



INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED

中國工商銀行（亞洲）有限公司

(Incorporated in Hong Kong with limited liability)

Regulatory Disclosure Statement

For the period ended September 30, 2025

(UNAUDITED)

Table of Contents

<i>Table of Contents</i>	1
<i>1. Purpose and Basis of Consolidation</i>	2
<i>2. Key Prudential Ratios and Metrics</i>	3
<i>a. Key Prudential Ratios (KM1)</i>	3
<i>b. Key Metrics – LAC Requirements for the Group (at LAC consolidation group level) (KM2(A))</i> ..	5
<i>c. Key Metrics – TLAC Requirements for Non-HK Resolution Entity (at resolution group level) (KM2(B))</i>	6
<i>3. Overview of Risk Management and RWA</i>	7
<i>Overview of Risk-Weighted Amount ("RWA") (OV1)</i>	7
<i>4. Leverage Ratio (LR2)</i>	10
<i>5. Liquidity Coverage Ratio – for Category 1 Institution (LIQ1)</i>	13

1. Purpose and Basis of Consolidation

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

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

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

2. Key Prudential Ratios and Metrics

a. Key Prudential Ratios (KM1)

		(HK\$'000)				
		(a)	(b)	(c)	(d)	(e)
		30/09/2025	30/06/2025	31/03/2025	31/12/2024	30/09/2024
	Regulatory capital (amount)					
1 & 1a	Common Equity Tier 1 (CET1)	128,432,224	126,780,371	124,812,511	122,380,449	122,506,392
2 & 2a	Tier 1	155,943,551	154,537,096	152,319,241	149,832,371	149,973,519
3 & 3a	Total capital	163,367,941	161,950,523	159,157,389	157,043,276	156,098,649
	RWA (amount) (Note 1)					
4	Total RWA	594,481,610	589,547,928	599,814,465	628,460,204	641,982,406
4a	Total RWA (pre-floor)	594,481,610	589,547,928	599,814,465	N/A	N/A
	Risk-based regulatory capital ratios (as a percentage of RWA)(Note 2)					
5 & 5a	CET1 ratio (%)	21.60%	21.50%	20.81%	19.47%	19.08%
5b	CET1 ratio (%) (pre-floor ratio)	21.60%	21.50%	20.81%	N/A	N/A
6 & 6a	Tier 1 ratio (%)	26.23%	26.21%	25.39%	23.84%	23.36%
6b	Tier 1 ratio (%) (pre-floor ratio)	26.23%	26.21%	25.39%	N/A	N/A
7 & 7a	Total capital ratio (%)	27.48%	27.47%	26.53%	24.99%	24.32%
7b	Total capital ratio (%) (pre-floor ratio)	27.48%	27.47%	26.53%	N/A	N/A
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical capital buffer requirement (%)	0.37%	0.37%	0.35%	0.36%	0.66%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	1.00%	1.00%	1.00%	1.00%	1.00%
11	Total AI-specific CET1 buffer requirements (%)	3.87%	3.87%	3.85%	3.86%	4.16%
12	CET1 available after meeting the AI's minimum capital requirements (%)	17.10%	17.00%	16.31%	14.97%	14.58%
	Basel III leverage ratio(Note 3)					
13	Total leverage ratio (LR) exposure measure	1,109,525,823	1,151,008,261	1,109,501,542	1,031,650,437	1,034,387,285
13a	LR exposure measure based on mean values of gross assets of SFTs	-	-	-	N/A	N/A
14, 14a & 14b	LR (%)	14.05%	13.43%	13.73%	14.52%	14.50%
14c & 14d	LR (%) based on mean values of gross assets of SFTs	-	-	-	N/A	N/A

2. Key Prudential Ratios and Metrics (continued)

a. Key Prudential Ratios (KM1) (continued)

