



Standard Chartered Bank
(Hong Kong) Limited

Supplementary Notes to
Consolidated Financial Statements (unaudited)

For period ended
31 December 2022

Standard Chartered Bank (Hong Kong) Limited

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Supplementary Notes to Consolidated Financial Statement (unaudited)

These notes are supplementary to and should be read in conjunction with the 2022 Consolidated Financial Statements (“consolidated financial statements”). The consolidated financial statements and this supplementary notes to consolidated financial statements (unaudited) taken together comply with the Banking (Disclosure) Rules (“Rules”) under section 60A of the Banking Ordinance and the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (“LAC Rules”) under section 19(1) of the Financial Institutions (Resolution) Ordinance (“FIRO”).

References to “the Group” within this document means Standard Chartered Bank (Hong Kong) Limited (“the Bank”) and its subsidiaries.

These banking disclosures are governed by the Group’s disclosure policy, which has been approved by the Board of Directors. The disclosure policy sets out the approach to determine the content, appropriateness and frequency of the disclosures, the approach to ensure the relevance and adequacy of the disclosures, and the internal control over the process for making the disclosures. The disclosures have been subject to independent review in accordance to the disclosure policy.

According to the Rules and the LAC Rules, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates. Prior period disclosures and additional disclosures as required by the Banking (Disclosure) Rules will be available on our website: www.sc.com/hk on or before 31 March 2023.

1 Basis of consolidation and preparation

The consolidated capital ratios were calculated in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The basis of consolidation for accounting purposes is in accordance with Hong Kong Financial Reporting Standards. The principal subsidiaries of the Bank for accounting purposes are Standard Chartered Bank (China) Limited (“SCB China”), Standard Chartered NEA Limited (“SC NEA”), Standard Chartered Bank Korea Limited (“SCB Korea”) and Standard Chartered Bank (Taiwan) Limited (“SCB Taiwan”) (SC NEA, SCB Korea and SCB Taiwan collectively referred to as “SC NEA Group”), Mox Bank Limited and Standard Chartered Leasing Group Limited (which comprises Pembroke Aircraft Leasing Holdings Limited and Marina Leasing Limited).

The basis and scope of consolidation for regulatory purposes is different from the basis and scope of consolidation for accounting purposes.

Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the Banking (Capital) rules. Subsidiaries not included in consolidation for regulatory purposes are non-financial companies and the securities companies that are authorized and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorized institutions under the Banking (Capital) Rules and the Banking Ordinance.

The Bank’s shareholdings in these subsidiaries are deducted from its capital base subject to the thresholds as determined in accordance with Part 3 of the Banking (Capital) Rules.

The Group operates subsidiaries in a number of countries and territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the banking group.

1 Basis of consolidation and preparation (continued)

Subsidiaries not included in the consolidation for regulatory purposes are set out below:

Name of company	Principal Activity	At 31 December 2022	
		Total assets HK\$'M	Total equity HK\$'M
Prunelli Asset Purchaser HK Limited	Asset-backed securitization	5,409	–
Standard Chartered Securities Korea Limited	Provision of security trading, underwriting and brokerage transactions	1,946	1,873
Standard Chartered Securities (Hong Kong) Limited	Equity capital markets, corporate finance and institutional brokerage	134	133
Standard Chartered Trust (HK) Limited	Trustee services	14	10
Horsford Nominees Limited	Nominees services	–	–
		7,503	2,016

The Bank's shareholdings in the above subsidiaries are deducted from CET1 capital, subject to certain thresholds, in accordance with the Banking (Capital) Rules. There is no relevant capital shortfall in any of the Bank's subsidiaries which are not included as part of the consolidation group for regulatory purposes.

The Group uses the advanced internal ratings based ("IRB") approach for both the measurement of credit risk capital requirements and the management of credit risk for the majority of its portfolios. The Group also uses the standardized (credit risk) approach for certain insignificant portfolios exempted from IRB. For counterparty credit risk, the Group uses the standardized (counterparty credit risk) approach ("SA-CCR") to calculate its default risk exposures. For securitization exposures, the group uses the securitization internal ratings-based approach ("SEC-IRBA"), securitization external ratings-based approach ("SEC-ERBA"), securitization standardized approach ("SEC-SA") or securitization fallback approach ("SEC-FBA") to determine credit risk for its banking book securitization exposures.

For market risk, the Group uses the internal models approach ("IMM approach") to calculate majority of its general market risk capital charge in respect of the risk categories of interest rates and foreign exchange (including gold) and uses the standardized (market risk) approach to calculate the general market risk capital charge for its equity exposures and commodity exposures, market risk capital charge on exempted foreign exchange exposures and the specific risk capital charge for its interest rate exposures and equity exposures. The Group also uses a stochastic asset-liability model approach for two guaranteed retirement funds. In addition, the Group adopts the standardized (operational risk) approach for operational risk.

The Group applies the Internal Capital Adequacy Assessment Process ("ICAAP") to assess its capital demand on a current, planned and stressed basis. The assessment covers the major risks faced by the Group, in addition to credit, market and operational risks that are covered under the minimum capital requirements. The 2022 ICAAP has been approved by the Regional Asset and Liability Committee ("RALCO"), the Asia Risk Committee ("ARC") and the Board of Directors ("the Board").

Loss-absorbing Capacity Disclosures

Hong Kong LAC Rules came into operation on 14 December 2018. Following classification by the HKMA (as resolution authority), in scope entities are required under these rules to issue LAC instruments that can be written down or converted in the event of failure, and maintain minimum LAC resources.

The Group was notified by HKMA of its classification as a material subsidiary under the LAC rules with effect from 1 April 2019, with Standard Chartered PLC ("SC PLC") as the non-HK resolution entity. Following this classification, the Group has met its minimum LAC requirements since 1 July 2019, and is now publishing LAC disclosures for the period ended 31 December 2022. The basis of calculating the Group's LAC and RWAs is in accordance with the LAC Rules, with disclosures made using standard templates issued by the HKMA on 31 October 2019.

The Group's LAC disclosures are included as part of this regulatory disclosure, while SC PLC's LAC disclosures are included as part of its disclosures which can be found in the Investors section of SC PLC's website, <https://www.sc.com>.

2. Key prudential ratios and metrics

a. Key prudential ratios (KM1)

The following table sets out an overview of the Group's key prudential ratios.

	(a) At 31 December 2022 HK\$'M	(b) At 30 September 2022 HK\$'M	(c) At 30 June 2022 HK\$'M	(d) At 31 March 2022 HK\$'M	(e) At 31 December 2021 HK\$'M
Regulatory capital (amount)					
1	Common Equity Tier 1 (CET1)	141,259	137,789	138,192	138,427
2	Tier 1	161,939	158,453	156,887	157,122
3	Total capital ¹	175,443	171,411	170,582	171,117
RWA (amount)					
4	Total RWA ²	846,074	872,225	870,416	895,334
Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%) ³	16.7%	15.8%	15.9%	15.5%
6	Tier 1 ratio (%) ³	19.1%	18.2%	18.0%	17.4%
7	Total capital ratio (%) ³	20.7%	19.7%	19.6%	19.1%
Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	2.5%
9	Countercyclical capital buffer requirement (%)	0.5%	0.5%	0.5%	0.5%
10	Higher loss absorbency requirements (%) (applicable only to G-SIB or D-SIB)	1.5%	1.5%	1.5%	1.5%
11	Total AI-specific CET1 buffer requirements (%)	4.5%	4.5%	4.5%	4.5%
12	CET1 available after meeting the AI's minimum capital requirements (%) ⁴	12.2%	11.3%	11.4%	11.0%
Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	2,655,994	2,680,079	2,623,852	2,675,328
14	LR (%)	6.1%	5.9%	6.0%	5.9%
Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	465,501	458,535	485,534	478,819
16	Total net cash outflows	287,153	300,400	345,520	334,220
17	LCR (%) ⁵	163%	154%	141%	144%
Applicable to category 2 institution only:					
17a	LMR (%)	NA	NA	NA	NA
Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
Applicable to category 1 institution only:					
18	Total available stable funding	1,382,091	1,322,171	1,344,192	1,357,494
19	Total required stable funding	1,044,154	1,090,821	1,097,552	1,087,992
20	NSFR (%)	132%	121%	122%	125%
Applicable to category 2A institution only:					
20a	CFR (%)	NA	NA	NA	NA

¹ Increase in total capital was mainly due to profit accumulation and exchange reserve gain.

² Decrease in total RWA was contributed by decrease in counterparty default risk RWA partially offset by increase in RWA under sovereign concentration risk and operational risk.

³ Increase in risk-based regulatory capital ratios were mainly contributed by decrease in RWA and increase in regulatory capital.

⁴ Increase in CET1 available after meeting the Bank's minimum capital requirements was due to increase in CET1 capital ratio.

