



**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

2025 1<sup>ST</sup> QUARTER

(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</i> .....	10
<i>Leverage Ratio (LR2)</i> .....	10
<i>5. Liquidity</i> .....	13
<i>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 Regulatory Disclosure 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)
		31/03/2025	31/12/2024	30/09/2024	30/06/2024	31/03/2024
	<b>Regulatory capital (amount)</b>					
1 & 1a	Common Equity Tier 1 (CET1)	124,812,511	122,380,449	122,506,392	120,551,656	119,178,824
2 & 2a	Tier 1	152,319,241	149,832,371	149,973,519	148,163,051	146,841,845
3 & 3a	Total capital	159,157,389	157,043,276	156,098,649	153,899,414	152,330,528
	<b>RWA (amount) (Note 1)</b>					
4	Total RWA	599,814,465	628,460,204	641,982,406	632,812,917	625,710,160
4a	Total RWA (pre-floor)	599,814,465	N/A	N/A	N/A	N/A
	<b>Risk-based regulatory capital ratios (as a percentage of RWA)(Note 2)</b>					
5 & 5a	CET1 ratio (%)	20.81%	19.47%	19.08%	19.05%	19.05%
5b	CET1 ratio (%) (pre-floor ratio)	20.81%	N/A	N/A	N/A	N/A
6 & 6a	Tier 1 ratio (%)	25.39%	23.84%	23.36%	23.41%	23.47%
6b	Tier 1 ratio (%) (pre-floor ratio)	25.39%	N/A	N/A	N/A	N/A
7 & 7a	Total capital ratio (%)	26.53%	24.99%	24.32%	24.32%	24.35%
7b	Total capital ratio (%) (pre-floor ratio)	26.53%	N/A	N/A	N/A	N/A
	<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>					
8	Capital conservation buffer requirement (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical capital buffer requirement (%)	0.35%	0.36%	0.66%	0.64%	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 (%)	3.85%	3.86%	4.16%	4.14%	4.16%
12	CET1 available after meeting the AI's minimum capital requirements (%)	16.31%	14.97%	14.58%	14.55%	14.55%
	<b>Basel III leverage ratio(Note 3)</b>					
13	Total leverage ratio (LR) exposure measure	1,109,501,542	1,031,650,437	1,034,387,285	1,002,309,501	993,738,293
13a	LR exposure measure based on mean values of gross assets of SFTs	-	N/A	N/A	N/A	N/A
14, 14a & 14b	LR (%)	13.73%	14.52%	14.50%	14.78%	14.78%
14c & 14d	LR (%) based on mean values of gross assets of SFTs	-	N/A	N/A	N/A	N/A

a. Key Prudential Ratios (KM1) (continued)

		(HK\$'000)				
		(a)	(b)	(c)	(d)	(e)
		31/03/2025	31/12/2024	30/09/2024	30/06/2024	31/03/2024
	<b>Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)</b>					
	Applicable to category 1 institutions only:					
15	Total high quality liquid assets (HQLA)	206,508,501	169,413,293	173,748,644	176,836,420	162,309,250
16	Total net cash outflows	109,988,243	92,398,521	104,382,152	113,986,928	99,930,839
17	LCR (%)	188.67%	186.67%	168.86%	156.50%	164.61%
	Applicable to category 2 institutions only:					
17a	LMR (%)	N/A	N/A	N/A	N/A	N/A
	<b>Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)</b>					
	Applicable to category 1 institutions only:					
18	Total available stable funding	621,249,681	586,319,469	583,031,775	572,065,836	573,485,855
19	Total required stable funding	478,571,332	454,325,492	451,460,732	435,825,946	447,200,985
20	NSFR (%)	129.81%	129.05%	129.14%	131.26%	128.24%
	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.

b. Key Metrics – LAC Requirements for the Group (at LAC Consolidation Group Level)  
(KM2(A))

		(HK\$'000)				
		(a)	(b)	(c)	(d)	(e)
		31/03/2025	31/12/2024	30/09/2024	30/06/2024	31/03/2024
Of the material entity at LAC consolidation group level						
1	Internal loss-absorbing capacity available	168,881,452	166,747,964	165,808,712	163,660,477	162,109,841
2	Risk-weighted amount under the LAC Rules	599,814,465	628,460,204	641,982,406	632,812,917	625,710,160
3	Internal LAC risk-weighted ratio	28.16%	26.53%	25.83%	25.86%	25.91%
4	Exposure measure under the LAC Rules	1,109,501,542	1,031,650,437	1,034,387,285	1,002,309,501	993,738,293
5	Internal LAC leverage ratio	15.22%	16.16%	16.03%	16.33%	16.31%
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.

c. Key Metrics – TLAC Requirements for Non-HK Resolution Entity (at Resolution Group Level) (KM2(B))