		(HK\$'000)				
		(a)	(b)	(c)	(d)	(e)
		30/09/2025	30/06/2025	31/03/2025	31/12/2024	30/09/2024
	Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institutions only:					
15	Total high quality liquid assets (HQLA)	212,562,114	238,994,174	206,508,501	169,413,293	173,748,644
16	Total net cash outflows	134,584,052	145,328,902	109,988,243	92,398,521	104,382,152
17	LCR (%)	158.28%	164.84%	188.67%	186.67%	168.86%
	Applicable to category 2 institutions only:					
17a	LMR (%)	N/A	N/A	N/A	N/A	N/A
	Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
	Applicable to category 1 institutions only:					
18	Total available stable funding	600,387,916	628,776,580	621,249,681	586,319,469	583,031,775
19	Total required stable funding	475,134,468	476,371,556	478,571,332	454,325,492	451,460,732
20	NSFR (%)	126.36%	131.99%	129.81%	129.05%	129.14%
	Applicable to category 2A institutions only:					
20a	CFR (%)	N/A	N/A	N/A	N/A	N/A

Note 1: The Group has implemented the new section "Total RWA (pre-floor)" of RWA (amount) under Basel III disclosure requirements for the first time in 2025 1st quarter. Thus, no comparative figure is available for 2024.

Note 2: The Group has implemented the new section "pre-floor ratio" of Risk-based regulatory capital ratios under Basel III disclosure requirements for the first time in 2025 1st quarter. Thus, no comparative figure is available for 2024.

Note 3: The Group has implemented the new section "LR exposure measure based on mean values of gross assets of SFTs" and "LR (%) based on mean values of gross assets of SFTs" of Basel III leverage ratio under Basel III disclosure requirements for the first time in 2025 1st quarter. Thus, no comparative figure is available for 2024.

2. Key Prudential Ratios and Metrics (continued)

b. Key Metrics – LAC Requirements for the Group (at LAC consolidation group level) (KM2(A))

		(HK\$'000)				
		(a)	(b)	(c)	(d)	(e)
		30/09/2025	30/06/2025	31/03/2025	31/12/2024	30/09/2024
Of the material entity at LAC consolidation group level						
1	Internal loss-absorbing capacity available	173,093,629	171,762,961	168,881,452	166,747,964	165,808,712
2	Risk-weighted amount under the LAC Rules	594,481,610	589,547,928	599,814,465	628,460,204	641,982,406
3	Internal LAC risk-weighted ratio	29.12%	29.13%	28.16%	26.53%	25.83%
4	Exposure measure under the LAC Rules	1,109,525,823	1,151,008,261	1,109,501,542	1,031,650,437	1,034,387,285
5	Internal LAC leverage ratio	15.60%	14.92%	15.22%	16.16%	16.03%
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?(Note 1)	N/A	N/A	N/A	N/A	N/A
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?(Note 1)	N/A	N/A	N/A	N/A	N/A
6c	If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised as external loss-absorbing capacity, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised as external loss-absorbing capacity if no cap was applied (Note 1)	N/A	N/A	N/A	N/A	N/A

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

2. Key Prudential Ratios and Metrics (continued)

c. Key Metrics – TLAC Requirements for Non-HK Resolution Entity (at resolution group level) (KM2(B))

		(HK\$ Million)				
		(a)	(b)	(c)	(d)	(e)
		30/09/2025	30/06/2025	31/03/2025	31/12/2024	30/09/2024
Of the non-HK resolution entity at resolution group level (Note 1)						
1	External loss-absorbing capacity available	6,584,800	6,538,550	6,217,475	5,339,836	5,503,642
2	Total risk-weighted amount under the relevant non-HK LAC regime	30,591,800	29,422,894	28,475,063	27,259,188	28,365,707
3	External loss-absorbing capacity as a percentage of risk-weighted amount	21.52%	22.22%	21.83%	19.59%	19.40%
4	Leverage ratio exposure measure under the relevant non-HK LAC regime	60,390,813	59,874,288	57,559,077	54,033,971	56,015,658
5	External loss-absorbing capacity as a percentage of leverage ratio exposure measure	10.90%	10.92%	10.80%	9.88%	9.83%
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	N/A	N/A	N/A	N/A	N/A
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	N/A	N/A	N/A	N/A	N/A
6c	If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised as external loss-absorbing capacity, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised as external loss-absorbing capacity if no cap was applied	N/A	N/A	N/A	N/A	N/A

Note 1: Starting from January 1, 2025, Mainland China has implemented TLAC regulatory requirements. Therefore, the values in rows 1 to 5 are reported based on the actual total loss-absorbing capacity, risk-weighted assets, and exposure measure of non-Hong Kong resolution entities. Prior to this (i.e., before January 1, 2025), as LAC requirements had not yet been implemented in Mainland China, the values in rows 1 to 5 are reported based on the total regulatory capital, TLAC non-capital bonds, risk-weighted assets, and leverage ratio exposure measure of non-Hong Kong resolution entities.

