,979	11,632,902
3	Total capital	13,761,178	14,013,819	13,841,919	13,668,566	13,674,799
	RWA (amount)					
4	Total RWA	72,694,897	72,618,156	71,291,107	71,835,529	69,558,675
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	16.8581%	16.6766%	16.7495%	16.0644%	16.7239%
6	Tier 1 ratio (%)	16.8581%	16.6766%	16.7495%	16.0644%	16.7239%
7	Total capital ratio (%)	18.9300%	19.2980%	19.4161%	19.0276%	19.6594%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.5000%	2.5000%	2.5000%	2.5000%	2.5000%
9	Countercyclical capital buffer requirement (%)	0.7983%	0.7963%	0.8140%	0.8173%	1.6591%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
11	Total AI-specific CET1 buffer requirements (%)	3.2983%	3.2963%	3.3140%	3.3173%	4.1591%
12	CET1 available after meeting the AI's minimum capital requirements (%)	10.8581%	10.6766%	10.7495%	10.0644%	10.7239%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	115,366,935	112,095,530	115,792,246	112,160,008	113,929,694
14	LR (%)	10.6226%	10.8035%	10.3124%	10.2889%	10.2106%
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
16	Total net cash outflows	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
17	LCR (%)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
	Applicable to category 2 institution only:					
17a	LMR (%)	66.8745%	68.9484%	70.2037%	68.0976%	69.7060%

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Template KM1: Key prudential ratios (continued)

		(a)	(b)	(c)	(d)	(e)
		As at 31 December 2020	As at 30 September 2020	As at 30 June 2020	As at 31 March 2020	As at 31 December 2019
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institution only:					
18	Total available stable funding	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
19	Total required stable funding	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
20	NSFR (%)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
	Applicable to category 2A institution only:					
20a	CFR (%)	162.7647%	163.8768%	169.7489%	167.9460%	159.9716%

Table OVA: Overview of risk management

In meeting its overall responsibilities to the shareholders, depositors, creditors, employees and other stakeholders, the Board has to ensure that there is a competent executive management capable of running the Bank in a sound, efficient and profitable manner. In relation to risk management, the responsibilities of the Board include establishing, approving and reviewing risk management strategies and policies of the Bank to ensure that the various types of risk inherent in the Bank's operations and business (including credit, market, interest rate, liquidity, operational, reputation, legal and strategic) are regularly identified, measured, monitored and controlled.

The Board has established several Board committees to assist it in carrying out its risk management responsibilities including the Audit Committee, Risk Committee and Executive Credit Committee. In addition, a number of management level committees have been set up by the Board to oversee the effectiveness of the Bank's daily risk management including the Asset and Liability Committee, Internal Control Committee and Credit Committee.

(i) Audit Committee

The Audit Committee reviews the Bank's financial reporting process, the systems of internal control, the internal audit function and the risk management process. In particular, the review undertaken by the Audit Committee on the internal audit function includes the Internal Audit Charter and its approval, the annual audit plan, internal audit reports and special investigation reports issued, and ensuring that appropriate management actions are taken following the major audit findings.

(ii) Risk Committee

The Risk Committee ("RC") establishes the Bank's overall risk appetite and risk management framework, and oversees Senior Management's implementation of the Bank's risk policies. The RC annually reviews and endorses the Bank's risk appetite statement and risk management strategies. It oversees the establishment and maintenance by Senior Management of appropriate infrastructure, resources and systems for risk management, particularly in relation to compliance with relevant legal and regulatory requirements, adherence to the approved risk appetite and related policies, and the adoption of best practices wherever feasible. The RC is required to ensure that the staff responsible for implementing risk management systems and controls are sufficiently independent of the risk-taking units in the Bank.

(iii) Executive Credit Committee

The Executive Credit Committee ("ECC") has the delegated authority to approve credit proposals, credit policies and other credit related matters which require the approval of the Board.

(iv) Asset and Liability Committee

The Asset and Liability Committee ("ALCO") is responsible for providing oversight of the Bank's operations relating to interest rate risk, market risk and liquidity risk (collectively known as "financial risks") as well as capital management. The ALCO initiates, reviews and endorses for the approval of the Risk Committee of the Board and the Board of Directors the Bank's policies on financial risks and capital management respectively. It approves guidelines relating to such policies, reviews and approves all major financial risk management reports. The ALCO also oversees the Bank's investment activities by establishing investment strategies within policies laid down by the Risk Committee of the Board and reviews actual performance.

Table OVA: Overview of risk management (continued)

(v) Internal Control Committee

The Internal Control Committee ("ICC") provides oversight of the Bank's exposure to operational and legal risks, ensuring the Bank has in place an effective internal control framework, providing guidance to the Bank in establishing a sound system of internal control, and monitoring system to ensure overall compliance within the Bank.

To ensure an effective internal control framework is in place, the ICC reviews policies and approves guidelines relating to internal control and management of operational and legal risks, receives and discusses reports submitted by various risk management units and promotes internal control culture. To maintain an adequate system of internal control, the ICC reviews and discusses major operational risk events, and the progress of rectification of adverse audit findings and control self-assessments.

(vi) Credit Committee

The Credit Committee ("CC") reviews and endorses credit policies and credit risk profile of the Bank for ECC approval, and reviews and approves credit related guidelines. The CC also reviews and approves requests for credit facilities that are within its authority as delegated by the Board, and reviews and endorses requests for credit facilities before their submission to the ECC for approval.

The CC will also conduct on-going reviews of the market environment and credit quality and make necessary policy recommendations to the ECC to ensure that the credit risk profile of the Bank is within the established risk appetite. In this regard, the CC will provide periodic and timely credit related management and stress testing reports to the ECC for review.

The Bank has established policies and procedures to identify and measure different type of risks (namely credit risk, market risk, liquidity risk and operational risk), to set appropriate risk limits as derived from its risk appetite statements and risk appetite indicators and control measures, and to monitor the risks and limits continuously by means of reliable and up-to-date management and information systems. These policies and procedures, including limit excess follow-up procedures, are distributed to the relevant risk taking and risk management units for execution and monitoring. Regular training courses are conducted in order to ensure that all staff are familiar with the key principles of the Bank's code of conduct. The Bank continuously modifies and enhances its risk management policies and measurement and reporting systems to reflect changes in markets, products and best practice risk management processes. The key features of the risk measurement systems include measuring risks by early warning indicators limits, and regular stress testing. Internal audit also perform regular audits to ensure compliance with the Bank's policies and procedures.

The Bank has established an organizational structure such that risk management functions are independent of risk taking units. The risk management functions independently measure and provide key risk information, including asset quality, liquidity profile, capital adequacy ratio and the risk exposures, and limit monitoring results to the RC and to senior management on a regular basis.

Table OVA: Overview of risk management (continued)

Stress testing

Stress testing is an essential risk management tool to assess the Bank's vulnerability in "stressed" business conditions and the Bank's capacity to withstand the impact of stressed situations in terms of profitability, liquidity and capital adequacy. The Bank's stress-testing programme will include various regular stress tests on individual risk areas and portfolios, and also the Bank-wide Stress Test which will use an integrated approach to produce stress test on a legal entity basis and on a consolidated basis, providing a spectrum of perspectives at product-, business- and entity-specific levels, where applicable.

Stress testing methods, including quantitative and qualitative techniques, range from sensitivity tests to scenario analyses and reverse stress tests. Stress testing will be conducted under different scenarios along a spectrum of events and severity levels for all relevant risk factors of the Bank, as well as the interactions between such risk factors. Relevant management committees review results of stress tests and any potential risks and vulnerabilities identified on a timely basis, discuss and decide any necessary management actions required.

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Template OV1: Overview of RWA

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		As at 31 December 2020 HK$'000	As at 30 September 2020 HK$'000	As at 31 December 2020 HK$'000
1	Credit risk for non-securitization exposures	69,093,805	69,709,233	5,527,504
2	Of which STC approach	69,093,805	69,709,233	5,527,504
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	1,266,622	924,529	101,330
7	Of which SA-CCR*	Not applicable	Not applicable	Not applicable
7a	Of which CEM	136,468	190,950	10,917
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	1,130,154	733,579	90,413
10	CVA risk	24,813	23,100	1,985
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA*	Not applicable	Not applicable	Not applicable
13	CIS exposures – MBA*	Not applicable	Not applicable	Not applicable
14	CIS exposures – FBA*	Not applicable	Not applicable	Not applicable
14a	CIS exposures – combination of approaches*	Not applicable	Not applicable	Not applicable
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	68,350	48,663	5,468
21	Of which STM approach	68,350	48,663	5,468
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)*	Not applicable	Not applicable	Not applicable
24	Operational risk	3,083,125	3,092,375	246,650
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	390,168	163,330	31,213

Template OV1: Overview of RWA (continued)

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		As at 31 December 2020 HK$'000	As at 30 September 2020 HK$'000	As at 31 December 2020 HK$'000
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	1,231,986	1,343,074	98,559
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	1,231,986	1,343,074	98,559
27	Total	72,694,897	72,618,156	5,815,591

Point to note:

(i) Items marked with an asterisk (*) will be applicable only after their respective policy frameworks take effect. Until then, "Not applicable" should be reported in the rows.

Template PV1: Prudent valuation adjustments

		As 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	*Mid-market value*	-	-	-	-	-	-	-	-
3	*Close-out costs*	-	-	-	-	-	-	-	-
4	*Concentration*	-	-	-	-	-	-	-	-
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**	-	-	-	-	-	-	-	-

In the evaluation process of the valuation adjustment, if any, the Bank would assess the market data input (the correctness and update of the market data) and the model risk (the appropriateness of the model use). Other elements are not taken into consideration as the impact is considered to be insignificant.