⁵ Please refer to note 8 for the key drivers of LCR% changes.

2 Key prudential ratios and metrics (continued)

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

The following table sets out a summary information on internal loss-absorbing capacity available, at LAC consolidation group level, of the Group.

	(a) At 31 December 2022 HK\$'M	(b) At 30 September 2022 HK\$'M	(c) At 30 June 2022 HK\$'M	(d) At 31 March 2022 HK\$'M	(e) At 31 December 2021 HK\$'M	
Of the material entity at LAC consolidation group level						
1	Internal loss-absorbing capacity available	195,548	196,321	195,899	198,142	194,699
2	Risk-weighted amount under the LAC Rules ¹	846,074	872,225	870,416	895,334	894,160
3	Internal LAC risk-weighted ratio ¹	23.1%	22.5%	22.5%	22.1%	21.8%
4	Exposure measure under the LAC Rules	2,655,994	2,680,079	2,623,852	2,675,328	2,685,208
5	Internal LAC leverage ratio	7.4%	7.3%	7.5%	7.4%	7.3%
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply? ²	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply? ²	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
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 ²	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

¹ Decrease in risk-weighted amount under the LAC Rules and increase in internal LAC risk-weighted ratio were in line with the decrease in risk-weighted assets and increase in total capital ratio.

² The subordination exemptions in the antepenultimate and penultimate paragraphs of Section 11 of the FSB TLAC Term Sheet does not apply in Hong Kong under the 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))

The following table shows information about SC PLC's total loss-absorbing capacity (TLAC) available, and TLAC requirements, applied at the resolution group level under a Single Point of Entry resolution strategy.

The numbers are disclosed in the functional currency of SC PLC which is US Dollars.

		At 31 December 2022 US\$'M	At 30 September 2022 US\$'M	At 30 June 2022 US\$'M	At 31 March 2022 US\$'M	At 31 December 2021 US\$'M
Of the non-HK resolution entity at resolution group level						
1	External loss-absorbing capacity available	78,480	76,135	79,150	81,151	85,860
2	Total risk-weighted amount under the relevant non-HK LAC regime	244,711	252,293	255,082	260,833	271,233
3	External loss-absorbing capacity as a percentage of risk-weighted amount	32.1%	30.2%	31.0%	31.1%	31.7%
4	Leverage ratio exposure measure under the relevant non-HK LAC regime	854,311	860,504	894,134	935,827	911,140
5	External loss-absorbing capacity as a percentage of leverage ratio exposure measure	9.2%	8.8%	8.9%	8.7%	9.4%
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	Yes	Yes	Yes	Yes	Yes
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	No	No	No	No	No
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

3 Overview of risk management and RWA

a. Overview of risk management (OVA)

Note 33 on pages 82 to 89 of the 2022 consolidated financial statements sets out a description of risk management objectives and policies and how the Board of Directors and senior management assess and manage risks, enabling users to gain a clear understanding of the risk tolerance and appetite in relation to the main activities and all significant risks.

3 Overview of risk management and RWA (continued)

b. Overview of risk-weighted amount (“RWA”) (OV1)

The following table sets out an overview of capital requirements in terms of a detailed breakdowns of RWAs for various risks.

	(a)	(b)	(c)
	At 31 December 2022 HK\$'M	At 30 September 2022 HK\$'M	At 31 December 2022 HK\$'M
1 Credit risk for non-securitization exposures	589,888	588,184	49,818
2 Of which STC approach	42,746	45,665	3,420
2a Of which BSC approach	-	-	-
3 Of which foundation IRB approach	-	-	-
4 Of which supervisory slotting criteria approach	23,844	22,304	2,022
5 Of which advanced IRB approach	523,298	520,215	44,376
6 Counterparty default risk and default fund contributions	36,453	59,865	3,088
7 Of which SA-CCR	31,568	52,755	2,675
7a Of which CEM	-	-	-
8 Of which IMM(CCR) approach	-	-	-
9 Of which others	4,885	7,110	413
10 CVA risk	15,509	23,540	1,241
11 Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12 Collective investment scheme (“CIS”) exposures – LTA	558	494	45
13 CIS exposures – MBA	-	-	-
14 CIS exposures – FBA	-	-	-
14a CIS exposures – combination of approaches	-	-	-
15 Settlement risk	96	686	8
16 Securitization exposures in banking book	8,841	8,481	707
17 Of which SEC-IRBA	1,000	1,046	80
18 Of which SEC-ERBA (including IAA)	7,576	7,304	606
19 Of which SEC-SA	265	131	21
19a Of which SEC-FBA	-	-	-
20 Market risk	56,997	56,046	4,560
21 Of which STM approach	31,889	30,338	2,551
22 Of which IMM approach	25,108	25,708	2,009
23 Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	N/A	N/A	N/A
24 Operational risk	86,502	84,809	6,920
24a Sovereign concentration risk	2,570	225	206
25 Amounts below the thresholds for deduction (subject to 250% RW)	13,777	13,779	1,102
26 Capital floor adjustment	-	-	-
26a Deduction to RWA	99	25	8
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	99	25	8
27 Total	811,092	836,084	67,687

* Items marked with * will be applicable only after their respective policy frameworks takes effect. Until then, “Not applicable” should be reported in the rows.

¹ RWAs in this table are before the application of the 1.06 scaling factor, where applicable.

² Minimum capital requirement represents the Pillar 1 capital charge at 8% of the RWAs after application of the 1.06 scaling factor, where applicable.

4 Linkages between financial statements and regulatory exposures

a. Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (L11)

The following table sets out an information on assets and liabilities to enable users to identify the differences between the scope of accounting consolidation and the scope of regulatory consolidation, with a breakdown into regulatory risk categories of every item of the assets and liabilities reported in financial statements based on the scope of accounting consolidation.

At 31 December 2022	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in financial statements HK\$M	Carrying values under scope of regulatory consolidation HK\$M	subject to credit risk framework HK\$M	subject to counterparty credit risk framework HK\$M	subject to the securitization framework HK\$M	subject to market risk framework HK\$M	not subject to capital requirements or subject to deduction from capital HK\$M
Assets							
Cash and balances at central banks	60,330	60,330	60,330	-	-	-	-
Loans and advances to banks	94,700	94,474	83,074	11,400	-	-	-
Hong Kong SAR Government certificates of indebtedness	55,451	55,451	55,451	-	-	-	-
Financial assets at fair value through profit or loss	262,167	262,167	27,670	76,486	-	234,499	-
Investment securities	463,640	463,640	428,619	-	35,021	-	-
Loans and advances to customers	1,189,746	1,189,746	1,184,604	5,142	-	-	-
Amounts due from fellow subsidiaries	241,056	241,055	67,412	166,110	7,533	71,083	-
Amounts due from immediate holding company	481	481	-	481	-	-	-
Amounts due from subsidiaries of the Bank	-	203	203	-	-	-	-
Investment in subsidiaries of the Bank	-	2,342	2,342	-	-	-	-
Interest in an associate	11,183	3,168	3,168	-	-	-	-
Property, plant and equipment	34,343	34,292	34,292	-	-	-	-
Goodwill and intangible assets	10,787	10,765	-	-	-	-	10,765
Current tax assets	552	548	548	-	-	-	-
Deferred tax assets	644	634	-	-	-	-	634
Other assets	52,929	52,874	47,139	5,369	-	-	366
Total assets	2,478,009	2,472,170	1,994,852	264,988	42,554	305,582	11,765

4 Linkages between financial statements and regulatory exposures (continued)

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

At 31 December 2022	(a) Carrying values as reported in published financial statements HK\$M	(b) Carrying values under scope of regulatory consolidation HK\$M	(c) subject to credit risk framework HK\$M	Carrying values of items:			(g) not subject to capital requirements or subject to deduction from capital HK\$M
				(d) subject to counterparty credit risk framework HK\$M	(e) subject to the securitization framework HK\$M	(f) subject to market risk framework HK\$M	
Liabilities							
Hong Kong SAR currency notes in circulation	55,451	55,451	-	-	-	-	55,451
Deposits by banks	37,111	37,111	-	5,265	-	-	31,846
Customers accounts	1,705,789	1,705,785	-	31,212	-	-	1,674,573
Financial liabilities at fair value through profit of loss	175,969	175,969	-	90,811	-	116,092	49,698
Debt securities in issue	58,560	58,560	-	-	-	-	58,560
Amounts due to immediate holding company	37,654	37,654	-	-	-	-	37,654
Amounts due to fellow subsidiaries	131,932	126,683	-	91,318	-	75,943	35,365
Amount due to subsidiaries of the Bank	-	7,133	-	-	-	-	7,133
Current tax liabilities	757	757	-	-	-	-	757
Deferred tax liabilities	1,466	1,466	-	-	-	-	1,466
Other liabilities	87,638	87,601	-	-	-	-	87,601
Total Liabilities	2,292,327	2,294,170	-	218,606	-	192,035	2,040,104

4 Linkages between financial statements and regulatory exposures (continued)

b. Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

The following table sets out information on the main sources of differences between the carrying values in financial statements and the exposure amounts used for the calculation of regulatory capital in respect of the assets and liabilities based on the scope of regulatory consolidation.