3. Overview of Risk Management and RWA

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

		(HK\$'000)		
		(a)	(b)	(c)
		RWA		Minimum capital requirements
		30/09/2025	30/06/2025	30/09/2025
1	Credit risk for non-securitization exposures	536,434,973	532,613,881	42,914,798
2	Of which STC approach	536,434,973	532,613,881	42,914,798
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
5a	Of which retail IRB approach	-	-	-
5b	Of which specific risk-weight approach	-	-	-
6	Counterparty credit risk and default fund contributions	14,268,544	17,844,563	1,141,484
7	Of which SA-CCR approach	5,998,472	6,357,748	479,878
7a	Of which CEM	-	-	-
8	Of which IMM(CCR) approach	N/A	N/A	N/A
9	Of which others	8,270,072	11,486,815	661,606
10	CVA risk	2,796,075	2,821,775	223,686
11	Equity positions in banking book under the simple risk-weight method and internal models method	N/A	N/A	N/A
12	Collective investment scheme ("CIS") exposures – look-through approach / third-party approach	11,403,270	10,413,775	912,262
13	CIS exposures – mandate-based approach	N/A	N/A	N/A
14	CIS exposures – fall-back approach	N/A	N/A	N/A
14a	CIS exposures – combination of approaches	N/A	N/A	N/A
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which SEC-IRBA	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-

3. Overview of Risk Management and RWA (continued)

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

		(HK\$'000)		
		(a)	(b)	(c)
		RWA		Minimum capital requirements
		30/09/2025	30/06/2025	30/09/2025
20	Market risk	13,878,900	10,141,300	1,110,312
21	Of which STM approach	13,878,900	10,141,300	1,110,312
22	Of which IMA	-	-	-
22a	Of which SSTM approach	-	-	-
23	Capital charge for moving exposures between trading book and banking book	N/A	N/A	N/A
24	Operational risk	14,253,325	14,046,775	1,140,266
24a	Sovereign concentration risk	N/A	N/A	N/A
25	Amounts below the thresholds for deduction (subject to 250% RW)	1,907,495	2,126,831	152,600
26	Output floor level applied (Note 1)	-	-	-
27	Floor adjustment (before application of transitional cap) (Note 2)	-	-	-
28	Floor adjustment (after application of transitional cap)	N/A	N/A	N/A
28a	Deduction to RWA	460,972	460,972	36,878
28b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
28c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	460,972	460,972	36,878
29	Total	594,481,610	589,547,928	47,558,530

In the third quarter of 2025, RWA of the Bank (Group) amounts to HKD 594.48 billion, which is a slight increase of HKD 4.93 billion or 0.84% compared to the second quarter. Credit risk for non-securitization RWA stood at HKD 536.43 billion, increased by HKD 3.82 billion or 0.72% compared to the last quarter. In addition, "of which others" RWA in Counterparty default risk and default fund contributions decreased HKD 3.22 billion or 28% primarily due to a reduction of Securities Financing Transactions (SFTs). As for market risk, RWA shows an increase of HKD 3.74 billion or 36.86%, driven by rises in General Interest Rate Risk (GIRR) Delta and Foreign Exchange (FX) Delta. Operational risk RWA saw a modest increase of HKD 0.21 billion or 1.47% compared to the previous quarter.