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Template CC1: Composition of regulatory capital

		(a)	(b)
		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	4,830,448	(9)
2	Retained earnings	6,448,916	(10) + (11)
3	Disclosed reserves	3,309,809	(12) + (13) + (14) + (15)
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	Not applicable	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	**CET1 capital before regulatory deductions**	14,589,173	
	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)	-	
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	Not applicable	Not applicable
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)	9,481	(5) + (7)
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)	-	

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Template CC1: Composition of regulatory capital (continued)

		(a)	(b)
		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		As at 31 December 2020	
		HK$'000	
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	2,324,706	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	2,239,975	(12) + (13)
26b	Regulatory reserve for general banking risks	84,731	(14)
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	**Total regulatory deductions to CET1 capital**	2,334,187	
29	**CET1 capital**	12,254,986	
	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	*Capital instruments subject to phase-out arrangements from AT1 capital*	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
36	**AT1 capital before regulatory deductions**	-	

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Template CC1: Composition of regulatory capital (continued)

		(a)	(b)
		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		As at 31 December 2020	
		HK$'000	
	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)**	12,254,986	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	*Capital instruments subject to phase-out arrangements from Tier 2 capital*	-	
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	*of which: capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	498,203	(1) + (2) + (3) + (4) + (6) + (8) + (14)
51	**Tier 2 capital before regulatory deductions**	498,203	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	

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Template CC1: Composition of regulatory capital (continued)

		(a)	(b)
		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		As at 31 December 2020	
		HK$'000	
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	(1,007,989)	
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	(1,007,989)	-[(12) + (13)] * 45%
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**	(1,007,989)	
58	**Tier 2 capital (T2)**	1,506,192	
59	**Total regulatory capital (TC = T1 + T2)**	13,761,178	
60	**Total RWA**	72,694,897	
	Capital ratios (as a percentage of RWA)		
61	**CET1 capital ratio**	16.8581%	
62	**Tier 1 capital ratio**	16.8581%	
63	**Total capital ratio**	18.9300%	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	3.298%	
65	of which: capital conservation buffer requirement	2.500%	
66	of which: bank specific countercyclical capital buffer requirement	0.798%	
67	of which: higher loss absorbency requirement	Not applicable	Not applicable
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	10.8581%	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
	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	1,226,447	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	156,067	

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Template CC1: Composition of regulatory capital (continued)

		(a)	(b)
		Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		As at 31 December 2020	
		HK$'000	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
	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)	498,203	
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	884,177	
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)	Not applicable	Not applicable
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	Not applicable	Not applicable
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	Not applicable
82	*Current cap on AT1 capital instruments subject to phase-out arrangements*	-	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on Tier 2 capital instruments subject to phase-out arrangements*	-	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	-	

Template CC1: Composition of regulatory capital (continued)

Notes to Template CC1

	Description	Hong Kong basis	Basel III basis
9	Other intangible assets (net of associated deferred tax liabilities)	-	-
10	Deferred tax assets (net of associated deferred tax liabilities)	-	-
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)	9,481	9,481
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)	-	-
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)	-	-
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)	-	-

Remarks: The amount of the 10% threshold and 5% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.

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Template CC2: Reconciliation of regulatory capital to balance sheet

	(a)	(b)	(c)
	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			
Gross cash and short-term funds	4,967,615	4,967,615	
Less: Collective impairment allowances	960	960	(1)
Gross balances with banks and other financial institutions	458,885	458,885	
Less: Collective impairment allowances	115	115	(2)
Trading assets	1,948,454	1,948,454	
Derivative financial instruments	563,443	563,443	
Gross advances to customers	55,584,673	55,584,673	
Less: Individual impairment allowances	395,039	395,039	
Less: Collective impairment allowances	276,571	276,571	(3)
Gross trade bills	921,176	921,176	
Less: Collective impairment allowances	5,508	5,508	(4)
Accrued interest and other assets	2,256,692	2,221,953	
Gross debt securities measured at amortised cost	41,270,282	41,270,282	
Of which: insignificant CET1 LAC investments in financial sector entities exceeding 10% threshold		15	(5)
Less: Collective impairment allowances	85,051	85,051	(6)
Equity securities designated at fair value through other comprehensive income	1,316,272	1,316,272	
Of which: insignificant CET1 LAC investments in financial sector entities exceeding 10% threshold		9,466	(7)
Investment in subsidiaries	-	8,562	
Amount due from subsidiaries	-	146,803	
Fixed assets	3,749,930	3,749,930	
Investment properties	49,500	49,500	
Deferred tax assets	6	-	
Total assets	**112,323,684**	**112,444,304**	

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Template CC2: Reconciliation of regulatory capital to balance sheet (continued)

	(a)	(b)	(c)
	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	
Liabilities			
Deposits and balances of banks and other financial institutions	10,041,639	10,041,639	
Deposits from customers	76,538,430	76,538,430	
Trading liabilities	1,948,454	1,948,454	
Certificates of deposit issued	4,167,874	4,167,874	
Debt securities issued	1,544,626	1,544,626	
Derivative financial instruments	1,080,890	1,080,890	
Other liabilities	1,670,574	1,655,107	
of which: collective impairment allowances on off-balance sheet items		45,267	(8)
Amounts due to subsidiaries	-	274,144	
Deferred tax liabilities	603,967	603,967	
Total liabilities	**97,596,454**	**97,855,131**	
Equity			
Share capital	4,830,448	4,830,448	(9)
Reserves	9,896,782	9,758,725	
of which: retained earnings		6,401,867	(10)
of which: comprehensive income for the period		47,049	(11)
of which: premises revaluation reserve (arising from independent professional valuations carried out in November 1989)		52,669	(12)
of which: premises revaluation reserve		2,187,306	(13)
of which: regulatory reserve		84,731	(14)
of which: investment revaluation reserve		985,103	(15)
Total equity	**14,727,230**	**14,589,173**	
Total equity and liabilities	**112,323,684**	**112,444,304**	

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Table CCA: Main features of regulatory capital instruments

		Ordinary shares
1	Issuer	Fubon Bank (Hong Kong) Limited
2	Unique identifier - ISIN	N.A.
3	Governing law(s) of the instrument	Companies Ordinance
	Regulatory treatment	
4	Transitional Basel III rules[1]	N.A.
5	Post-transitional Basel III rules[2]	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Solo
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	(HK$ million) 4,830
9	Par value of instrument	N.A.
10	Accounting classification	Shareholders' equity
11	Original date of issuance	27 January 1970
12	Perpetual or dated	Perpetual
13	Original maturity date	N.A.
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N.A.
16	Subsequent call dates, if applicable	N.A.
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N.A.
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N.A.
25	If convertible, fully or partially	N.A.
26	If convertible, conversion rate	N.A.
27	If convertible, mandatory or optional conversion	N.A.
28	If convertible, specify instrument type convertible into	N.A.
29	If convertible, specify issuer of instrument it converts into	N.A.
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N.A.
32	If write-down, full or partial	N.A.
33	If write-down, permanent or temporary	N.A.
34	If temporary write-down, description of write-up mechanism	N.A.
35	Position in subordination hierarchy in liquidation	N.A.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N.A.

The Group disclosed the full terms and conditions of its capital instruments issued as of the end of the reporting period in its website (https://www.fubonbank.com.hk) under the page "Regulatory Disclosures" in accordance with section 16FE of the BDR.

[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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Template CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer

	As at 31 December 2020				
	(a)	(b)	(c)	(d)	(e)
	Geographical breakdown by Jurisdiction (J)	**Applicable JCCyB ratio in effect (%)**	**RWA used in computation of CCyB ratio (HK$'000)**	**AI-specific CCyB ratio (%)**	**CCyB amount (HK$'000)**
1	Hong Kong SAR	1%	53,634,373		
2	Total		67,184,442	0.7983%	580,323

Template LR1: Summary comparison of accounting assets against leverage ratio exposure measure

		(a)
		As at 31 December 2020
	Item	**Value under the LR framework HK$'000**
1	Total consolidated assets as per published financial statements, before netting of collective and specific provisions	113,086,928
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	121,705
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	306,356
5	Adjustment for SFTs (i.e. repos and similar secured lending)	419,091
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	4,575,554
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(808,512)
7	Other adjustments	(2,334,187)
8	**Leverage ratio exposure measure**	115,366,935

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Template LR2: Leverage ratio

		(a)	(b)
		As at 31 December 2020	As at 30 September 2020
		HK$'000	
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	103,727,633	101,438,545
2	Less: Asset amounts deducted in determining Tier 1 capital	(2,334,187)	(2,572,857)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	101,393,446	98,865,688
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	563,543	470,225
5	Add-on amounts for PFE associated with all derivative contracts	350,900	339,354
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	**Total exposures arising from derivative contracts**	914,443	809,579
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	8,872,912	8,105,915
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	419,092	458,551
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	9,292,004	8,564,466
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	33,008,020	34,374,961
18	Less: Adjustments for conversion to credit equivalent amounts	(28,432,466)	(29,873,547)
19	**Off-balance sheet items**	4,575,554	4,501,414

Template LR2: Leverage ratio (continued)

		(a)	(b)
		As at 31 December 2020	As at 30 September 2020
		HK$'000	
Capital and total exposures			
20	**Tier 1 capital**	12,254,986	12,110,246
20a	**Total exposures before adjustments for specific and collective provisions**	116,175,447	112,741,147
20b	**Adjustments for specific and collective provisions**	(808,512)	(645,617)
21	**Total exposures after adjustments for specific and collective provisions**	115,366,935	112,095,530
Leverage ratio			
22	**Leverage ratio**	10.6226%	10.8035%

Table LIQA: Liquidity risk management

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalize on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity maintenance ratio, and to make new loans and investments as opportunities arise.

The Group has a Liquidity Risk Management Policy which covers the Group's liquidity risk management strategy, a mechanism to identify, measure, monitor and control liquidity risks, and also the Group's contingency funding plan. A Liquidity Risk Management Guideline covers risk measurement, risk reporting and operational requirements in implementing the Group's liquidity management strategy. The policy and guideline are both reviewed by the ALCO. The policy and guideline are approved by the RC and the ALCO respectively.

The RC reviews and approves the Group's risk appetite statement at least annually. The Group's liquidity risk management strategy is to maintain a healthy liquidity position with adequate stock of liquid assets, well-diversified funding structure relying on a broad customer deposit portfolio with prudent loan-to-deposit ratio and money market funding ratio to support the Group's liquidity needs under both normal and stressed conditions.

It is the responsibility of the Group's management to ensure compliance with local regulatory requirements and limits set by the RC. Liquidity is managed on a daily basis by the Group's Funding Desk unit. The Funding Desk unit is responsible for ensuring that the Group has adequate liquidity for all operations, ensuring that the funding mix is appropriate so as to avoid maturity mismatches and to minimise price and reinvestment rate risk in the case of a maturity gap, and monitoring relevant markets for the adequacy of funding and liquidity.