At 31 December 2022		(a)	(b)	(c)	(d)	(e)
		Total HK\$'M	credit risk framework HK\$'M	Items subject to: counterparty credit risk framework HK\$'M	securitization framework HK\$'M	market risk framework HK\$'M
1	Asset Carrying value amount under scope of regulatory consolidation (as per template LI1)	2,460,405	1,994,852	264,988	42,554	305,582
2	Liabilities Carrying value amount under scope of regulatory consolidation (as per template LI1)	254,068	–	218,606	–	192,035
3	Total net amount under regulatory scope of consolidation	2,206,337	1,994,852	46,382	42,554	113,547
4	Off balance sheet amounts and potential future exposures for counterparty credit risk	1,050,275	273,422	222,184	–	–
5	Difference due to financial collateral on standardized approach	(21,153)	(21,153)	–	–	–
6	Difference due to impairments on exposures under IRB approach	11,046	11,046	–	–	–
7	Difference due to regulatory exposure adjustments	1,983	1,983	–	–	–
8	Exposure amounts considered for regulatory purposes	3,248,488	2,260,150	268,566	42,554	113,547

c. Explanations of differences between accounting and regulatory exposure amounts (LIA)

Off-balance sheet amounts and potential future exposure for counterparty credit risk

Off-balance sheet amounts subject to credit risk include the undrawn portion of committed facilities, various trade finance commitments and guarantees, by applying credit conversion factors ('CCF') to these items and consideration of potential future exposures ('PFE') for counterparty credit risk ('CCR').

Difference due to financial collateral under standardized approach

The exposure value is calculated after deducting credit risk mitigation ('CRM'), whereas the accounting value is before such deductions.

Difference due to impairments on exposures under IRB approach

The carrying value of assets is net of credit risk adjustments. The regulatory exposure value under the IRB approach is before deducting credit risk adjustments.

Difference due to regulatory exposures adjustment

Regulatory exposures adjustment is the differences arise between accounting carrying values and regulatory Exposure at Default (EAD) on leasing transactions.

4 Linkages between financial statements and regulatory exposures (continued)

c. Explanations of differences between accounting and regulatory exposure amounts (LIA) (continued)

Explanation of differences between accounting fair value and regulatory prudent valuation

The Group has implemented various systems and controls to ensure that valuations are prudent and reliable.

Fair value is defined as the best estimate of the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. All fair value positions are tested using independently sourced inputs. Where material price testing differences exist, the Group calculates respective adjustments through the Independent Price Testing process. Material price testing adjustments are charged to the Profit and Loss account.

The Group also calculates fair value adjustments in order to ensure the appropriate level of conservativeness. Additional fair value adjustments are made to reflect risks such as credit risk and funding risk of the portfolios for uncollateralised trades or exit costs due to bid-offer spreads.

Furthermore, the Group also calculates Prudent Valuation Adjustments (“PVA”) which arise due to valuation uncertainties inherent in fair value positions such as market price uncertainty, close-out costs, model risk, unearned credit spreads, investing and funding costs, concentrated positions, early termination, operational risk and future administrative costs. The excesses of the Prudent Valuation Adjustments over the respective Fair Value Adjustments are referred to as Additional Valuation Adjustments (AVAs) and their aggregate is deducted from Common Equity Tier 1 capital.

All valuation adjustments are governed by internal methodology documents which are approved regularly by the relevant valuation governance committee.

d. Prudent valuation adjustment (PV1)

The following table sets out a detailed breakdown of the constituent elements of valuation adjustment.

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	Equity HK\$'M	Interest rates HK\$'M	FX HK\$'M	Credit HK\$'M	Commodities HK\$'M	Total HK\$'M	Of which: In the trading book HK\$'M	Of which: In the banking book HK\$'M
At 31 December 2022								
1 Closeout uncertainty, of which	188	1,177	26	100	75	1,566	642	924
2 Mid-market value	34	395	17	35	62	543	251	292
3 Closeout cost	1	208	9	6	2	226	129	97
4 Concentration ¹	153	574	-	59	11	797	262	535
5 Early termination	-	-	-	-	-	-	-	-
6 Model risk	-	2	-	-	-	2	2	-
7 Operational risk	4	60	3	4	6	77	38	39
8 Investing and funding costs	-	-	-	-	-	-	-	-
9 Unearned credit spreads	-	-	-	27	-	27	27	-
10 Future administrative costs	5	13	-	12	-	30	26	4
11 Other adjustments ²	-	-	-	78	-	78	-	78
12 Total adjustment	197	1,252	29	221	81	1,780	735	1,045

¹ The increase in concentration was mainly from debt securities, due to new concentrated positions in Rates desk, Loan Trading & Private Debt (LTPD) desk and Syndicated Loans desk.

² Other Adjustment is AVA calculated based on Fallback approach defined in Regulatory Technical Standard. The fallback approach is applicable in situations whereby AVA for any of the valuation uncertainty categories cannot be computed. (e.g. no approved model to calculate AVA).

5 Composition of regulatory capital

a. Composition of regulatory capital (CC1)

The following table sets out a breakdown of the constituent elements of Total regulatory capital.

At 31 December 2022		(a)	(b)
		HK\$'M	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 5b (CC2)
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	65,025	(12)
2	Retained earnings	89,480	(22)
3	Disclosed reserves	2,374	(14)+(15)+(16)+(17)+(18)+(19)+(20)+(21)
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)	129	(25)
6	CET1 capital before regulatory adjustments	157,008	
CET1 capital: regulatory deductions			
7	Valuation adjustments	1,780	
8	Goodwill (net of associated deferred tax liabilities)	5,652	(4)
9	Other intangible assets (net of associated deferred tax liabilities)	4,270	(5)+(6)
10	Deferred tax assets (net of associated deferred tax liabilities)	1,511	(8)
11	Cash flow hedge reserve	(25)	(14)
12	Excess of total EL amount over total eligible provisions under the IRB approach	831	
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	(139)	(10)
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	332	(7)+(9)
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	(2)+(3)-(28)
20	Mortgage servicing rights (net of associated deferred tax liabilities)	-	Not applicable

5 Composition of regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

At 31 December 2022		(a)	(b)
		HK\$'M	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 5b (CC2)
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	–	Not applicable
22	Amount exceeding the 15% threshold	–	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	–	Not applicable
24	of which: mortgage servicing rights	–	Not applicable
25	of which: deferred tax assets arising from temporary differences	–	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	1,537	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	163	(23)
26b	Regulatory reserve for general banking risks	1,374	(24)
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	15,749	
29	CET1 capital	141,259	
AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	20,651	(13)
31	of which: classified as equity under applicable accounting standards	20,651	
32	of which: classified as liabilities under applicable accounting standards	–	
33	<i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	–	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	29	(26)
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i>	–	
36	AT1 capital before regulatory deductions	20,680	
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	–	

5 Composition of regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

At 31 December 2022		(a)	(b)
		HK\$'M	<i>Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 5b (CC2)</i>
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	20,680	
45	Tier 1 capital (T1 = CET1 + AT1)¹	161,939	
Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	12,739	(11)
47	<i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	37	(27)
49	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	664	(29)+(30)
51	Tier 2 capital before regulatory deductions	13,440	
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)	-	
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	(64)	

5 Composition of regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

	(a)	(b)
		<i>Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 5b (CC2)</i>
At 31 December 2022	HK\$'M	
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		(64)
57 Total regulatory adjustments to Tier 2 capital		(64)
58 Tier 2 capital (T2)	13,504	
59 Total regulatory capital (TC = T1 + T2)¹	175,443	
60 Total RWA	846,074	
Capital ratios (as a percentage of RWA)		
61 CET1 capital ratio²	16.70%	
62 Tier 1 capital ratio²	19.14%	
63 Total capital ratio²	20.74%	
64 Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	4.47%	
65 of which: capital conservation buffer requirement	2.50%	
66 of which: bank specific countercyclical capital buffer requirement	0.47%	
67 of which: G-SIB or D-SIB buffer requirement	1.50%	
68 CET1 (as a percentage of RWA) available after meeting minimum capital requirements³	12.20%	
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	1,101	
73 Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	5,510	(28)
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)	658	(29)

¹ Increase in Tier 1 and total regulatory capital were mainly due to issuance of AT1 capital and increase in CET1 Capital.