		(HK\$ Million)				
		(a)	(b)	(c)	(d)	(e)
		31/03/2025	31/12/2024	30/09/2024	30/06/2024	31/03/2024
Of the non-HK resolution entity at resolution group level (Note 1)						
1	External loss-absorbing capacity available	6,217,475	5,339,836	5,503,642	5,196,966	5,244,648
2	Total risk-weighted amount under the relevant non-HK LAC regime	28,475,063	27,259,188	28,365,707	26,907,457	27,307,252
3	External loss-absorbing capacity as a percentage of risk-weighted amount	21.83%	19.59%	19.40%	19.31%	19.21%
4	Leverage ratio exposure measure under the relevant non-HK LAC regime	57,559,077	54,033,971	56,015,658	52,635,905	53,984,831
5	External loss-absorbing capacity as a percentage of leverage ratio exposure measure	10.80%	9.88%	9.83%	9.87%	9.72%
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
		31/03/2025	31/12/2024	31/03/2025
1	Credit risk for non-securitization exposures	543,874,925	552,651,090	43,509,994
2	Of which STC approach	543,874,925	552,651,090	43,509,994
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	22,948,568	11,449,529	1,835,885
7	Of which SA-CCR approach	6,732,131	7,027,893	538,570
7a	Of which CEM	-	-	-
8	Of which IMM(CCR) approach	N/A	N/A	N/A
9	Of which others	16,216,437	4,421,636	1,297,315
10	CVA risk	3,121,025	2,442,563	249,682
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	5,050,817	5,160,897	404,065
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	-	-	-



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

		(HK\$'000)		
		(a)	(b)	(c)
		RWA		Minimum capital requirements
		31/03/2025	31/12/2024	31/03/2025
20	Market risk	9,581,238	29,902,838	766,499
21	Of which STM approach	9,581,238	29,902,838	766,499
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	14,076,888	25,614,100	1,126,151
24a	Sovereign concentration risk	N/A	N/A	N/A
25	Amounts below the thresholds for deduction (subject to 250% RW)	1,622,990	1,701,173	129,839
26	Output floor level applied (Note 1)	-	N/A	-
27	Floor adjustment (before application of transitional cap) (Note 2)	-	N/A	-
28	Floor adjustment (after application of transitional cap)	N/A	N/A	N/A
28a	Deduction to RWA	461,986	461,986	36,959
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	461,986	461,986	36,959
29	Total	599,814,465	628,460,204	47,985,156

Note 1: The Group has implemented the new section "Output floor level applied " under Basel III disclosure requirements for the first time in 2025 1st quarter. Thus, no comparative figure is available for 2024 4th quarter.

Note 2: The Group has implemented the new section "Floor adjustment (before application of transitional cap) " under Basel III disclosure requirements for the first time in 2025 1st quarter. Thus, no comparative figure is available for 2024 4th quarter.

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

In the first quarter of 2025, RWA of the Group amounts to HKD 599.81 billion, which is an decrease of HKD 28.65 billion or 4.56% compared to the fourth quarter in 2024. In addition, "of which others" RWA in Counterparty default risk and default fund contributions increased HKD 11.80 billion or 266.75% mainly because of dramatic increase of Securities Financing Transactions (SFT). Meanwhile, Market risk RWA shows an overall decrease of HKD 20.32 billion or 67.96% arising from HKMA approving the Bank to use the treatment of RMB structural foreign exchange exemption in market risk. The RWA for operational risk shows a significant decrease of HKD 11.54 billion or dropped by 45% compared to the last quarter, mainly due to the revised calculation approach (from BIA approach to standardized approach) under Basel III framework. As for CVA risk, driven by the increase of total number of trades along with an increment of adjusted notional amount, CVA risk upshifted by HKD 678.46 million or 27.78% compared to the last quarter.

The Group is in compliance with the Banking (Capital) (Amendment) Rules 2023 to calculate RWA since January 1<sup>st</sup>, 2025. The Group adopts the standardized (credit risk) approach ("STC") for the non-securitization credit risk RWA (including equity exposure and CIS exposure) calculation, and 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, and adopts simplified basic credit valuation adjustment ("CVA") method for the CVA risk RWA calculation, and adopts the standardized (market risk) approach ("STM") for the market risk RWA calculation, and adopts the standardized approach ("STC") for the operational risk RWA calculation.