Table LIQA: Liquidity risk management (continued)

Compliance with liquidity and funding requirements is monitored by the ALCO and is reported to the RC on a regular basis. This process includes:

- maintaining balances within relevant regulatory requirements;
- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- maintaining adequate intraday liquidity position and assessing how the intraday liquidity profile will change in conditions of stress;
- monitoring balance sheet liquidity and loan to deposit ratios against internal requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- managing lending commitments to customers within pre-determined management alert triggers;
- managing debt financing plans;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix;
- maintaining funding contingency plans, which identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systematic or other crises, while minimizing adverse long-term implications for the business; and
- managing liquidity on a legal entity and on a group basis. Intragroup funding transactions are carried out at arm's length and treated in the same way as transactions with non-related third parties and controlled within pre-determined management alert triggers.

Primary sources of funding

Customer deposits form a significant part of the Group's overall funding. The Group places considerable importance on the stability of these deposits, which is achieved through the Group's retail and corporate banking activities and by maintaining depositor confidence in the Group's capital strength. In order to lengthen the duration of the funding, the Group issues certificates of deposit with different maturities from time to time. Interbank markets are also accessed for the purposes of providing additional funding, maintaining a regular presence in local money markets and optimising asset and liability maturities.

The management of funding and liquidity risk

As part of its liquidity risk management, the Group focuses on a number of components, including maintaining sufficient liquid assets, maintaining diversified sources of liquidity, reserving necessary funding capacity and contingency planning. The Group manages liquidity risk by holding sufficient liquid assets (e.g. cash and short-term funds and securities) of appropriate quality to ensure that short-term funding requirements are covered within prudential levels. Debt securities held are marked to the market on daily basis to ensure their market liquidity. The Group also adopts a funding strategy that is to achieve diversification of funding by controlling the concentration of top depositors, wholesale funding and reliance on foreign exchange swap markets. Moreover, adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business.

Table LIQA: Liquidity risk management (continued)

The management of funding and liquidity risk (continued)

In addition to observing the statutory liquidity ratio, the Group has established different liquidity risk metrics, including but not limited to the liquidity maintenance ratio, loan-to-deposit ratio, cumulative cash flow gap and concentration of funding sources to measure and analyze its liquidity risks. Financial Control Division is responsible for measurement and monitoring of these liquidity metrics and reporting to the ALCO regularly.

The Group assesses and monitors the structure of balance sheet and also the concentration of funding sources from time to time with use of different risk metrics. During the year 2020:

- Loan-to-deposits ratio was kept below 80% for the aggregate position of all currencies and also not exceeding respective management alert trigger levels for each significant lending currency;
- Core funding ratio was maintained above 125%;
- Undrawn commitments were maintained not exceeding HK$9.0 billion;
- Single depositor concentration was maintained below 5% of total customer deposits;
- Concentration of the top 10 depositors was maintained below 20% of total customer deposits;
- Swapped fund ratio (measuring reliance on foreign exchange and/or currency swap markets) was maintained below 15%;
- Wholesale funding was kept below 20% of total funding;
- Certificates of deposit and other debt securities issued did not exceed 10% of total customer deposits (including certificates of deposit and other debt securities issued); and
- Intragroup funding was maintained at minimal level not exceeding USD53 million.

Core deposits

The Group monitors the stability of customer deposits by means of the core deposit ratio, which is the ratio of core deposits to total customer deposits. The Group categorizes customer deposits into core deposits after taking into consideration of nature of deposits, relationship history with customers and stability of customer's total balance. An alert trigger level is set on the core deposits ratio which is monitored by the ALCO. Core deposits ratio was maintained above 25% throughout the year 2020.

Loan to deposit ratio

The Group emphasizes the importance of customer deposits as a source of funds to finance lending to customers, and mitigate against reliance on short-term interbank funding. A limit on the loan to deposit ratio is established and approved by the RC and monitored by the ALCO. Management alert triggers are also set on loan to deposit ratio for significant lending currencies and monitored by the ALCO.

Cash flow projection and stress testing

The Group conducts cash flow analysis and cash flow projection arising from on- and off-balance sheet items over a set of time horizons on a regular basis to identify funding needs in specific time buckets. The Group also regularly performs stress tests on its liquidity position to ensure adequate liquidity is maintained at all time. In the stress test, both on- and off-balance sheet items with a cash flow impact are considered, with applicable hypothetical and historical assumptions. Three stressed scenarios, namely an institution-specific crisis scenario, a general market crisis scenario, and a combined scenario are adopted with minimum survival period defined pursuant to HKMA's Supervisory Policy Manual ("SPM") "Sound Systems and Controls for Liquidity Risk Management". Stress testing assumptions are reviewed and approved by the ALCO regularly to ensure their continued appropriateness.

Table LIQA: Liquidity risk management (continued)

The management of funding and liquidity risk (continued)

Liquidity Cushion

The Group maintains a stock of high-quality readily liquefiable assets as a liquidity cushion against a range of stressed scenarios. The eligible assets are unencumbered, low credit risk and low market risk. The liquidity cushion is segregated from debt securities held for trading purposes. A certain portion of the liquidity cushion is made up of the most liquid and readily marketable assets (such as debt securities issued by government or multinational development banks) that can be easily liquidated to meet funding needs in the initial phase of liquidity stress.

The size of the liquidity cushion shall be adequate to meet the Group's day-to-day liquidity needs and also emergency funding needs under both normal and stress market conditions. The minimum required size of the liquidity cushion is determined with reference to the funding gap generated from the Group's regular liquidity stress testing results. Management alert triggers are established by the ALCO to ensure sufficient size of liquidity cushion is maintained and appropriate diversification among the liquidity cushion is achieved. The size and mix of the liquidity cushion is reviewed by the ALCO regularly.

Size and mix of liquidity cushion were maintained above all relevant management alert triggers throughout the year 2020:

- net long position of Exchange Fund Bills/Notes held was maintained at not less than HK$2.0 billion;
- assets eligible for Lenders of Last Resort purpose was maintained at not less than 30% of total customer deposits;
- level 1 high-quality readily liquefiable assets were maintained at not less than 9% of total customer deposits;
- non-financial institution high-quality readily liquefiable assets were maintained at not less than 26% of total customer deposits; and
- total high-quality readily liquefiable assets were maintained at not less than 32% of total customer deposits.

Contingent liquidity risk

The Group provides customers with committed and standby facilities. These facilities increase the funding requirements of the Group when customers drawdown. The liquidity risk associated with the potential drawdown on committed facilities is factored into our stressed scenarios and a management alert trigger is set for these facilities.

Contingency funding plan

The Group has formulated a Contingency Funding Plan ("CFP") that describes the Group's strategy for dealing with any liquidity problem and the procedures for making up cash flow deficits in emergency situations. The CFP is designed to be pro-active and pre-emptive. The Group utilizes early warning indicators, which cover both qualitative and quantitative measures, monitoring both internal and external factors. Should there be any early signs of significant impact on the Group's liquidity position, the management would be informed for their consideration. Once the CFP is triggered, a Crisis Management Team, which is led by senior management, is formed to handle the crisis. Strategy and procedures in obtaining contingency funding, as well as roles and responsibilities of parties concerned are clearly stated. The CFP also includes the analysis of cash flow projections to estimate potential liquidity needs under stress scenarios.

Table LIQA: Liquidity risk management (continued)

The management of funding and liquidity risk (continued)

Contingency funding plan (continued)

The CFP is subject to regular testing to ensure its effectiveness and operational feasibility, particularly in respect of the availability of the contingency sources of funding listed in it. The CFP is also subject to review and update on a regular basis to ensure it remains robust over time. Any changes to the CFP would be approved by the RC.

Moreover, in accordance with the HKMA's SPM "Recovery Planning", the Group has established a Recovery Plan, which has been approved by the Board. The Recovery Plan helps ensure that the Group is able to recover quickly from period of severe stress and preserve or restore its liquidity level. The Recovery Plan is subject to regular, at least annual, review and update.

Liquidity exposures

The Group's liquidity exposures are measured on a consolidated basis which comprises the Bank and Fubon Credit (Hong Kong) Limited as designated by the HKMA for regulatory purposes.

Fubon Credit (Hong Kong) Limited maintains a minimal loan portfolio not exceeding HK$10 million without borrowings and new lending, and maintains liquidity maintenance ratio over 100% throughout the year 2020.

The Bank also maintains average liquidity maintenance and core funding ratios well above the statutory minimum ratios of 25% and 75% respectively throughout the year 2020.

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Table LIQA: Liquidity risk management (continued)

The Group reported its analysis of on-balance sheet and off-balance sheet exposure based on the remaining contractual maturity at the end of the reporting period as below:

	As at 31 December 2020							
	Total HK$'000	Next day HK$'000	Within 1 month HK$'000	Over 1 month but within 3 months HK$'000	Over 3 months but within 1 year HK$'000	Over 1 year but within 5 years HK$'000	Over 5 years HK$'000	Undated or overdue HK$'000
On-balance sheet assets								
Balances due from banks	4,693,745	575,643	3,656,307	461,795	-	-	-	-
Debt securities, prescribed instruments and structured financial instruments held	34,033,126	34,033,126	-	-	-	-	-	-
Acceptances and bills of exchange held	1,039,910	-	608,927	291,099	139,884	-	-	-
Loans and advances to non-bank customers	54,967,200	212,509	9,289,968	5,852,260	8,550,903	19,008,507	11,804,000	249,053
Other assets	27,797,540	7,917,668	8,278,551	1,256,806	4,287,424	697,397	202,769	5,156,925
	122,531,521	42,738,946	21,833,753	7,861,960	12,978,211	19,705,904	12,006,769	5,405,978
Off-balance sheet claims	7,264,953	-	1,550,571	4,171,596	1,542,786	-	-	-
On-balance sheet liabilities								
Deposits from customers	76,581,389	21,643,240	19,584,831	25,968,960	9,201,625	182,733	-	-
Balances due to banks	3,189,197	130,618	758,620	2,299,959	-	-	-	-
Debt securities, prescribed instruments and structured financial instruments issued and outstanding	5,892,351	-	146,136	1,104,565	1,898,760	2,742,890	-	-
Other liabilities	22,794,444	5,777,842	8,730,885	1,261,392	4,700,951	1,457,136	209,752	656,486
Capital and reserves	14,589,173	-	-	-	-	-	-	14,589,173
	123,046,554	27,551,700	29,220,472	30,634,876	15,801,336	4,382,759	209,752	15,245,659
Off-balance sheet obligations	11,665,465	-	3,759,833	4,023,667	2,235,846	1,608,147	37,972	-
Contractual maturity mismatch		15,187,246	(9,595,981)	(22,624,987)	(3,516,185)	13,714,998	11,759,045	(9,839,681)
Cumulative contractual maturity mismatch		15,187,246	5,591,265	(17,033,722)	(20,549,907)	(6,834,909)	4,924,136	(4,915,545)

The definition of contractual maturity of this analysis follows the Completion Instruction in respect of Part 4 of Return on Liquidity Monitoring Tools issued by the HKMA.