² Increase in risk-based regulatory capital ratios were mainly contributed by decrease in RWA and increase in regulatory capital.

³ Increase in CET1 available after meeting the Bank's minimum capital requirements was due to increase in CET1 capital ratio.

5 Composition of regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

At 31 December 2022		(a)	(b)
		HK\$'M	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 5b (CC2)
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	818	
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)	6	(30)
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	3,708	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 to 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)	-	

Notes to the Template:

(on elements where a more conservative definition has been applied in the BCR relative to that set out in the Basel III capital standards.)

Description	At 31 December 2022	
	Hong Kong basis HK\$'M	Basel III basis HK\$'M
9 Other intangible assets (net of associated deferred tax liabilities)	4,270	4,270

Explanation

As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights ("MSRs") may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.

5 Composition of regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

Description	At 31 December 2022	
	Hong Kong basis HK\$'M	Basel III basis HK\$'M
10 Deferred tax assets (net of associated deferred tax liabilities)	1,511	81

Explanation

As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.

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)	-	-
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Explanation

For the purpose of determining the total amount of insignificant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.

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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Explanation

For the purpose of determining the total amount of significant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.

5 Composition of regulatory capital (continued)

a. Composition of regulatory capital (CC1) (continued)

Description	At 31 December 2022	
	Hong Kong basis HK\$'M	Basel III basis HK\$'M
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)	–	–

Explanation

The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in AT1 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 39 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.

54 Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	–	–
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Explanation

The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in Tier 2 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 54 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 54 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.

Remarks:

The amount of the 10% 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.

Abbreviations:

CET1: Common Equity Tier 1
AT1: Additional Tier 1

Note:

Cross-references (1) to (27) are referenced to 'Reconciliation of regulatory capital to balance sheet (CC2)
Cross-references (28) to (30) are referenced within the 'Composition of regulatory capital (CC1)'.

5 Composition of regulatory capital (continued)

b. Reconciliation between accounting and regulatory balance sheets (CC2)

The following table shows differences between the scope of accounting consolidation and the scope of regulatory consolidation, and to show the link between the Bank's balance sheet in its published financial statements and the numbers used in the composition of regulatory capital disclosure template in Template CC1 in note 5a).

	(a) Consolidated balance sheet as in published financial statements (At 31 December 2022) HK\$'M	(b) Under regulatory scope of consolidation (At 31 December 2022) HK\$'M	(c) Cross reference to note 5a (CC1)
Assets			
Cash and balances at central banks	60,330	60,330	
Loans and advances to banks	94,700	94,474	
Hong Kong SAR Government certificates of indebtedness	55,451	55,451	
Financial assets at fair value through profit or loss	262,167	262,167	
Investment securities	463,640	463,640	
Loans and advances to customers	1,189,746	1,189,746	
Amounts due from fellow subsidiaries	241,056	241,055	
Amounts due from immediate holding company	481	481	
Amounts due from subsidiaries of the Bank	–	203	
of which: significant capital investments in financial sector entities that are outside the scope of regulatory consolidation	–	–	(1)
Investment in subsidiaries of the Bank	–	2,342	
of which: significant capital investments in financial sector entities that are outside the scope of regulatory consolidation	–	2,342	(2)
Interest in an associate	11,183	3,168	
of which: significant capital investments in financial sector entities that are outside the scope of regulatory consolidation	–	3,168	(3)
Property, plant and equipment	34,343	34,292	
Goodwill and intangible assets	10,787	10,765	
of which: goodwill	–	5,652	(4)
of which: other intangible assets	–	5,113	(5)
Current tax assets	552	548	
Deferred tax assets	644	634	
of which: deferred tax liabilities relating to intangible assets	–	(843)	(6)
of which: deferred tax liabilities related to defined benefit pension fund net assets	–	(34)	(7)
of which: other deferred tax assets	–	1,511	(8)
Other assets	52,929	52,874	
of which: defined benefit pension fund net assets	–	366	(9)
	2,478,009	2,472,170	

5 Composition of regulatory capital (continued)

b. Reconciliation between accounting and regulatory balance sheets (CC2) (continued)

	(a) <i>Consolidated balance sheet as in published financial statements (At 31 December 2022) HK\$'M</i>	(b) <i>Under regulatory scope of consolidation (At 31 December 2022) HK\$'M</i>	(c) <i>Cross reference to note 5a (CC1)</i>
Liabilities			
Hong Kong SAR currency notes in circulation	55,451	55,451	
Deposits by banks	37,111	37,111	
Customer accounts	1,705,789	1,705,785	
Financial liabilities at fair value through profit or loss	175,969	175,969	
of which: gains or losses due to changes in own credit risk	–	139	(10)
Debt securities in issue	58,560	58,560	
Amounts due to immediate holding company	37,654	37,654	
of which: subordinated liabilities eligible for inclusion in regulatory capital	–	12,739	(11)
Amounts due to fellow subsidiaries	131,932	126,683	
Amounts due to subsidiaries of the Bank	–	7,133	
Current tax liabilities	757	757	
Deferred tax liabilities	1,466	1,466	
Other liabilities	87,638	87,601	
	2,292,327	2,294,170	
Equity			
Share capital	65,025	65,025	
of which: amount eligible for CET1	–	65,025	(12)
of which: amount eligible for AT1	–	–	
Other equity instruments	20,651	20,651	
of which: amount eligible for AT1	–	20,651	(13)
Reserves	99,536	91,854	
of which: Cumulative cash flow hedge reserve that relate to the hedging of financial instruments that are not fair valued on the balance sheet	–	(25)	(14)
of which: Cumulative cash flow hedge reserve that relate to the hedging of financial instruments that are fair valued on the balance sheet	–	(21)	(15)
of which: FVOCI reserve – Equity	–	(25)	(16)
of which: FVOCI reserve – Debt	–	(859)	(17)
of which: Exchange reserve	–	(10,037)	(18)
of which: Share option equity reserve	–	721	(19)
of which: Own credit adjustment reserve	–	(139)	(20)
of which: Other reserves	–	12,759	(21)
of which: Retained profits	–	89,480	(22)
of which: Cumulative fair value gains arising from the revaluation of land and buildings (audited)	–	163	(23)
of which: Regulatory reserve for general banking risks	–	1,374	(24)
Non-controlling interests	470	470	
of which: portion allowable in CET1 capital	–	129	(25)
of which: portion allowable in AT1 capital	–	29	(26)
of which: portion allowable in T2 capital	–	37	(27)
Total equity	185,682	178,000	
Total liabilities and equity	2,478,009	2,472,170	

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A))

The following is a summary of the Group's CET1 capital, Additional Tier 1 capital, Tier 2 capital and non-capital LAC debt instruments.

	At 31 December 2022		
	Total amount	Amount recognised in regulatory capital HK\$'M	Amount recognised in loss-absorbing capacity HK\$'M
(i) Both regulatory capital and LAC requirements			
CET1 capital instruments			
Ordinary shares:			
5,289 million issued and fully paid ordinary shares	HK\$65,025m	65,025	65,025
AT1 capital instruments			
Perpetual non-cumulative capital securities	US\$250m	1,952	1,952
US\$900 million Floating Rate Undated Additional Tier 1 Capital Securities	US\$900m	7,031	7,031
US\$1,000 million Fixed Rate Undated Additional Tier 1 Capital Securities	US\$1,000m	7,750	7,750
US\$250 million Floating rate Undated Additional Tier 1 Capital Securities	US\$250m	1,957	1,957
US\$250 million Fixed rate Undated Additional Tier 1 Capital Securities	US\$250m	1,961	1,961
Tier 2 capital instruments			
Floating rate Tier 2 Notes due 2029, callable from 2024	US\$450m	3,509	3,509
Floating rate Tier 2 Notes due 2031, callable from 2025	US\$250m	1,949	1,949
Fixed rate (1.20%) Tier 2 Notes due 2031, callable from 2026	EUR1,000m	7,281	7,281
(ii) Only LAC (but not regulatory capital) requirements			
Non-capital LAC Debt Instruments			
US\$1,500 million 1.456 per cent Notes due 2027	US\$1,500m	Nil	11,287
US\$1,250 million 2.608 per cent Notes due 2028	US\$1,250m	Nil	8,818

The full terms and conditions of the Group's capital instruments can be found in the Regulatory Disclosures section of our website, www.sc.com/hk.