#### 4. Leverage Ratio

##### Leverage Ratio (LR2)

		(a)	(b)
		(HK\$'000)	
		31/03/2025	31/12/2024
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding derivative contracts and SFTs, but including related on-balance sheet collateral)	928,146,019	906,683,966
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	(806,830)	(1,628,912)
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	(9,543,888)	(10,419,822)
6	Less: Asset amounts deducted in determining Tier 1 capital	(1,814,948)	(1,971,473)
7	<b>Total on-balance sheet exposures (excluding derivative contracts and SFTs) (sum of rows 1 to 6)</b>	<b>915,980,353</b>	<b>892,663,759</b>
<b>Exposures arising from derivative contracts</b>			
8	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	5,669,172	3,762,049
9	Add-on amounts for PFE associated with all derivative contracts	15,866,229	14,472,881
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	<b>Total exposures arising from derivative contracts (sum of rows 8 to 12)</b>	<b>21,535,401</b>	<b>18,234,930</b>
<b>Exposures arising from SFTs</b>			
14	Gross amount of SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	87,369,176	60,652,837
15	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	(5,743,860)
16	CCR exposure for SFT assets	14,148,654	1,658,702
17	Agent transaction exposures	-	-
18	<b>Total exposures arising from SFTs (sum of rows 14 to 17)</b>	<b>101,517,830</b>	<b>56,567,679</b>
<b>Other off-balance sheet exposures</b>			
19	Off-balance sheet exposure at gross notional amount	277,660,911	239,336,918
20	Less: Adjustments for conversion to credit equivalent amounts	(206,801,426)	(174,637,013)
21	Less: Specific and collective provisions associated with off-balance sheet exposures that are deducted from Tier 1 capital	(391,527)	(515,836)
22	<b>Off-balance sheet items (sum of rows 19 to 21)</b>	<b>70,467,958</b>	<b>64,184,069</b>
<b>Capital and total exposures</b>			
23	<b>Tier 1 capital</b>	<b>152,319,241</b>	<b>149,832,371</b>
24	<b>Total exposures (sum of rows 7, 13, 18 and 22)</b>	<b>1,109,501,542</b>	<b>1,031,650,437</b>

Leverage Ratio (LR2) (continued)

		(a)	(b)
		(HK\$'000)	
		31/03/2025	31/12/2024
<b>Leverage ratio</b>			
25 & 25a	<b>Leverage ratio</b>	<b>13.73%</b>	<b>14.52%</b>
26	<b>Minimum leverage ratio requirement</b>	<b>3.00%</b>	<b>3.00%</b>
27	<b>Applicable leverage buffers</b>	<b>Not applicable</b>	<b>Not applicable</b>
<b>Disclosure of mean values (Note 1)</b>			
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	70,070,654	Not applicable
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	87,369,176	Not applicable
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)	1,092,203,020	Not applicable
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)	13.95%	Not applicable

Note 1: The Group has implemented the new section “Disclosure of mean values” of Leverage Ratio under Basel III disclosure requirements for the first time in 2025 1st quarter. Thus, no comparative figure is available for 2024 4th quarter.

## 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 822 million, or a decrease of 50.47% compared to last quarter.

### **Item 8:**

The replacement cost associated with all derivative contracts increased by HKD 1.91 billion or an increase of 50.69% compared to last quarter 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 increased by HKD 26.72 billion, or an increase of 44.05% compared to last quarter, due to an increase in the amount of repo-style transactions.

## 5. Liquidity

### 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: (73)		(HK\$'000)	
		(a)	(b)
Basis of disclosure: consolidated		<b>Unweighted value</b> (average)	<b>Weighted value</b> (average)
<b>A. HQLA</b>			
1	Total HQLA		206,508,501
<b>B. Cash outflows</b>			
2	Retail deposits and small business funding, of which:	222,314,500	21,203,052
3	<i>Stable retail deposits and stable small business funding</i>	14,721,240	443,726
4	<i>Less stable retail deposits and less stable small business funding</i>	207,593,260	20,759,326
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:	352,347,738	182,203,440
6	<i>Operational deposits</i>	206,977	51,465
7	<i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i>	351,277,603	181,288,817
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	863,158	863,158
9	Secured funding transactions (including securities swap transactions)		18,221
10	Additional requirements, of which:	82,087,388	15,767,612
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	7,987,594	7,987,594
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>	74,099,794	7,780,018
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	8,316,075	8,316,075
15	Other contingent funding obligations (whether contractual or non-contractual)	416,136,853	2,415,295
16	<b>Total Cash Outflows</b>		<b>229,923,695</b>
<b>C. Cash Inflows</b>			
17	Secured lending transactions (including securities swap transactions)	48,750,124	8,543,160
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	118,407,070	98,939,110
19	Other cash inflows	70,615,828	12,453,182
20	<b>Total Cash Inflows</b>	<b>237,773,022</b>	<b>119,935,452</b>
<b>D. Liquidity Coverage Ratio</b>			
		<b>Adjusted value</b>	
21	<b>Total HQLA</b>		<b>206,508,501</b>

### 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: (73)		(HK\$'000)	
		(a)	(b)
Basis of disclosure: consolidated		<b>Unweighted value</b> (average)	<b>Weighted value</b> (average)
22	<b>Total Net Cash Outflows</b>		<b>109,988,243</b>
23	<b>LCR (%)</b>		<b>188.67%</b>

#### Liquidity Coverage Ratio

The Liquidity Coverage Ratio ("LCR") throughout the first quarter of 2025 meets the regulatory requirement and maintains at a safe level.

The average LCR as of the first quarter of 2025 increased by 2.00% compared to that as of the fourth quarter of 2024. Such increase was mainly due to the increase of HQLA by HKD 37 billion, which was partially net off by the increase of total net cash outflows by HKD 18 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 was mainly due to the changes in HQLA position, as well as the maturing impacts from various kinds of assets and liabilities which impacts the net cash outflows.

#### (ii) Composition of 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.

## 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.



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

### (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 Senior Executive Risk Management 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.