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:				
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Assets							
Cash and short-term funds	4,966,655	4,966,655	4,967,615	-	-	-	(960)
Balances with banks and other financial institutions	458,770	458,770	458,885	-	-	-	(115)
Trading assets	1,948,454	1,948,454	-	-	-	1,948,454	-
Derivative financial instruments	563,443	563,443	-	563,443	-	477,987	-
Advances to customers	54,913,063	54,913,063	53,577,496	1,612,138	-	-	(276,571)
Trade bills	915,668	915,668	921,176	-	-	-	(5,508)
Accrued interest and other assets	2,256,692	2,221,953	2,177,223	44,730	-	-	-
Debt securities measured at amortised cost	41,185,231	41,185,231	41,270,267	-	-	-	(85,036)
Equity securities designated at fair value through other comprehensive income	1,316,272	1,316,272	1,306,806	-	-	-	9,466
Investment in subsidiaries	-	8,562	8,562	-	-	-	-
Amounts due from subsidiaries	-	146,803	146,803	-	-	-	-
Fixed assets	3,749,930	3,749,930	3,749,930	-	-	-	-
Investment properties	49,500	49,500	49,500	-	-	-	-
Deferred tax assets	6	-	-	-	-	-	-
Total assets	**112,323,684**	**112,444,304**	**108,634,263**	**2,220,311**	**-**	**2,426,441**	**(358,724)**

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

	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: subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Liabilities							
Deposits and balances of banks and other financial institutions	10,041,639	10,041,639	-	6,853,334	-	-	3,188,305
Deposits from customers	76,538,430	76,538,430	-	-	-	-	76,538,430
Trading liabilities	1,948,454	1,948,454	-	-	-	1,948,454	-
Certificates of deposit issued	4,167,874	4,167,874	-	-	-	-	4,167,874
Debt securities issued	1,544,626	1,544,626	-	-	-	-	1,544,626
Derivative financial instruments	1,080,890	1,080,890	-	1,080,890	-	57,806	-
Other liabilities	1,670,574	1,655,107	-	173,704	-	-	1,481,403
Amounts due to subsidiaries	-	274,144	-	-	-	-	274,144
Deferred tax liabilities	603,967	603,967	-	-	-	-	603,967
Total liabilities	**97,596,454**	**97,855,131**	**-**	**8,107,928**	**-**	**2,006,260**	**87,798,749**

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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)
			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)**	**112,803,028**	**108,634,263**	**-**	**2,220,311**	**2,426,441**
2	Liabilities carrying value amount under regulatory scope of consolidation (as per Template LI1)	10,056,382	-	-	8,107,928	2,006,260
3	Total net amount under regulatory scope of consolidation	102,746,646	108,634,263	-	(5,887,617)	420,181
4	Off-balance sheet amounts	33,008,020	1,602,549	-	-	-
5	Reclassification of other liabilities	1,087	1,087	-	-	-
N	**Exposure amounts considered for regulatory purposes**	**135,755,753**	**110,237,899**	**-**	**(5,887,617)**	**420,181**

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

(a) The differences between column (a) and column (b) of Template LI1 are due to difference in consolidation basis by the Bank with its subsidiaries.

(b) The main driver for the differences between accounting values and amounts considered for regulatory purposes is the application of CCFs on off-balance sheet amounts.

(c) The Group established Guideline: Market Risk Valuation to govern the valuation process. Generally, the valuation can be separated to Mark-to-Market and Mark-to-Model.

Mark-to-market is a methodology for valuation of the position based on market closing prices sourced independently. Quoted prices in active markets must be used when available as they are considered the best basis on which to determine fair value. When obtaining fair market price for mark-to-market, whenever it is applicable, the data transparency, liquidity, and the prudent side of the bid-ask should be considered. When mark-to-market quotations are not be available, mark-to-model methodology should be used.

Mark-to-model is a valuation model conducted with data deriving from market data input. This valuation model could be an external model or an in-house developed model. When calculating fair market price using the mark-to-model method, the suitability, coverage, limitations of the model, and the consistence and completeness of the market input used need to be considered.

The Group's Market Risk Management department ("MRM") has established an independent price verification ("IPV") process through which market prices and model inputs used for mark-to-market and mark-to-model purposes are verified for their appropriateness and accuracy on a quarterly basis and the result will be reported to the ALCO. In consideration of the complexity and liquidity of various products, MRM has set up internal alert thresholds for validating the valuations of different products. These internal alert thresholds and any subsequent amendments reflecting variance of the price difference must be endorsed by the Head of MRM.

MRM is also responsible to produce a "Market Risk Valuation Adjustment Report" that describes the IPV results and report any valuation adjustment case to the ALCO on quarterly basis. In the valuation adjustment, if any, the market data input (the correctness and update of the market data) and the model risk (the appropriateness of the model use) would be considered to assess the adjustment is needed or not. The report needs to be reviewed and approved by the ALCO.

Table CRA: General information about credit risk

Credit risk is the risk of suffering financial loss in the event that the Group's customers or counterparties fail to fulfil their obligations to the Group. It arises mainly from advances to customers, debt securities held and counterparty credit risk arising from derivative contracts entered into with customers or counterparties. It can also arise from trading and treasury activities.

The Group manages credit risk through a framework of controls to ensure credit risk taking activities are based on sound principles and in line with the overall business objectives of the Group. It has established a set of credit policies and procedures which define credit risk taking criteria, credit approval authorities delegated from the Board, credit monitoring processes, credit rating and scoring systems and loan impairment criteria.

The Board has delegated credit approval authorities to the following committees in descending order of authority: the ECC, the CC and the WCC.

The ECC serves as the credit committee of the Board to review and approve credits that require the approval of the Board. In addition, it approves the Group's credit policies and credit risk profile, taking into consideration relevant law and regulations.

The CC is a management level committee that provides management oversight of the Group's credit risk management. It ensures that the Group has in place an effective credit risk management framework and that its credit risks are within the credit policies and credit risk profile as specified by the Board or its delegated committees. The CC reviews and endorses credit policies and credit risk profile for the ECC's approval, and reviews and approves credit related guidelines. It also conducts on-going review of the market environment and makes necessary policy recommendations to the ECC to ensure that the credit risk profile of the Group is within its risk appetite. The CC also reviews and approves credits that are within its authority as delegated by the Board.

The WCC reviews and approves corporate credits that are within its authority as delegated by the Board.

The credit risk units, Enterprise Credit Risk Management Department, Special Assets Management Department and Retail Credit Risk Oversight & Data Analytics Team, provide centralized management of credit risk for corporate credits and retail credits respectively. They are responsible for:

- independent evaluation of corporate credit applications;
- monitoring loan portfolio and conducting regular analysis;
- managing problem corporate credits to achieve the highest recovery;
- recommending loan classification, impairment and charge-off; and
- reporting to the CC and ECC regularly on aspects of the loan portfolio.

Compliance reviews are conducted by an independent unit on an ongoing basis to ensure compliance with applicable laws and regulations, standards, guidelines and codes of practices. The internal audit function of the Group is an independent appraisal function set up with the primary objective of evaluating the internal control system and compliance with laws, regulatory guidelines and internal control policies.

Credit risk limits are set at different levels, including portfolio and individual customer levels, taking into consideration various factors including market situation, capital requirement and the returns.

Credit risk management procedures are designed to promote early detection of customer, industry or product exposures that require special monitoring. Overall portfolio risk is monitored on an on-going basis. Regular risk management reports covering information on large exposures, country exposures, industry exposures, loan quality and loan impairment level are submitted to the CC, ECC and RC.

Table CRA: General information about credit risk (continued)

The COVID-19 outbreak in 2020 has posted serious challenges to the business community. In response, the Group has introduced a number of initiatives to provide support to our corporate customers who were impacted by the coronavirus. These include:

- a program initiated by the Group to extend trade due date by 30 days, and term loan principal repayment by 6 months, for eligible customers was introduced in Feb – Apr 2020;
- an industry-wide relief programme called "Pre-approved Principal Payment Holiday Scheme" initiated by the HKMA was launched in May 2020, entailing an up to 90-day tenor extension for trade facilities and up to 6-month principal payment holiday for other loans; and
- a special 100% Loan Guarantee under the SME Financing Guarantee Scheme was launched in April 2020. With caps on maximum tenor and loan size, this program involves transfer of title of the loan to the Hong Kong Mortgage Corporation, a quasi-government agency.

These initiatives were to support the immediate cash flow and liquidity of our corporate customers, without increasing our overall exposure to them. Eligible customers need to meet prescribed eligibility criteria to ensure that these customers were not under signs of stress before the COVID-19 outbreak. They are proactive measures to deal with the COVID-19 situations, rather than distressed restructuring.

Specific policies and measures to address different kinds of credit related activities are set out below:

(i) Institutional Banking

Credit risk from Institutional Banking is managed by conducting thorough credit evaluation, credit mitigation through collateral and guarantee, internal credit rating system and post-approval monitoring system. Subject to the size of the credit, value of collateral and the internal credit rating of the customer, different levels of credit approval authority are required. Credit decisions take into account facility structure, tenor, repayment ability of the obligor and credit mitigation through collateral and guarantee.

The Group has established limits for credit exposure to individual industry and customer groups, regardless of whether the credit exposure is funded or non-funded. The Group also undertakes ongoing credit review and monitoring at several levels. The relevant policies and procedures take into account the rules under the HKBO, regulatory requirements of the HKMA and best market practices.