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements

Ordinary Shares

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	N/A
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Common Equity Tier 1
6	Eligible at solo ³ /group/group & solo	Group & solo
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group (for LAC purposes)	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares (Class A, B, C and D)
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD65,025 Million
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HKD65,025 Million
9	Par value of instrument	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	28 June 2004 (706 Million Class A shares) 1 July 2004 (780 Million Class B shares) 29 June 2005 (451 Million Class B shares) 1 June 2019 (342 Million Class C shares) 1 October 2019 (3,010 Million Class D shares) 30 December 2020 (USD500 Million redeemed preference shares)
12	Perpetual or dated	Perpetual
13	Original maturity date	Undated
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
<i>Coupons / dividends</i>		
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	Non-cumulative or cumulative	Non-cumulative

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

Ordinary Shares (continued)

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
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Preference Shares are immediately senior to Ordinary Shares (Class B, C and D) Ordinary Shares (Class B, C and D) are immediately senior to Ordinary Shares (Class A)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

Perpetual non-cumulative capital securities

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	N/A
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Additional Tier 1
6	Eligible at solo ³ /group/group & solo	Group & solo
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group (for LAC purposes)	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Perpetual debt instrument
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD 1,952 Million
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HKD 1,952 Million
9	Par value of instrument	Issue price at 100 per cent of the Aggregate Nominal Amount of USD250 Million
10	Accounting classification	Shareholders' equity
11	Original date of issuance	13 December 2017
12	Perpetual or dated	Perpetual
13	Original maturity date	Undated
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	First Call Date: 13 December 2024 Included tax and regulatory redemption options Redemption at 100% of the Capital Securities at their outstanding principal amount together with the distribution accrued but unpaid to the date fixed for redemption
16	Subsequent call dates, if applicable <i>Coupons / dividends</i>	Each dividend payment date after the First Call Date
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.00 per cent per annum
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Full discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

Perpetual non-cumulative capital securities (continued)

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	Yes
31	If write-down, write-down trigger(s)	If a Non-Viability Event occurs and is continuing, “Non-Viability Event” means the earlier of: (a) the Monetary Authority notifying the Bank in writing that the Monetary Authority is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and (b) the Monetary Authority notifying the Bank in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable
32	If write-down, full or partial	Full or Partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The Dated Subordinated Notes are immediately senior to Capital Securities
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

US\$900 million Floating Rate Undated Additional Tier 1 Capital Securities

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	N/A
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Additional Tier 1
6	Eligible at solo ³ /group/group & solo	Group & solo
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group (for LAC purposes)	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Perpetual debt instrument
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD 7,031 Million
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HKD 7,031 Million
9	Par value of instrument	Issue price at 100 per cent of the Aggregate Nominal Amount of USD900 Million
10	Accounting classification	Shareholders' equity
11	Original date of issuance	24 June 2019
12	Perpetual or dated	Perpetual
13	Original maturity date	Undated
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional Call Date: 12 April 2026 Early redemption for taxation reasons, due to Regulatory Capital Event or due to Loss Absorption Disqualification Event or on event of default US\$ 1,000 per Calculation amount
16	Subsequent call dates, if applicable <i>Coupons / dividends</i>	N/A
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3-month USD LIBOR + 4.48 per cent per annum
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Full discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	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

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

US\$900 million Floating Rate Undated Additional Tier 1 Capital Securities (continued)

29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Upon a Loss Absorption Event or Non-Viability Event

“Loss Absorption Event” means:

(i) the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that the Relevant Hong Kong Resolution Authority is satisfied that the Issuer has ceased, or is likely to cease, to be viable and there is no reasonable prospect that private sector action (outside of resolution) would result in it again becoming viable within a reasonable period (in both cases, without taking into account the write-down or conversion into ordinary shares on any LAC debt instruments); and

(ii) for Securities issued directly to a group company in a non-Hong Kong jurisdiction, as specified in the applicable Final Terms, the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that:

(A) the Relevant Hong Kong Resolution Authority has notified the Home Authority of the Relevant Hong Kong Resolution Authority’s intention to notify the issuer under paragraph (i) above; and

(B) the Home Authority (x) has consented to the write-down or conversion of the relevant Securities issued by the Issuer or (y) has not, within 24 hours after receiving notice under subparagraph (ii)(A) above, objected to the write-down or conversion of the relevant Securities issued by the Issuer;

“Non-Viability Event” means the earlier of:

(a) the Monetary Authority notifying the Bank in writing that the Monetary Authority is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and

(b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

US\$900 million Floating Rate Undated Additional Tier 1 Capital Securities (continued)

32	If write-down, full or partial	Full or Partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The Dated Subordinated Notes are immediately senior to Capital Securities
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

US\$1,000 million Fixed Rate Undated Additional Tier 1 Capital Securities

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	N/A
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Additional Tier 1
6	Eligible at solo ³ /group/group & solo	Group & solo
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group (for LAC purposes)	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Perpetual debt instrument
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD 7,750 Million
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HKD 7,750 Million
9	Par value of instrument	Issue price at 100 per cent of the Aggregate Nominal Amount of USD1,000 Million
10	Accounting classification	Shareholders' equity
11	Original date of issuance	30 June 2020
12	Perpetual or dated	Perpetual
13	Original maturity date	Undated
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional Call Date: 26 July 2025 to first reset date Early redemption amount(s) per calculation amount payable on redemption for taxation reasons, due to Regulatory Capital Event or due to Loss Absorption Disqualification Event or on event of default US\$ 1,000 per Calculation amount
16	Subsequent call dates, if applicable	Any reset date thereafter
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6.00 per cent per annum
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Full discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

US\$1,000 million Fixed Rate Undated Additional Tier 1 Capital Securities (continued)

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	Yes
31	If write-down, write-down trigger(s)	Upon a Loss Absorption Event or Non-Viability Event.

“Loss Absorption Event” means:

(i) the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that the Relevant Hong Kong Resolution Authority is satisfied that the Issuer has ceased, or is likely to cease, to be viable and there is no reasonable prospect that private sector action (outside of resolution) would result in it again becoming viable within a reasonable period (in both cases, without taking into account the write-down or conversion into ordinary shares on any LAC debt instruments); and

(ii) for Securities issued directly to a group company in a non-Hong Kong jurisdiction, as specified in the applicable Final Terms, the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that:

(A) the Relevant Hong Kong Resolution Authority has notified the Home Authority of the Relevant Hong Kong Resolution Authority’s intention to notify the issuer under paragraph (i) above; and

(B) the Home Authority (x) has consented to the write-down or conversion of the relevant Securities issued by the Issuer or (y) has not, within 24 hours after receiving notice under subparagraph (ii)(A) above, objected to the write-down or conversion of the relevant Securities issued by the Issuer;

“Non-Viability Event” means the earlier of:

(a) the Monetary Authority notifying the Bank in writing that the Monetary Authority is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and

(b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

US\$1,000 million Fixed Rate Undated Additional Tier 1 Capital Securities (continued)

32	If write-down, full or partial	Full or Partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The Dated Subordinated Notes are immediately senior to Capital Securities
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

US\$250 million Floating rate Undated Additional Tier 1 Capital Securities

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	N/A
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Additional Tier 1
6	Eligible at solo ³ /group/group & solo	Group & solo
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group (for LAC purposes)	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Perpetual debt instrument
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD1,957 Million
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HKD1,957 Million
9	Par value of instrument	Issue price at 100 per cent of the Aggregate Nominal Amount of USD250 Million
10	Accounting classification	Shareholders' equity
11	Original date of issuance	31 March 2022
12	Perpetual or dated	Perpetual
13	Original maturity date	Undated
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional Call Date: 30 Jun 2031 Early redemption amount(s) per calculation amount payable on redemption for taxation reasons, due to Regulatory Capital Event or due to Loss Absorption Disqualification Event or on event of default. US\$ 1,000 per Calculation amount
16	Subsequent call dates, if applicable <i>Coupons / dividends</i>	Each distribution payment date thereafter
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	SOFR+ 4.2 per cent per annum payable quarterly in arrears
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Full discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A

Footnote:

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² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

US\$250 million Floating rate Undated Additional Tier 1 Capital Securities (continued)

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	Yes
31	If write-down, write-down trigger(s)	Upon a Loss Absorption Event or Non-Viability Event.