3. Overview of Risk Management and RWA (continued)

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

The Group is in compliance with the Banking (Capital) (Amendment) Rules 2023 to calculate RWA since January 1st, 2025. The Group adopts the standardized (credit risk) approach ("STC") for the non-securitization credit risk RWA (including equity exposure and CIS exposure) calculation. In accordance with the Banking (Capital) (Amendment) Rules 2023 enacted by HKMA, the Group adopts SA-CCR approach for the calculation of counterparty credit risk exposure arising from the Bank's derivatives contracts and default risk exposure from derivatives cleared through central counterparty ("CCP"), which is implemented in the counterparty credit risk RWA calculation. The Group adopts simplified basic credit valuation adjustment ("CVA") method for the CVA risk RWA calculation, the standardized (market risk) approach ("STM") for the market risk RWA calculation, the standardized approach ("STC") for the operational risk RWA calculation.

4. Leverage Ratio (LR2)

		(a)	(b)
		(HK\$'000)	
		30/09/2025	30/06/2025
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivative contracts and SFTs, but including related on-balance sheet collateral)	940,446,625	953,775,785
2	Gross-up for derivative contracts collateral provided where deducted from balance sheet assets pursuant to the applicable accounting standard	-	-
3	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	(319,469)	(1,446,080)
4	Less: Adjustment for securities received under SFTs that are recognised as an asset	-	-
5	Less: Specific and collective provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital	(10,169,136)	(10,235,973)
6	Less: Asset amounts deducted in determining Tier 1 capital	(1,788,782)	(1,817,389)
7	Total on-balance sheet exposures (excluding derivative contracts and SFTs) (sum of rows 1 to 6)	928,169,238	940,276,343
Exposures arising from derivative contracts			
8	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	6,798,826	5,618,041
9	Add-on amounts for PFE associated with all derivative contracts	14,071,203	14,786,120
10	Less: Exempted CCP leg of client-cleared trade exposures	-	-
11	Adjusted effective notional amount of written credit-related derivative contracts	-	-
12	Less: Permitted reductions in effective notional amount and permitted deductions from add-on amounts for PFE of written credit-related derivative contracts	-	-
13	Total exposures arising from derivative contracts (sum of rows 8 to 12)	20,870,029	20,404,161
Exposures arising from SFTs			
14	Gross amount of SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	61,397,935	89,217,029
15	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	(3,715,704)	(6,792,374)
16	CCR exposure for SFT assets	27,182,057	35,788,946
17	Agent transaction exposures	-	-
18	Total exposures arising from SFTs (sum of rows 14 to 17)	84,864,288	118,213,601
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	335,781,206	307,897,008
20	Less: Adjustments for conversion to credit equivalent amounts	(259,706,519)	(235,282,721)
21	Less: Specific and collective provisions associated with off-balance sheet exposures that are deducted from Tier 1 capital	(452,419)	(500,131)
22	Off-balance sheet items (sum of rows 19 to 21)	75,622,268	72,114,156
Capital and total exposures			
23	Tier 1 capital	155,943,551	154,537,096
24	Total exposures (sum of rows 7, 13, 18 and 22)	1,109,525,823	1,151,008,261

4. Leverage Ratio (LR2) (continued)

		(a)	(b)
		(HK\$'000)	
		30/09/2025	30/06/2025
Leverage ratio			
25 & 25a	Leverage ratio	14.05%	13.43%
26	Minimum leverage ratio requirement	3.00%	3.00%
27	Applicable leverage buffers	Not applicable	Not applicable
Disclosure of mean values			
28	Mean value of gross assets of SFTs, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	70,910,976	98,146,385
29	Quarter-end value of gross amount of SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	57,682,231	82,424,655
30 & 30a	Total exposures based on mean values from row 28 of gross assets of SFTs (after adjustment for sale accounting transactions and netted amounts of associated cash payables and cash receivables)	1,122,754,568	1,166,729,992
31 & 31a	Leverage ratio based on mean values from row 28 of gross assets of SFTs (after adjustment for sale accounting transactions and netted amounts of associated cash payables and cash receivables)	13.89%	13.25%

4. Leverage Ratio (LR2) (continued)

Item 3:

Due to changes in the clearing settlement account balance, deductions of receivables assets for cash variation margin provided under derivative contracts decreased by HKD 1,127 million, or a decrease of 77.91% compared to last quarter.

Item 8:

The replacement cost associated with all derivative contracts increased by HKD 1,181 million or an increase of 21.02% due to fair value change of derivative contracts.