(ii) Retail Banking

Credit risk from Retail Banking is product driven, arising from retail loan products such as credit cards, unsecured personal loans, merchant receivable financing, mortgage loans and loans secured by wealth management products. Because of the homogeneous nature of these products, credit risk management is primarily based on statistical analyses of risks with respect to different types of product, collateral and customer. The Group determines product terms and desired customer profiles on a regular basis by developing, validating and fine-tuning internal scorecards and stress testing models.

(iii) Counterparty credit risk

Unlike on-balance sheet instruments, where the credit risk is generally represented by the principal value of loans or other financial instruments, counterparty credit risk means counterparty default risk, credit valuation adjustment risk and settlement risk. Counterparty credit risk exposure means an exposure to counterparty credit risk, which involves situation in which the Group enters into a derivatives or non-same day spot foreign currency exchange settlement transaction with a counterparty which may subsequently fail to meet its obligations on or before the final settlement of the transactions. These credit exposures are managed as part of the overall credit limits to the counterparties and central clearing counterparty. In evaluating the credit risk associated with counterparty, financial strength is always the primary considerations. The credit risk exposure on derivatives is disclosed in Note 16(b) to the Group's consolidated financial statements. The Group uses the current exposure method for the purpose of providing capital for such counterparty exposures.

Table CRA: General information about credit risk (continued)

Wrong way risk occurs when the credit exposure to a counterparty is adversely correlated with the credit quality of that counterparty. Credit exposures and potential losses may increase as a result of adverse change in market conditions. The Group has set up policies and procedures to control both general and specific wrong-way risk.

(iv) Credit related commitments

The risks involved in credit related commitments and contingencies are essentially the same as the credit risk involved in extending loans to customers. These transactions are, therefore, subject to the same credit application, portfolio management and collateral requirements as for loan transactions.

(v) Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of customers or counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's financial risk exposure is diversified by customer group, industry and product, but is concentrated in Hong Kong.

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Template CR1: Credit quality of exposures

		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	492,583	55,092,090	671,610	395,039	276,571	Not applicable	54,913,063
2	Debt securities	-	43,218,736	85,051	-	85,051	Not applicable	43,133,685
3	Off-balance sheet exposures	-	3,103,057	45,267	-	45,267	Not applicable	3,057,790
4	***Total***	***492,583***	***101,413,883***	***801,928***	***395,039***	***406,889***	Not applicable	***101,104,538***

Template CR2: Changes in defaulted loans and debt securities

		As at 31 December 2020
		(a)
		HK$'000
1	**Defaulted loans and debt securities at end of the previous reporting period**	**402,292**
2	Loans and debt securities that have defaulted since the last reporting period (*Note 1*)	205,206
3	Returned to non-defaulted status	(1,589)
4	Amounts written off	(11,189)
5	Other changes (*Note 2*)	(102,137)
6	**Defaulted loans and debt securities at end of the current reporting period**	**492,583**

Note 1: *The increase in defaulted loans and debt securities was mainly attributable to the increase in impaired advances to corporate customers.*

Note 2: *Other changes mainly represents repayment received during the current reporting period.*

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

Past due exposures, which represent exposures that have become overdue as of the reporting date, are disclosed in Note 35(a) of the Group's consolidated financial statements and the below tables. The Group classified its exposures in accordance with the loan classification system and considered the exposures as impaired exposures if they are classified as "substandard", "doubtful" or "loss". There are no differences on the definition of past due exposures and impaired exposures between accounting purposes and regulatory disclosures purposes.

Loans and advances that are past due for more than 90 days but are not impaired amounted to HK$9,700,000 as of 31 December 2020. The Group considered such exposures not to be impaired as all outstanding principal and accrued interest is fully secured by collateral.

The carrying amount of the Group's assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any objective evidence that assets are impaired includes observable data that has an impact on the future cash flows of assets comes to the attention of the Group, the carrying amount is generally reduced to the estimated recoverable amount by means of a charge to profit or loss.

The approach and treatment of impairment allowances of different types of assets are elaborated in the Group's accounting policy on impairment allowances (Note 2(p) of the Group's consolidated financial statements).

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group.

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

Breakdown of exposures by geographical areas and industry is disclosed for segment which constitutes more than 10% of the Group's total RWA for credit risk only. Other segments which constitutes less than 10% of the Group's total RWA for credit risk are disclosed on an aggregate basis under the category "others".

Breakdown of exposures by geographical areas

	As at 31 December 2020 HK$'000			
	Hong Kong	China	Others	Total
Loans	46,318,060	5,307,304	3,959,309	55,584,673
Debt securities	19,383,306	11,610,076	12,225,354	43,218,736
Off-balance sheet exposures	3,042,581	55,556	4,920	3,103,057
Total	***68,743,947***	***16,972,936***	***16,189,583***	***101,906,466***

Breakdown of exposures by industries

	As at 31 December 2020 HK$'000							
	Property development	Purchase of residential properties	Financial concerns	Property investment	Banking Sector	Electricity and gas	Others	Total
Loans	5,917,010	9,988,744	4,867,434	8,996,398	-	1,421,658	24,393,429	55,584,673
Debt securities	7,447,978	-	3,674,704	-	8,658,871	5,911,812	17,525,371	43,218,736
Off-balance sheet exposures	1,073,188	600	605,529	102,893	-	-	1,320,847	3,103,057
Total	***14,438,176***	***9,989,344***	***9,147,667***	***9,099,291***	***8,658,871***	***7,333,470***	***43,239,647***	***101,906,466***

Breakdown of exposures by residual maturity

	As at 31 December 2020 HK$'000						
	1 month or less (include overdue exposures)	Over 1 month but within 3 months	Over 3 months but within 6 months	Over 6 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Loans	10,120,364	5,877,273	3,775,518	4,840,567	19,153,578	11,817,373	55,584,673
Debt securities	4,022,709	4,201,702	3,391,886	5,595,343	20,032,513	5,974,583	43,218,736
Off-balance sheet exposures	91,133	410,631	388,123	274,826	1,899,993	38,351	3,103,057
Total	***14,234,206***	***10,489,606***	***7,555,527***	***10,710,736***	***41,086,084***	***17,830,307***	***101,906,466***

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

Breakdown of impaired exposures by geographical areas

	As at 31 December 2020 HK$'000						
	Hong Kong	British Virgin Islands	Singapore	Cayman Islands	Macau	Bermuda	Total
Loans	296,276	56,250	37,054	37,054	28,125	28,124	482,883
Debt securities	-	-	-	-	-	-	-
Off-balance sheet exposures	-	-	-	-	-	-	-
Total	***296,276***	***56,250***	***37,054***	***37,054***	***28,125***	***28,124***	***482,883***

Breakdown of impaired exposures by industries

	As at 31 December 2020 HK$'000				
	Manufacturing	Wholesale and retail trade	Credit card advances	Others	Total
Loans	242,856	232,318	4,386	3,323	482,883
Debt securities	-	-	-	-	-
Off-balance sheet exposures	-	-	-	-	-
Total	***242,856***	***232,318***	***4,386***	***3,323***	***482,883***

Breakdown of allowances for impaired exposures by geographical areas

	As at 31 December 2020 HK$'000						
	Hong Kong	Singapore	Cayman Islands	British Virgin Island	Macau	Bermuda	Total
Loans	263,185	37,054	37,054	28,873	14,437	14,436	395,039
Debt securities	-	-	-		-	-	-
Off-balance sheet exposures	-	-	-		-	-	-
Total	***263,185***	***37,054***	***37,054***	***28,873***	***14,437***	***14,436***	***395,039***

Breakdown of allowances for impaired exposures by industries

	As at 31 December 2020 HK$'000				
	Wholesale and retail trade	Manufacturing	Credit card advances	Others	Total
Loans	214,196	175,829	3,947	1,067	395,039
Debt securities	-	-	-	-	
Off-balance sheet exposures	-	-	-	-	
Total	***214,196***	***175,829***	***3,947***	***1,067***	***395,039***

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

Aging analysis of accounting past due exposures

	As at 31 December 2020 HK$'000			
	Overdue 3 months or less	Overdue 6 months or less but over 3 months	Overdue 1 year or less but over 6 months	Total
Loans	441,021	2,456	7,244	450,721
Debt securities	-	-	-	-
Off-balance sheet exposures	-	-	-	-
Total	***441,021***	***2,456***	***7,244***	***450,721***

Breakdown of restructured exposures, between impaired and not impaired exposures

	As at 31 December 2020 HK$'000		
	Impaired exposures	Non-impaired exposures	Total restructured exposures
Loans	3,594	11,689	15,283
Debt securities	-	-	-
Off-balance sheet exposures	-	-	-
Total	***3,594***	***11,689***	***15,283***

The exposure amounts present in the above tables represent its gross carrying amount.

Table CRC: Qualitative disclosures in relation to credit risk mitigation

The Group's credit evaluation focuses primarily on the obligor's repayment ability from its cash flow and financial condition. In addition, the Group employs various credit risk mitigation techniques such as appropriate facility structuring, posting of collateral and/or third party support as well as transfer of risk to other third parties, which form an integral part of the credit risk management process. There is immaterial credit and market risk concentration within the credit risk mitigations used by the Group. The most commonly used credit risk mitigation measures are provided below:

Collateral

The Group holds collateral against its credit exposures to customers mainly in the form of cash deposits, marketable securities, mortgage interests over properties and guarantees. The Group also has in place policies and procedures that govern the assessment, acceptance and the periodic valuation of the collateral. Collateral taken to secure credit exposures is revalued periodically ranging from daily to annually depending on the type of collateral. For treasury operations, collateral management is based on daily marked-to-market positions.

Master netting agreements

Collateral generally is not held over credit exposures to banks, except for securities held as part of reverse repurchase and securities borrowing activities. However, where applicable, the Group manages its credit exposures to banks by entering into master netting arrangements whenever it is appropriate and feasible to do so. The netting arrangement results in the settlement of counterparty exposure on a net basis in the event a default occurs.

The Group's preferred agreement for documenting derivative activity is the ISDA Master Agreement which covers the contractual framework within which dealing activity across a full range of over-the-counter derivative products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by such agreement if either party defaults or upon the occurrence of other pre-agreed termination events.