“Loss Absorption Event” means:

(i) the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that the Relevant Hong Kong Resolution Authority is satisfied that the Issuer has ceased, or is likely to cease, to be viable and there is no reasonable prospect that private sector action (outside of resolution) would result in it again becoming viable within a reasonable period (in both cases, without taking into account the write-down or conversion into ordinary shares on any LAC debt instruments); and

(ii) for Securities issued directly to a group company in a non-Hong Kong jurisdiction, as specified in the applicable Final Terms, the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that:

(A) the Relevant Hong Kong Resolution Authority has notified the Home Authority of the Relevant Hong Kong Resolution Authority’s intention to notify the issuer under paragraph (i) above; and

(B) the Home Authority (x) has consented to the write-down or conversion of the relevant Securities issued by the Issuer or (y) has not, within 24 hours after receiving notice under subparagraph (ii)(A) above, objected to the write-down or conversion of the relevant Securities issued by the Issuer;

“Non-Viability Event” means the earlier of:

(a) the Monetary Authority notifying the Bank in writing that the Monetary Authority is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and

(b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

US\$250 million Floating rate Undated Additional Tier 1 Capital Securities (continued)

32	If write-down, full or partial	Full or Partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The Dated Subordinated Notes are immediately senior to Capital Securities
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

US\$250 million Fixed rate Undated Additional Tier 1 Capital Securities

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	N/A
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Additional Tier 1
6	Eligible at solo ³ /group/group & solo	Group & solo
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group (for LAC purposes)	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Perpetual debt instrument
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD1,961 Million
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HKD1,961 Million
9	Par value of instrument	Issue price at 100 per cent of the Aggregate Nominal Amount of USD250 Million
10	Accounting classification	Shareholders' equity
11	Original date of issuance	26 August 2022
12	Perpetual or dated	Perpetual
13	Original maturity date	Undated
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional Call Date: 27 August 2027 Early redemption amount(s) per calculation amount payable on redemption for taxation reasons, due to Regulatory Capital Event or due to Loss Absorption Disqualification Event or on event of default. US\$ 1,000 per Calculation amount
16	Subsequent call dates, if applicable	Each reset date thereafter
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7.75 per cent per annum
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Full discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

US\$250 million Fixed rate Undated Additional Tier 1 Capital Securities (continued)

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	Yes
31	If write-down, write-down trigger(s)	Upon a Loss Absorption Event or Non-Viability Event.

“Loss Absorption Event” means:

(i) the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that the Relevant Hong Kong Resolution Authority is satisfied that the Issuer has ceased, or is likely to cease, to be viable and there is no reasonable prospect that private sector action (outside of resolution) would result in it again becoming viable within a reasonable period (in both cases, without taking into account the write-down or conversion into ordinary shares on any LAC debt instruments); and

(ii) for Securities issued directly to a group company in a non-Hong Kong jurisdiction, as specified in the applicable Final Terms, the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that:

(A) the Relevant Hong Kong Resolution Authority has notified the Home Authority of the Relevant Hong Kong Resolution Authority’s intention to notify the issuer under paragraph (i) above; and

(B) the Home Authority (x) has consented to the write-down or conversion of the relevant Securities issued by the Issuer or (y) has not, within 24 hours after receiving notice under subparagraph (ii)(A) above, objected to the write-down or conversion of the relevant Securities issued by the Issuer;

“Non-Viability Event” means the earlier of:

(a) the Monetary Authority notifying the Bank in writing that the Monetary Authority is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and

(b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

US\$250 million Fixed rate Undated Additional Tier 1 Capital Securities (continued)

32	If write-down, full or partial	Full or Partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The Dated Subordinated Notes are immediately senior to Capital Securities
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

Floating rate Tier 2 Notes due 2029, callable from 2024

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	N/A
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Tier 2
6	Eligible at solo ³ /group/group & solo	Group & solo
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group (for LAC purposes)	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Other Tier 2 instruments
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD 3,509 Million
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HKD 3,509 Million
9	Par value of instrument	Issue price at 100 per cent of the Aggregate Nominal Amount of USD450 Million
10	Accounting classification	Liability – amortised cost
11	Original date of issuance	24 June 2019
12	Perpetual or dated	Dated
13	Original maturity date	19 November 2029
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional call date: 19 November 2024 Early redemption for taxation reasons, due to Regulatory Capital Event or due to Loss Absorption Disqualification Event or on event of default US\$ 1,000 per Calculation amount
16	Subsequent call dates, if applicable	N/A
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3-month USD LIBOR + 2.08 per cent per annum
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	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

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

Floating rate Tier 2 Notes due 2029, callable from 2024 (continued)

29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Upon a Loss Absorption Event or Non-Viability Event

“Loss Absorption Event” means:

(i) the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that the Relevant Hong Kong Resolution Authority is satisfied that the Issuer has ceased, or is likely to cease, to be viable and there is no reasonable prospect that private sector action (outside of resolution) would result in it again becoming viable within a reasonable period (in both cases, without taking into account the write-down or conversion into ordinary shares on any LAC debt instruments); and

(ii) for Notes issued directly to a group company in a non-Hong Kong jurisdiction, as specified in the applicable Final Terms, the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that:

(A) the Relevant Hong Kong Resolution Authority has notified the Home Authority of the Relevant Hong Kong Resolution Authority’s intention to notify the issuer under paragraph (i) above; and

(B) the Home Authority (x) has consented to the write-down or conversion of the relevant Securities issued by the Issuer or (y) has not, within 24 hours after receiving notice under subparagraph (ii)(A) above, objected to the write-down or conversion of the relevant Securities issued by the Issuer;

“Non-Viability Event” means the earlier of:

(a) the Monetary Authority notifying the Bank in writing that the Monetary Authority is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and

(b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

Floating rate Tier 2 Notes due 2029, callable from 2024 (continued)

32	If write-down, full or partial	Full or Partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Loss Absorbing Non-Preferred Notes or any instrument ranking pari passu to Loss Absorbing Non-Preferred Notes are immediately senior to the Dated Subordinated Notes
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

Floating rate Tier 2 Notes due 2031, callable from 2025

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	N/A
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Tier 2
6	Eligible at solo ³ /group/group & solo	Group & solo
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group (for LAC purposes)	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Other Tier 2 instruments
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD 1,949 Million
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HKD 1,949 Million
9	Par value of instrument	Issue price at 100 per cent of the Aggregate Nominal Amount of USD250 Million
10	Accounting classification	Liability – amortised cost
11	Original date of issuance	24 June 2019
12	Perpetual or dated	Dated
13	Original maturity date	17 April 2031
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional call date: 17 April 2025 Early redemption for taxation reasons, due to Regulatory Capital Event or due to Loss Absorption Disqualification Event or on event of default US\$ 1,000 per Calculation amount
16	Subsequent call dates, if applicable	N/A
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3-month USD LIBOR + 2.12 per cent per annum
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	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

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

Floating rate Tier 2 Notes due 2031, callable from 2025 (continued)

29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	<p>Upon a Loss Absorption Event or Non-Viability Event</p> <p>“Loss Absorption Event” means:</p> <p>(i) the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that the Relevant Hong Kong Resolution Authority is satisfied that the Issuer has ceased, or is likely to cease, to be viable and there is no reasonable prospect that private sector action (outside of resolution) would result in it again becoming viable within a reasonable period (in both cases, without taking into account the write-down or conversion into ordinary shares on any LAC debt instruments); and</p> <p>(ii) for Notes issued directly to a group company in a non-Hong Kong jurisdiction, as specified in the applicable Final Terms, the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that:</p> <p>(A) the Relevant Hong Kong Resolution Authority has notified the Home Authority of the Relevant Hong Kong Resolution Authority’s intention to notify the issuer under paragraph (i) above; and</p> <p>(B) the Home Authority (x) has consented to the write-down or conversion of the relevant Securities issued by the Issuer or (y) has not, within 24 hours after receiving notice under subparagraph (ii)(A) above, objected to the write-down or conversion of the relevant Securities issued by the Issuer;</p> <p>“Non-Viability Event” means the earlier of:</p> <p>(a) the Monetary Authority notifying the Bank in writing that the Monetary Authority is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and</p> <p>(b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable</p>

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

Floating rate Tier 2 Notes due 2031, callable from 2025 (continued)

32	If write-down, full or partial	Full or Partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Loss Absorbing Non-Preferred Notes or any instrument ranking pari passu to Loss Absorbing Non-Preferred Notes are immediately senior to the Dated Subordinated Notes
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

Fixed rate (1.20%) Tier 2 Notes due 2031, callable from 2026

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	N/A
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Tier 2
6	Eligible at solo ³ /group/group & solo	Group & solo
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group (for LAC purposes)	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Other Tier 2 instruments
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD7,281 Million
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HKD7,281 Million
9	Par value of instrument	Issue price at 100 per cent of the Aggregate Nominal Amount of EUR1,000 Million
10	Accounting classification	Liability – amortised cost
11	Original date of issuance	23 March 2021
12	Perpetual or dated	Dated
13	Original maturity date	23 September 2031
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional call date: 23 September 2026 Early redemption amount(s) per calculation amount payable on redemption for taxation reasons, due to Regulatory Capital Event or due to Loss Absorption Disqualification Event or on event of default. EUR 1,000 per Calculation amount
16	Subsequent call dates, if applicable	N/A
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	1.2 per cent per annum
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	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

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

Fixed rate (1.20%) Tier 2 Notes due 2031, callable from 2026 (continued)

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	Yes
31	If write-down, write-down trigger(s)	Upon a Loss Absorption Event or Non-Viability Event.