Item 14:

The Gross securities financing transaction ("SFT") assets (with no recognition of netting), after adjusting for sale accounting transactions, decreased by HKD 27,819 million or a decrease of 31.18% compared to last quarter due to decrease in the amount of repo-style transactions.

Item 15:

Deduction of netted amounts of cash payables and cash receivables of gross SFT assets decreased by 3,077 million or an decrease of 45.30% compared to last quarter due to decrease in netted amount of cash payables and receivables from repo-style transactions.

Item 16

Counterparty Credit Risk ("CCR") exposure for SFT assets decreased by HKD 8,607 million or a decrease of 24.05%, due to decrease in CCR from repo-style transactions.

Item 18 (include 14, 15 and 16):

The Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions, decreased by HKD 27,819 million or a decrease of 31.18%. Additionally, CCR exposure for SFT assets decreased by 8,607 million or a decrease of 24.05%. As a result, total exposures arising from SFTs decreased by HKD 33,349 million or a decrease of 28.21% compared to last quarter.

Item 28 and 29:

Due to a decrease in repo-style transactions, the mean value and quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables decreased by HKD 27,235 million and HKD 24,742 million respectively, a decrease of 27.75% and 30.02% compared to last quarter.

5. Liquidity Coverage Ratio – for Category 1 Institution (LIQ1)

Number of data points used in calculating the average value of the LCR and related components set out in this template: (75)		(HK\$'000)	
		(a)	(b)
Basis of disclosure: consolidated		Unweighted value (average)	Weighted value (average)
A. High quality liquid assets (HQLA)			
1	Total HQLA		212,562,114
B. Cash outflows			
2	Retail deposits and small business funding, of which:	230,000,157	21,787,511
3	<i>Stable retail deposits and stable small business funding</i>	17,357,868	523,282
4	<i>Less stable retail deposits and less stable small business funding</i>	212,642,289	21,264,229
4a	<i>Retail term deposits and small business term funding</i>	-	-
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which:	346,155,818	180,829,484
6	<i>Operational deposits</i>	167,444	41,635
7	<i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i>	345,947,358	180,746,833
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	41,016	41,016
9	Secured funding transactions (including securities swap transactions)		146,840
10	Additional requirements, of which:	85,913,152	14,409,932
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	8,155,406	6,325,444
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	-	-
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	77,757,746	8,084,488
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	10,788,939	10,788,939
15	Other contingent funding obligations (whether contractual or non-contractual)	478,382,270	3,290,297
16	Total Cash Outflows		231,253,003
C. Cash Inflows			
17	Secured lending transactions (including securities swap transactions)	47,369,803	17,581,433
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	97,352,647	68,472,885
19	Other cash inflows	68,551,466	10,614,633
20	Total Cash Inflows	213,273,916	96,668,951
D. Liquidity Coverage Ratio			
		Adjusted value	
21	Total HQLA		212,562,114

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

Number of data points used in calculating the average value of the LCR and related components set out in this template: (76)		(HK\$'000)	
		(a)	(b)
Basis of disclosure: consolidated		Unweighted value (average)	Weighted value (average)
22	Total Net Cash Outflows		134,584,052
23	LCR (%)		158.28%

Liquidity Coverage Ratio

The LCR throughout the third quarter of 2025 meets the regulatory requirement and maintains at a safe level.

The average LCR as of the third quarter of 2025 decreased by 6.56% compared to that as of the second quarter of 2025. Such decreased was mainly due to the decrease of HQLA by HKD 26.4 billion, which was partially net off by the decrease of total net cash outflows by HKD 10.7 billion resulting from the maturing impact from various kinds of asset and liability.

(i) Main drivers of LCR results

The change in the Bank's LCR is mainly due to the changes in HQLA position, as well as the maturing impacts from various kinds of asset and liability which impacts the net cash outflows.

(ii) Composition HQLA

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

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

(iii) Concentration of funding sources

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

(iv) Derivative exposures

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

(v) Currency mismatch

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

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

(vi) Centralization of liquidity management

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

(vii) Approach to liquidity risk management

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