It is also common for the Group to execute a Credit Support Annex with counterparties in conjunction with the ISDA Master Agreement to mitigate the market risk inherent in derivative transactions.

Central clearing

The Group makes use of central clearing, whenever possible, to mitigate counterparty credit risk. The Group has developed its own credit assessment framework to evaluate the parties involved in the central clearing.

Other credit risk mitigation measures

The Group may also employ other types of credit mitigation, such as guarantees and letters of credit, mainly for corporate exposures. As the value of these types of collateral is conditional upon other credit related factors, their financial effect has not been quantified.

Template CR3: Overview of recognized credit risk mitigation

		As at 31 December 2020 HK$'000				
		(a)	(b1)	(b)	(d)	(f)
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	52,379,318	2,533,745	529,283	2,004,462	-
2	Debt securities	40,251,110	2,882,575	-	2,882,575	-
3	**Total**	**92,630,428**	**5,416,320**	**529,283**	**4,887,037**	-
4	Of which defaulted	471,213	21,370	12,619	8,751	-

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

The Group uses credit ratings from Moody's Investors Service and Standard and Poor's Rating Services to determine the risk-weight of the following exposure classes for credit risk under STC approach according to Part 4 of the Banking (Capital) Rules:

(i) Sovereign;
(ii) Public sector entity;
(iii) Bank;
(iv) Securities firm;
(v) Corporate; and
(vi) Collective investment scheme.

An exposure under exposure classes (i) to (vi) that consist of a debt obligation issued or undertaken by any person or an interest in a collective investment scheme, where the exposure has one or more than one ECAI issue specific rating, the Group:

(a) if the exposure has only one ECAI issue specific rating, uses that rating;
(b) if the exposure has two or more ECAI issue specific ratings the use of which would result in the allocation of different risk-weights to the exposure, uses any one of those ratings except the one which would result in the allocation of the lowest of those different risk-weights.

Table CRD: Qualitative disclosures on the use of ECAI ratings under the STC approach (continued)

Where an exposure under exposure classes (i) to (v) does not have an ECAI issue specific rating, and the person to whom the Group has the exposure has an ECAI issuer rating but does not have a long-term ECAI issue specific rating assigned to a debt obligation issued or undertaken by the person, the Group:

(a) uses the ECAI issuer rating if the use of the ECAI issuer rating would result in the allocation of a risk-weight to the exposure that would be equal to, or higher than, the risk-weight allocated to the exposure on the basis that the person has neither an ECAI issuer rating nor an ECAI issue specific rating assigned to a debt obligation issued or undertaken by the person. The ECAI issuer rating is only applicable to unsecured exposures to the person as an issuer that are not subordinated to other exposures to that person; and the exposure to the person ranks equally with, or is subordinated to, the unsecured exposures referred to above;

(b) uses the ECAI issuer rating if the use of the ECAI issuer rating would result in the allocation of a risk-weight to the exposure that would be lower than the risk-weight allocated to the exposure on the basis that the person has neither an ECAI issuer rating nor an ECAI issue specific rating assigned to a debt obligation issued or undertaken by the person. The ECAI issuer rating is only applicable to unsecured exposures to the person as an issuer that are not subordinated to other exposures to that person; and the exposure to the person is not subordinated to other exposures to the person as an issuer.

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Template CR4: Credit risk exposure and the effects of recognized credit risk mitigations

		As at 31 December 2020					
		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	On-balance sheet amount HK$'000	Off-balance sheet amount HK$'000	On-balance sheet amount HK$'000	Off-balance sheet amount HK$'000	RWA HK$'000	RWA density %
1	Sovereign exposures	4,130,981	-	7,000,518	-	62,568	0.89%
2	PSE exposures	2,142,858	-	2,534,910	24,585	511,899	20.00%
2a	Of which: domestic PSEs	1,809,915	-	2,201,967	24,585	445,310	20.00%
2b	Of which: foreign PSEs	332,943	-	332,943	-	66,589	20.00%
3	Multilateral development bank exposures	4,507,331	-	4,507,331	-	-	-
4	Bank exposures	9,946,270	-	8,913,906	59,595	2,781,433	31.00%
5	Securities firm exposures	200,155	-	200,155	-	100,078	50.00%
6	Corporate exposures	64,005,344	13,515,733	61,730,168	1,430,919	51,096,161	80.90%
7	CIS exposures	82,292	174,899	82,292	87,450	169,742	100.00%
8	Cash items	214,076	-	730,740	-	45,990	6.29%
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	3,684,295	19,317,388	3,623,098	-	2,717,324	75.00%
11	Residential mortgage loans	13,144,978	-	12,785,669	-	5,206,642	40.72%
12	Other exposures which are not past due exposures	6,322,048	-	6,271,841	-	6,271,841	100.00%
13	Past due exposures	98,651	-	98,651	-	130,127	131.91%
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	**Total**	**108,479,279**	**33,008,020**	**108,479,279**	**1,602,549**	**69,093,805**	**62.77%**

Template CR5: Credit risk exposures by asset classes and by risk weights

		As at 31 December 2020 HK$'000										
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
	Exposure class / Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	6,687,678	-	312,840	-	-	-	-	-	-	-	7,000,518
2	PSE exposures	-	-	2,559,495	-	-	-	-	-	-	-	2,559,495
2a	Of which: domestic PSEs	-	-	2,226,552	-	-	-	-	-	-	-	2,226,552
2b	Of which: foreign PSEs	-	-	332,943	-	-	-	-	-	-	-	332,943
3	Multilateral development bank exposures	4,507,331	-	-	-	-	-	-	-	-	-	4,507,331
4	Bank exposures	-	-	5,684,397	-	3,289,104	-	-	-	-	-	8,973,501
5	Securities firm exposures	-	-	-	-	200,155	-	-	-	-	-	200,155
6	Corporate exposures	-	-	2,037,732	-	20,869,481	-	40,253,874	-	-	-	63,161,087
7	CIS exposures	-	-	-	-	-	-	169,742	-	-	-	169,742
8	Cash items	500,791	-	229,949	-	-	-	-	-	-	-	730,740
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	-	-	-	-	-	3,623,098	-	-	-	-	3,623,098
11	Residential mortgage loans	-	-	-	11,231,215	-	1,114,947	439,507	-	-	-	12,785,669
12	Other exposures which are not past due exposures	-	-	-	-	-	-	6,271,841	-	-	-	6,271,841
13	Past due exposures (*Note 1*)	-	-	8,751	-	-	-	12,946	76,954	-	-	98,651
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**11,695,800**	**-**	**10,833,164**	**11,231,215**	**24,358,740**	**4,738,045**	**47,147,910**	**76,954**	**-**	**-**	**110,081,828**

Note 1: The increase in 150% risk weight was mainly attributable to the increase in impaired advances to corporate customers.

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

Unlike on-balance sheet instruments, where the credit risk is generally represented by the principal value of loans or other financial instruments, credit risk for counterparties of derivatives is the positive replacement cost together with an estimate for the potential future exposure from changes in market value. These credit exposures are managed as part of the overall credit limits to the counterparties. The credit risk exposure on derivatives is disclosed in Note 16(b) to the Group's consolidated financial statements. The Group uses the current exposure method for the purpose of providing capital for such counterparty exposures.

Wrong way risk occurs when the credit exposure to a counterparty is adversely correlated with the credit quality of that counterparty. Credit exposures and potential losses may increase as a result of adverse change in market conditions. The Group has set up policies and procedures to control wrong-way risk.

The counterparty credit risk mitigation refers to Table CRC.

Under the terms of our current collateral obligations under derivative contracts, we estimate based on the positions as at 31 December 2020 that the Group would be required to post HKD11.6 million as additional collateral in the event of one notch downgrade in the Group's credit ratings.

Template CCR1: Analysis of counterparty default risk exposure (other than those to CCPs) by approach

		As at 31 December 2020					
		(a)	(b)	(c)	(d)	(e)	(f)
		Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
		HK$'000	HK$'000			HK$'000	HK$'000
1	SA-CCR (for derivative contracts)	-	-		-	-	-
1a	CEM	563,544	350,901		N/A	462,439	136,468
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					2,031,317	1,130,154
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	**Total**						**1,266,622**

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Template CCR2: CVA capital charge

		As at 31 December 2020	
		(a)	(b)
		EAD post CRM HK$'000	RWA HK$'000
	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	462,438	24,813
4	**Total**	**462,438**	**24,813**

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Template CCR3: Counterparty default risk exposures (other than those to CCPs) by asset class and by risk weights

		As at 31 December 2020 HK$'000										
		(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
	Exposure class / Risk Weight	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	-	-	545,338	-	116,740	-	-	-	-	-	662,078
5	Securities firm exposures	-	-	-	-	1,288,452	-	-	-	-	-	1,288,452
6	Corporate exposures	-	-	83,987	-	5,080	-	33,910	-	-	-	122,977
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	74,155	-	-	-	-	74,155
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	346,094	-	-	-	346,094
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	**Total**	**-**	**-**	**629,325**	**-**	**1,410,272**	**74,155**	**380,004**	**-**	**-**	**-**	**2,493,756**

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

	As at 31 December 2020 HK$'000					
	(a)	(b)	(c)	(d)	(e)	(f)
	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	45,690	2,300	-	-	-	-
Cash - other currencies	120,893	-	-	734,171	109,681	451,820
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	7,264,956
Equity securities	21,339	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**187,922**	**2,300**	**-**	**734,171**	**109,681**	**7,716,776**

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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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)**		16,448
2	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	16,448	16,448
3	(i) OTC derivative transactions	16,448	16,448
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	-	-

Table MRA: Qualitative disclosures related to market risk

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and other derivative instruments, as well as from the statement of financial position or structural positions. The Group transacts in the money market, foreign exchange market, equity market and capital market giving rise to market risk exposures. Positions are taken as a result of the execution of customers' orders, and market making activities, and offsetting transactions taken in order to hedge the Group's open position. The Group does not engage in significant proprietary trading.

The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the Group's exposure to the volatility inherent in financial instruments.

The Board reviews and approves policies for the management of market risks including dealing authorities and limits. The Board has delegated the responsibility for ongoing general market risk management to the ALCO. This committee articulates the interest rate view of the Group and decides on future business strategy with respect to interest rates. It also reviews and sets funding policy and ensures adherence to risk management objectives.