“Loss Absorption Event” means:

(i) the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that the Relevant Hong Kong Resolution Authority is satisfied that the Issuer has ceased, or is likely to cease, to be viable and there is no reasonable prospect that private sector action (outside of resolution) would result in it again becoming viable within a reasonable period (in both cases, without taking into account the write-down or conversion into ordinary shares on any LAC debt instruments); and

(ii) for Notes issued directly to a group company in a non-Hong Kong jurisdiction, as specified in the applicable Final Terms, the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that:

(A) the Relevant Hong Kong Resolution Authority has notified the Home Authority of the Relevant Hong Kong Resolution Authority’s intention to notify the issuer under paragraph (i) above; and

(B) the Home Authority (x) has consented to the write-down or conversion of the relevant Securities issued by the Issuer or (y) has not, within 24 hours after receiving notice under subparagraph (ii)(A) above, objected to the write-down or conversion of the relevant Securities issued by the Issuer;

“Non-Viability Event” means the earlier of:

(a) the Monetary Authority notifying the Bank in writing that the Monetary Authority is of the opinion that a write-off or conversion is necessary, without which the Bank would become non-viable; and

(b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable

Footnote:

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² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(i) Both regulatory capital and LAC requirements (continued)

Fixed rate (1.20%) Tier 2 Notes due 2031, callable from 2026 (continued)

32	If write-down, full or partial	Full or Partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Loss Absorbing Non-Preferred Notes or any instrument ranking pari passu to Loss Absorbing Non-Preferred Notes are immediately senior to the Dated Subordinated Notes
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(ii) Only LAC (but not regulatory capital) requirements

US\$1,500 million 1.456 per cent Notes due 2027

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	N/A
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Ineligible
6	Eligible at solo ³ /group/group & solo	Ineligible
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group (for LAC purposes)	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Non-capital LAC debt instrument
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	N/A
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HKD 11,287 Million
9	Par value of instrument	Issue price at 100 per cent of the Aggregate Nominal Amount of USD 1,500 Million
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	14 January 2021
12	Perpetual or dated	Dated
13	Original maturity date	14 January 2027
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional call date: 14 January 2026 Early redemption amount(s) per calculation amount payable on redemption for taxation reasons, due to Regulatory Capital Event or due to Loss Absorption Disqualification Event or on event of default. US\$ 1,000 per Calculation amount
16	Subsequent call dates, if applicable	N/A
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	1.456 per cent per annum
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	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

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(ii) Only LAC (but not regulatory capital) requirements (continued)

US\$1,500 million 1.456 per cent Notes due 2027 (continued)

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	Yes
31	If write-down, write-down trigger(s)	Upon a Loss Absorption Event.
		<p>“Loss Absorption Event” means:</p> <p>(i) the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that the Relevant Hong Kong Resolution Authority is satisfied that the Issuer has ceased, or is likely to cease, to be viable and there is no reasonable prospect that private sector action (outside of resolution) would result in it again becoming viable within a reasonable period (in both cases, without taking into account the write-down or conversion into ordinary shares on any LAC debt instruments); and</p> <p>(ii) for Notes issued directly to a group company in a non-Hong Kong jurisdiction, as specified in the applicable Final Terms, the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that:</p> <p>(A) the Relevant Hong Kong Resolution Authority has notified the Home Authority of the Relevant Hong Kong Resolution Authority’s intention to notify the issuer under paragraph (i) above; and</p> <p>(B) the Home Authority (x) has consented to the write-down or conversion of the relevant Securities issued by the Issuer or (y) has not, within 24 hours after receiving notice under subparagraph (ii)(A) above, objected to the write-down or conversion of the relevant Securities issued by the Issuer</p>
32	If write-down, full or partial	Full or Partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All unsubordinated creditors of the Issuer (including its depositors) are immediately senior to the Loss Absorbing Non-preferred Notes
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

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² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(ii) Only LAC (but not regulatory capital) requirements (continued)

US\$1,250 million 2.608 per cent Notes due 2028

1	Issuer	Standard Chartered Bank (Hong Kong) Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for non-capital LAC debt instruments governed by non-Hong Kong law)	N/A
<i>Regulatory treatment</i>		
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Ineligible
6	Eligible at solo ³ /group/group & solo	Ineligible
6a	Eligible at solo / LAC consolidation group / solo and LAC consolidation group (for LAC purposes)	Solo and LAC consolidation group
7	Instrument type (types to be specified by each jurisdiction)	Non-capital LAC debt instrument
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	N/A
8a	Amount recognised in loss-absorbing capacity (currency in millions, as of most recent reporting date)	HKD 8,818 Million
9	Par value of instrument	Issue price at 100 per cent of the Aggregate Nominal Amount of USD1,250 Million
10	Accounting classification	Liability – amortised cost
11	Original date of issuance	19 January 2022
12	Perpetual or dated	Dated
13	Original maturity date	12 January 2028
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Optional call date: 12 January 2027 Early redemption amount(s) per calculation amount payable on redemption for taxation reasons, due to Regulatory Capital Event or due to Loss Absorption Disqualification Event or on event of default US\$ 1,000 per Calculation amount
16	Subsequent call dates, if applicable	N/A
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	2.608 per cent per annum
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	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

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) and non-capital LAC debt instruments (CCA(A)) (continued)

(ii) Only LAC (but not regulatory capital) requirements (continued)

US\$1,250 million 2.608 per cent Notes due 2028 (continued)

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	Yes
31	If write-down, write-down trigger(s)	Upon a Loss Absorption Event
		<p>“Loss Absorption Event” means:</p> <p>(i) the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that the Relevant Hong Kong Resolution Authority is satisfied that the Issuer has ceased, or is likely to cease, to be viable and there is no reasonable prospect that private sector action (outside of resolution) would result in it again becoming viable within a reasonable period (in both cases, without taking into account the write-down or conversion into ordinary shares on any LAC debt instruments); and</p> <p>(ii) for Notes issued directly to a group company in a non-Hong Kong jurisdiction, as specified in the applicable Final Terms, the Relevant Hong Kong Resolution Authority notifying the Issuer in writing that:</p> <p>(A) the Relevant Hong Kong Resolution Authority has notified the Home Authority of the Relevant Hong Kong Resolution Authority’s intention to notify the issuer under paragraph (i) above; and</p> <p>(B) the Home Authority (x) has consented to the write-down or conversion of the relevant Securities issued by the Issuer or (y) has not, within 24 hours after receiving notice under subparagraph (ii)(A) above, objected to the write-down or conversion of the relevant Securities issued by the Issuer</p>
32	If write-down, full or partial	Full or Partial
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All unsubordinated creditors of the Issuer (including its depositors) are immediately senior to the Loss Absorbing Non-preferred Notes
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

¹ Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

² Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

³ Include solo-consolidated

5 Composition of regulatory capital (continued)

d. LAC composition of the bank (at LAC consolidation group level) (TLAC1(A))

The following table provides details of the composition of internal loss-absorbing capacity, at LAC consolidation group level, of the Bank.

		(a) HK\$'M
Regulatory capital elements of internal loss-absorbing capacity and adjustments		
1	Common Equity Tier 1 ("CET1") capital	141,259
2	Additional Tier 1 ("AT1") capital before LAC adjustments	20,680
3	AT1 capital instruments ineligible as internal loss-absorbing capacity as not issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	-
4	Other adjustments	-
5	AT1 capital eligible under the LAC Rules	20,680
6	Tier 2 ("T2") capital before LAC adjustments	13,504
7	Amortized portion of T2 capital instruments that are internal LAC debt instruments issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	-
8	T2 capital instruments ineligible as internal loss-absorbing capacity as not issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	-
9	Other adjustments	-
10	T2 capital eligible under the LAC Rules	13,504
11	Internal loss-absorbing capacity arising from regulatory capital	175,443
Non-regulatory capital elements of internal loss-absorbing capacity		
12	Internal non-capital LAC debt instruments issued directly or indirectly to, and held indirectly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group ¹	20,105
17	Internal loss-absorbing capacity arising from non-capital LAC debt instruments before adjustments¹	20,105
Non-regulatory capital elements of internal loss-absorbing capacity: adjustments		
18	Internal loss-absorbing capacity before deductions	195,548
19	Deductions of exposures between the material subsidiary's LAC consolidation group and group companies outside that group that correspond to non-capital items eligible for internal loss-absorbing capacity	-
20	Deduction of holdings of its own non-capital LAC liabilities	-
21	Other adjustments to internal loss-absorbing capacity	-
22	Internal loss-absorbing capacity after deductions	195,548

5 Composition of regulatory capital (continued)

d. LAC composition of the bank (at LAC consolidation group level) (TLAC1(A)) (continued)

The following table provides details of the composition of internal loss-absorbing capacity, at LAC consolidation group level, of the Bank.