The Group has also established clear market risk policies, including limits, reporting lines and control procedures, which are reviewed regularly and approved by the Board. Market risk is managed within various limits approved by the Board. These limits are determined for each financial instrument and include limits on product volume, gross and net positions, position concentrations, mark to market limits, stop loss limits and risk position limits. These limits are reviewed and endorsed by the ALCO and approved by the Board at least annually. The regular limit monitoring is performed daily and the result is reported to the ALCO members. The risk exposures are also reported to the RC at least monthly.

The sale of derivatives to customers as risk management products and the subsequent use of derivatives to manage the resulting position is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Group are interest rate and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. The Group also purchases exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other positions.

One of the tools used by the Group to monitor and limit market risk exposure is VaR. VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The calculation uses the historical simulation method as the means to estimate the statistical confidence level.

The VaR technique is only effective for potential loss events which are not correlated. The Group therefore augments its VaR limits with other positions and sensitivity limit structures. Additionally, the Group applies a wide range of sensitivity analysis and stress testing, both on individual portfolios and on the Group's consolidated positions to assess the potential impact on the Group's earnings as a result of extreme movements in market prices.

Template MR1: Market risk under STM approach

		As at 31 December 2020 HK$'000
		(a)
		RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	21,675
2	Equity exposures (general and specific risk)	15,388
3	Foreign exchange (including gold) exposures	31,287
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	**Total**	**68,350**

Table IRRBBA: Interest rate exposures in banking book – risk management objectives and policies

The Group defines interest rate risk in the banking book ("IRRBB") per requirement of HKMA SPM IR-1 "Interest Rate Risk in the Banking Book" updated by the HKMA in Dec 2018. IRRBB is defined as the risk to the Bank's financial condition resulting from adverse movements in interest rates that affect the Group's banking book positions. Primary forms of IRRBB includes gap risk, basis risk and option risk.

IRRBB Management

Policy and guideline on IRRBB are established by the Group with principles and standards consistent with the SPM IR-1. The policy on IRRBB covers the Group's governance management framework, IRRBB management strategy to identify, monitor and control its IRRBB, and also the Group's IRRBB monitoring tools. The guideline on IRRBB covers the risk monitoring and reporting procedures in implementing the Group's IRRBB management strategy. These policy and guideline are both reviewed by the ALCO. The policy and guideline are approved by the Risk Committee of the Board ("RC") and the ALCO respectively.

The RC reviews and approves the Group's risk appetite statement at least annually. The RC establishes the Group's overall risk appetite for IRRBB, which is articulated in terms of the risk to both economic value and earnings, risk management strategy, and oversee the implementation of the strategy. The ALCO oversees the Group's interest rate risk to ensure that the Group has an effective framework in place to manage its assets and liabilities and off-balance sheet exposures. Asset Liability Management & Trading Department manages IRRBB on a daily basis. Capital Management & ALCO Support Department ("CAL") is responsible for the day-to-day monitoring of IRRBB which includes risk measurement and assessment, limits monitoring and risk control, and reporting. The CAL and Market Risk Management Department ("MRM") jointly monitor IRRBB exposures on a regular basis. Independent audit will be conducted periodically to ensure the policy and guideline on IRRBB are appropriate to support the Group's activities in this area and complies with the applicable legal and regulatory requirements, and to ensure IRRBB management is implemented properly.

Level of IRRBB exposures is managed and controlled through on-balance sheet and off-balance sheet adjustments, and use of hedging derivative instruments including future, options and swaps. Hedge accounting treatment under Hong Kong Financial Reporting Standard is actively applied to avoid fluctuation of profit and loss arising from mark-to-market of the hedging derivatives.

The Group monitors and controls its IRRBB with a set of monitoring tools consistent with its risk appetite. These include risk limits on economic value of equity ("EVE") decline under stressed scenarios and basic-point-value of banking book. There are also management alert triggers ("MAT") governing the size of interest rate re-pricing gap, hedging derivatives for banking book funding activities, and vulnerability of EVE and earnings to the Group's capital under stressed scenarios. All these risk limits and MATs are reviewed and approved by the RC and the ALCO respectively, and are reviewed at least annually to ensure its integrity, accuracy and reasonableness in response to changing market condition.

Risk control reports are prepared by the CAL and MRM for the ALCO on a daily basis. Besides, risk reports are also prepared and submitted to the RC on a monthly basis.

Table IRRBBA: Interest rate exposures in banking book – risk management objectives and policies (continued)

The Group also conducts stress testing on a monthly basis to measure the vulnerability of EVE and earnings in a variety of stressed conditions including the six HKMA standardized interest rate shock scenarios, scenarios with changes in the relationships between key market rates, and scenarios with significant residential loan prepayment. Results of stress tests are reviewed by the ALCO and monitored against established risk limits and MATs. The stress test programme is reviewed regularly, at least annually, and approved by the ALCO. The review covers the underlying assumptions used, IRRBB models and rationale behind to assess its continued appropriateness.

The IRRBB models, which include option pricing models and behavioural models, are applied on measurement of IRRBB exposures. IRRBB models are subject to initial and regular validation conducted by a party independent from model development. The models and subsequent modifications, results of model validation and any recommendation on the model usage are reviewed regularly, at least annually, and approved by the ALCO.

The Group maintains adequate capital for IRRBB and incorporate the Group's level of IRRBB into the process of internal assessment of capital adequacy. The Group also performs the assessment of interest rate risk in banking book in developing new product.

IRRBB Measurement

The Group measures impact on EVE and earnings according to the HKMA's standardized framework with consideration of modelling assumptions required by the SPM IR-1.

Behavioural option risks in the products of non-maturity deposits, retail term deposits with early redemption risk and retail fixed rate loans with prepayment options are measured under the behavioural models. The parameters generated are applied on the repricing cash flow to reflect how customer's behavioural pattern may change the level and timing of these products and to obtain the behavioural cash flow, which are then used to calculate the impact of interest rate shocks on the change in EVE and earnings.

The interest rate sensitive banking book positions with behavioural options related to wholesale customers and with embedded options are identified for option decomposition. The stripped-out embedded interest rate options in banking book products and other explicit interest rate options are valued using interest rate option pricing models. The Group's products with embedded interest rate option risks include wholesale fixed rate loans with prepayment options and fixed rate callable bonds.

Key modelling and parametric assumptions adopted in calculating change in EVE and earnings in template IRRBB1 are summarised as below:

1. Non-Maturity Deposits

   Non-Maturity Deposits ("NMDs") consist of savings and current deposits of the Group, which are deposits without a set maturity date that can be withdrawn at any time without advance notice. NMDs are segmented into several sub-portfolios according to customer segment, currency and product type. The Group identifies core NMDs as the stable deposits which are unlikely to reprice even under significant changes in the interest rate environment. To determine the core NMDs, the Group firstly estimates stable deposit ratio for each segment using the historical monthly deposit balance data at portfolio level. Then, to measure the core deposit ratio, the Group estimates the proportion of stable deposits that reprice due to the market rate change based on the estimated sensitivity of NMD interest rate with respect to market interest rate changes.–

Table IRRBBA: Interest rate exposures in banking book – risk management objectives and policies (continued)

IRRBB Measurement (continued)

1. Non-Maturity Deposits (continued)

   The average repricing maturity of NMDs are determined with reference to historical repricing and run off behaviour with consideration of relationship between general market interest rate and the interest rate offered by the Group. The Group adopts run-off analysis using the historical monthly deposit balance data at portfolio level to determine the average behavioural maturity for each segment.

   As of 31 December 2020, the Group's notional-weighted average repricing maturity of NMDs was 3.5 years (2019: 3.3 years) and the longest repricing maturity of NMDs was 4.8 years (2019: 4.5 years).

2. Prepayment of loans and early withdrawal of term deposits

   Prepayment on loans would cause the loans being paid back on an earlier date than the contractual maturity. Conditional prepayment rates ("CPR") for retail loans by homogeneous groups subject to prepayment risk is estimated by different retail loan models. CPR for retail fixed rate loans is estimated by logistic regression analysis with consideration of both loan-specific factors and macroeconomic factors. CPR for retail floating rate loans is estimated by statistical behavioural models using historical loan data on portfolio level. Prepayment options embedded in wholesale fixed rate loans are decomposed as automatic interest rate options and are valued using option pricing models for EVE measurement.

   Retail term deposits subject to early redemption risk are term deposits that can be withdrawn early at the discretion of customers, except there is significant penalty that the customers might not early uplift or breaking the deposits contract due to interest rate change. The Group imposes penalty on early withdrawal of term deposits that compensates for loss of interest between date of withdrawal and the contractual maturity date and the economic cost of breaking the contract. Thus, retail term deposits are not subject early redemption risk and treated as standard fixed rate deposits according to SPM IR-1.

3. Treatment of commercial margins and spread

   In measurement of EVE, the commercial margins and spread components have been included in the cash flows used in the computation and discount rate used.

4. Aggregation method

   Significant currencies are defined that account for 5% or more of the Group's total on-balance sheet interest rate sensitive position in all currencies. The total position in non-reported currencies could not exceed 10% of the same. As of 31 December 2020, significant currencies include Hong Kong dollars, US dollars and Offshore Renminbi. The Group calculates the changes in EVE and NII for each currency separately and aggregate the adverse impact, without netting, of all currencies in template IRRBB1. There is no assumption about interest rate correlation between different currencies applied on aggregation.

5. Constant balance sheet under earnings perspective

   Under earnings perspective approach, the Group assesses the impact on earnings over the next 12 months based on the two standard interest rate shock assuming constant balance sheet, where maturing or repricing cash flows are replaced by new cash flows with identical features with regard to the amount, repricing period and spread components. It measures the impact on the Group's net interest income when interest rates change in parallel up and down movement.

<u>Table IRRBBA: Interest rate exposures in banking book – risk management objectives and policies (continued)</u>

IRRBB Measurement (continued)

5. Constant balance sheet under earnings perspective (continued)

   There is no difference in the assumptions applied in internal monitoring and regulatory reporting. Assumptions, other than those regulatory assumptions, are validated and reported on an annual basis or as required during the year.

<u>Template IRRBB1: Quantitative information on interest rate risk in banking book</u>

This table provides information on the changes in economic value of equity ("EVE") and net interest income ("NII") under each of the prescribed interest rate shock scenarios in respect of its interest rate exposures arising from the Group's banking book positions.

		(a)	(b)	(c)	(d)
		Adverse impact on EVE		**Adverse impact on NII**	
	Period	**31 December 2020 HKD'000**	**31 December 2019 HKD'000**	**31 December 2020 HKD'000**	**31 December 2019 HKD'000**
1	Parallel up	21,718	34,792	22,130	22,971
2	Parallel down	806,258	533,326	476,485	373,729
3	Steepener	61,106	54,305		
4	Flattener	5,328	22,478		
5	Short rate up	13,101	33,708		
6	Short rate down	452,147	286,404		
7	**Maximum**	806,258	533,326	476,485	373,729
	Period	**31 December 2020**		**31 December 2019**	
8	**Tier 1 capital**	12,254,986		11,632,902	

Table REMA: Remuneration policy

Overview of the Bank's remuneration system

The Bank's remuneration system is applicable to all staff of the Bank and its subsidiaries and documented in the Bank's Remuneration Policy and related guidelines. The Nomination and Remuneration Committee ("NRC"), whose composition and mandate is set out in Note (H)(ii) of the Group's consolidated financial statements, is responsible for overseeing the remuneration system of the Bank. During the financial year, two meetings were held by the NRC and it reviewed and approved the Bank's Remuneration Policy. Same as the previous year, the Bank has engaged an external provider to conduct a review on the Bank's remuneration system. The Bank has also finetuned its Remuneration Policy to include retired staff being subject to applicable vesting conditions for reasonableness and completeness.

The Bank's remuneration system is based on the following principles:

- alignment of compensation to its profitability, risk and capital;
- maximization of employees' and the Bank's performance;
- attraction and retention of talented and skilled staff;
- calibration to the differing needs of each division and staff's levels of responsibility; and
- benchmarking against industry norms should be done at least on bi-annual basis to check the reasonableness of the compensation by peers.

The remuneration packages of the Bank's staff may comprise fixed and variable components which are structured to reflect the prevailing context in which the Bank operates and the Bank's intended performance. Fixed pay includes base salary, fixed allowance and year-end double pay, while variable pay may cover sales incentives and year-end discretionary bonuses.

Salary increments and bonuses of staff not covered by sales incentive schemes are determined according to a performance evaluation guideline covering both achievement of Key Performance Indicators and Workplace Behaviour measures. These include both risk and compliance related measures where appropriate.

Basically, the performance assessment and remuneration of risk and compliance employees are recommended by the heads of the risk and compliance functions and approved by Chief Executive Officer, while those of the heads are recommended by Chief Executive Officer and approved by the NRC. The relevant arrangements are documented in the Bank's Remuneration Policy and relevant guidelines.

According to the Bank's existing mechanism, Senior Management refers to those senior executives who are responsible for the oversight of the Bank's strategy and activities. They include the following positions:

- Chief Executive Officer & Managing Director
- Executive Director(s)
- Alternate Chief Executive(s)
- Executive Vice President(s)

Key Personnel refers to those executives, other than Senior Management, 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; currently the Management Business Committee and Department Heads in Financial Markets Division.

Table REMA: Remuneration policy (continued)

Risk, performance assessment and variable remuneration

Risk assessment and variable remuneration

It is stipulated in the Bank's Remuneration Policy that factors including (i) cost of capital required to support any risks involved in implementing the bonuses, (ii) capital adequacy requirements not being affected and (iii) timing and likelihood of potential future revenue incorporated into current earnings to cover the bonuses contemplated are considered when determining the size and allocation of variable remuneration. Factors including Return on Equity, Capital Adequacy Ratio and financial performance forecast for the next three years are also presented to the NRC. For the Sales staff who are eligible for sales incentives, it is the Bank's policy to avoid incentive setting at such a level that it induces excessive risk taking. Consideration of the cost and quantity of capital required to support the risks taken, the cost and quantity of the liquidity risk assumed in the conduct of business and the timing and likelihood of potential future revenues incorporated into current earnings are documented in the Bank's relevant guideline.

Performance assessment and variable remuneration

Basically, business units are assessed according to achievement of their Key Performance Indicators and compliance of internal and regulatory requirements. For individual staff, their performances are assessed according to achievement of Key Performance Indicators and Workplace Behaviours which include various qualitative measurements such as compliance of the Bank's core values: integrity, sincerity, professionalism and innovation.

Individual staff member's remuneration is basically determined by various factors including but not limited to the individual staff's performance, the performance of the staff's business unit and the overall performance of the Bank as well as market sentiment.

As stipulated in the Bank's Remuneration Policy, the calculation of bonus pool is affected by the overall financial performance of the Bank. In the event that the Bank's financial performance deteriorates, the total amount of bonus pool approved by the NRC could be reduced.

According to the Bank's Remuneration Policy, if a staff member's variable pay in cash exceeds pre-determined thresholds, a portion of it will be deferred for up to 6 months for general staff and 36 months for Senior Management, reflecting their relative responsibilities and roles.

According to the Bank's Remuneration Policy, if a staff member is found not meeting the relevant vesting criteria by actions such as fraud or violation of regulatory requirements or of the Bank's policies, a claw-back mechanism may be applied to deferred variable pay.

The Bank uses cash in variable pay to incentivize staff to meet the long and short term business goals of the Bank, for staff retention and to limit inappropriate risk taking. In particular, the Bank's sales incentive schemes are capped so as to limit mis-selling. Share options are currently not offered as incentives as the Bank is a wholly owned subsidiary of Fubon Financial Holding Co., Ltd. ("FFHC") and the NRC considers that the performance of FFHC's shares is too remote from the performance of the Bank.

As mentioned above, the Bank considers basically the use of cash in variable remuneration is appropriate having regard to the size of the Bank and the portion of variable remuneration in the total remuneration of staff.

Template REM1: Remuneration awarded during financial year

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

<table>
<tr><td colspan="3"></td><td>(a)</td></tr>
<tr><td colspan="3">Remuneration amount and quantitative information</td><td>Senior Management and Key Personnel</td></tr>
<tr><td>1</td><td rowspan="8">Fixed remuneration</td><td>Number of employees</td><td>20</td></tr>
<tr><td>2</td><td>Total fixed remuneration</td><td>HK$46.4 million</td></tr>
<tr><td>3</td><td>Of which: cash-based</td><td>HK$46.4 million</td></tr>
<tr><td>4</td><td>Of which: deferred</td><td>NIL</td></tr>
<tr><td>5</td><td>Of which: shares or other share-linked instruments</td><td>NIL</td></tr>
<tr><td>6</td><td>Of which: deferred</td><td>NIL</td></tr>
<tr><td>7</td><td>Of which: other forms</td><td>NIL</td></tr>
<tr><td>8</td><td>Of which: deferred</td><td>NIL</td></tr>
<tr><td>9</td><td rowspan="8">Variable remuneration</td><td>Number of employees</td><td>20</td></tr>
<tr><td>10</td><td>Total variable remuneration</td><td>HK$4.5 million</td></tr>
<tr><td>11</td><td>Of which: cash-based</td><td>HK$4.5 million</td></tr>
<tr><td>12</td><td>Of which: deferred</td><td>HK$0.5 million</td></tr>
<tr><td>13</td><td>Of which: shares or other share-linked instruments</td><td>NIL</td></tr>
<tr><td>14</td><td>Of which: deferred</td><td>NIL</td></tr>
<tr><td>15</td><td>Of which: other forms</td><td>NIL</td></tr>
<tr><td>16</td><td>Of which: deferred</td><td>NIL</td></tr>
<tr><td>17</td><td colspan="2">Total remuneration</td><td>HK$50.9 million</td></tr>
</table>

The aggregate quantitative information on remuneration for the Bank's Senior Management and Key Personnel for the financial year is set out above. Separate figures are not given for Senior Management as the number of executives is so small that individuals' remuneration could be easily deduced from disclosure of a breakdown of the figures.

Template REM2: Special payments

No guaranteed bonuses, sign-on awards and severance payments to Senior Management and Key Personnel for the financial year.

Template REM3: Deferred remuneration

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

		(a)	(b)	(c)
Deferred and retained remuneration		Total amount of outstanding deferred remuneration of the previous years during the financial year	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit adjustment	Total amount of deferred remuneration of the previous years and paid out in the financial year
1	Senior management	HK$2.7 million	HK$2.7 million	HK$1.1 million
2	Cash	HK$2.7 million	HK$2.7 million	HK$1.1 million
3	Shares	NIL	NIL	NIL
4	Cash-linked instruments	NIL	NIL	NIL
5	Other	NIL	NIL	NIL
6	Key personnel	NIL	NIL	NIL
7	Cash	NIL	NIL	NIL
8	Shares	NIL	NIL	NIL
9	Cash-linked instruments	NIL	NIL	NIL
10	Other	NIL	NIL	NIL
11	**Total**	**HK$2.7 million**	**HK$2.7 million**	**HK$1.1 million**

Abbreviations

AMA	Advanced measurement approach
ASA	Alternative standardised approach
AT1	Additional tier 1
Bank/Group	Fubon Bank (Hong Kong) Limited
BIA	Basic indicator approach
Board	Board of Directors
BSC	Basic approach
CCF	Credit conversion factor
CCP	Central counterparty
CCyB	Countercyclical Capital Buffer
CEM	Current exposure method
CIS	Collective investment scheme
CRM	Credit risk mitigation
CVA	Credit valuation adjustment
EAD	Exposure at default
ECAI	External Credit Assessment Institutions
HKMA	Hong Kong Monetary Authority
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China
IRB	Internal ratings-based approach
IRB(s)	Internal ratings-based (securitisation) approach
IMM	Internal models approach
IMM(CCR)	Internal models (counterparty credit risk) approach
N/A	Not applicable
PSE	Public sector entity
RWA	Risk-weighted asset/risk-weighted amount
SA-CCR	Standardised approach for counterparty
SFT	Securities financing transaction
STC	Standardised (credit risk) approach
STC(S)	Standardised (securitisation) approach
STM	Standardised (market risk) approach
STO	Standardised (operational risk) approach
VaR	Value at risk