		(a) HK\$'M
Risk-weighted amount and exposure measure under the LAC Rules for internal loss-absorbing capacity purposes		
23	Risk-weighted amount under the LAC Rules	846,074
24	Exposure measure under the LAC Rules	2,655,994
Internal LAC ratios and buffers		
25	Internal LAC risk-weighted ratio²	23.1%
26	Internal LAC leverage ratio	7.4%
27	CET1 capital (as a percentage of RWA under the Banking (Capital) Rules ("BCR")) available after meeting the LAC consolidation group's minimum capital and LAC requirements²	9.2%
28	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer requirements plus higher loss absorbency requirement, expressed as a percentage of RWA under the BCR)	4.5%
29	Of which: capital conservation buffer requirement	2.5%
30	Of which: institution-specific countercyclical capital buffer requirement	0.5%
31	Of which: higher loss absorbency requirement	1.5%

¹ Decrease in internal non-capital LAC debt instruments was mainly due to the debt redemption during the period.

² Increase in internal LAC risk-weighted ratio and CET1 capital ratio were in line with the decrease in RWA.

5 Composition of regulatory capital (continued)

e. Creditor ranking of the bank at legal entity level (TLAC2)

The following table sets out the creditor ranking, at legal entity level, of the Bank.

	Creditor ranking				Total	
	1 (most junior)	2	3	4 (most senior)		
1	Is a resolution entity or a non-HK resolution entity the creditor/investor? (yes or no)	Yes	Yes	Yes	Yes	
2	Description of creditor ranking (free text)	CET1 capital instruments ¹	AT1 capital instruments	Tier 2 capital instruments	Non capital LAC debt instruments	
3	Total capital and liabilities net of credit risk mitigation	65,025	20,651	12,739	20,105	118,520
4	Subset of row 3 that are excluded liabilities	-	-	-	-	-
5	Total capital and liabilities less excluded liabilities	65,025	20,651	12,739	20,105	118,520
6	Subset of row 5 that are eligible as internal loss-absorbing capacity	65,025	20,651	12,739	20,105	118,520
7	Subset of row 6 with 1 year ≤ residual maturity < 2 years	-	-	-	-	-
8	Subset of row 6 with 2 years ≤ residual maturity < 5 years	-	-	-	11,287	11,287
9	Subset of row 6 with 5 years ≤ residual maturity < 10 years	-	-	12,739	8,818	21,557
10	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	-	-	-	-	-
11	Subset of row 6 that is perpetual securities	65,025	20,651	-	-	85,676

¹ Issued and fully paid ordinary shares includes preference shares held by Standard Chartered Bank which have been redeemed December 2020 via payment out of distributable profits and for which the amount was transferred from retained earnings to share capital in accordance with the requirements of the Hong Kong Companies Ordinance.

6 Macprudential supervisory measures

Geographical distribution of credit exposures used in countercyclical capital buffer (CCyB1)

The following table sets out an overview of the geographical distribution of private sector credit exposures relevant for the calculation of the Group's CCyB ratio.

At 31 December 2022

In HKD million

	<i>Jurisdiction (J)</i>	<i>Applicable JCCyB ratio in effect</i>	<i>Total RWA used in computation of CCyB ratio of AI</i>	<i>CCyB ratio of AI</i>	<i>CCyB amount of AI HK\$'M</i>
1	Hong Kong	1.000%	275,678		
2	Luxembourg	0.500%	4,793		
3	Norway	2.000%	370		
4	Sweden	1.000%	349		
5	United Kingdom	1.000%	4,689		
6	Sum ¹		285,879		
7	Total²		609,059	0.466%	3,943

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

² The total RWAs used in the computation of the CCyB ratio in row (7) represents the total RWAs for the private sector credit exposures in all jurisdictions to which the bank is exposed, including jurisdictions with no countercyclical buffer rate or with a countercyclical buffer rate set at zero.

7 Leverage Ratio

a. Summary comparison of accounting asset against leverage ratio exposure measure (LR1)

The following table reconciles the total assets in the published financial statements to the LR exposure measure.

At 31 December 2022		(a)
		Value under the Leverage Ratio framework (HK\$'M)
1	Total consolidated assets as per published financial statements	2,478,009
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(5,839)
2a	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the leverage ratio exposure measure	-
3a	Adjustments for eligible cash pooling transactions	-
4	Adjustments for derivative contracts	(33,686)
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	98,295
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	202,832
6a	Adjustment for prudent valuation adjustments and specific and collective provisions that are allowed to be excluded from exposure measure	(13,313)
7	Other adjustments	(70,304)
8	Leverage ratio exposure measure	2,655,994

Other adjustments mainly represent the Hong Kong Government certificates of indebtedness and assets deducted in determining Tier 1 capital. These are excluded for deriving the leverage ratio exposure in accordance with the HKMA requirements specified in Part 1C of the BCR.

7 Leverage Ratio (continued)

b. Leverage ratio (LR2)

The following table sets out a detailed breakdown of the components of the LR denominator.

	(a)	(b)	
	At 31 December 2022 HK\$'M	At 30 September 2022 HK\$'M	
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and SFTs, but including collateral)	2,046,762	2,020,487
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital	(15,883)	(14,996)
3	Total on-balance sheet exposures (excluding derivatives and SFTs)	2,030,879	2,005,491
Exposure arising from derivative contracts			
4	Replacement cost associated with all derivatives contracts (where applicable net of eligible cash variation margin and / or with bilateral netting)	40,142	90,355
5	Add-on amounts for PFE associated with all derivatives contracts	75,119	95,073
6	Gross-up for collateral provided in respect of derivative contracts where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivatives contracts	(11,935)	(15,480)
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit-related derivative contracts	2,791	2,072
10	Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts	(2,635)	(1,915)
11	Total exposures arising from derivative contract	103,482	170,105
Exposure arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	239,867	240,421
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	90,466	78,901
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	330,333	319,322
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	1,050,275	1,020,379
18	Less: Adjustments for conversion to credit equivalent amounts	(847,443)	(825,409)
19	Off-balance sheet items	202,832	194,970
Capital and total exposures			
20	Tier 1 capital	161,939	158,453
20a	Total exposures before adjustments for specific and collective provisions	2,667,526	2,689,888
20b	Adjustments for specific and collective provisions	(11,532)	(9,809)
21	Total exposures after adjustments for specific and collective provisions	2,655,994	2,680,079
Leverage ratio			
22	Leverage ratio	6.10%	5.91%

8 Liquidity

a. Liquidity Risk Management (LIQA)

The following Liquidity Risk Management related information, together with the disclosure in section 8b (LIQT), provides the supplement to the Liquidity Risk Section from 2022 SCB (Hong Kong) Limited Directors' Report and Consolidated Financial Statements.

LCRs and NSFRs of Hong Kong Office and Consolidated basis	LCR	NSFR
As at 31 Dec 2022	%	%
Hong Kong Office	179%	131%
Consolidated	163%	132%

Following table is an extraction from Part 4 of Liquidity Monitoring Tools return, which sets out the details of the Group's maturity profile covering on-and off-balance sheet items, broken down into maturity buckets and the resultant liquidity gaps.

Basis of disclosure: consolidated Currency : (HK\$ mil)	2022					Balancing amount
	Within 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	
On-balance sheet assets						
Currency notes and coins	4,721	-	-	-	-	-
Amount receivable arising from securities financing transactions	157,539	8,447	4,584	11,994	-	-
Amount receivable arising from derivative contracts	61,545	98,741	345,859	477,147	50,217	-
Due from MA for a/c of Exchange Fund	35,523	-	-	-	-	-
Due from overseas central banks	55,889	-	109	-	-	10,446
Due from banks	50,480	31,206	18,134	38,507	28,062	1,035
Debt securities, prescribed instruments and structured financial instruments held (net of short positions)	379,333	15,491	81,733	76,877	16,413	4,528
Acceptances and bills of exchange held	12,283	11,754	10,532	213	-	4
Loans and advances to non-bank customers	166,388	94,653	157,978	193,156	420,001	43,676
Other assets (including provisions)	25,799	5,177	1,404	360	430	107,434
Total	949,500	265,469	620,333	798,254	515,123	167,123
On-balance sheet liabilities						
Deposits from non-bank customers						
Pledged deposits	9,264	1,411	988	1,806	73	-
Demand, savings and current account deposits	1,144,290	-	-	-	-	-
Term, call and notice deposits	252,840	153,427	135,925	11,049	12	-
Amount payable arising from securities financing transactions	19,079	4,857	3,204	-	-	-
Amount payable arising from derivative contracts	59,973	94,935	339,642	468,885	66,732	-
Due to MA for a/c of Exchange Fund	7,180	-	-	-	-	-
Due to overseas central banks	3,296	33	-	-	-	-
Due to banks	79,538	17,972	14,710	611	29	-
Debt securities, prescribed instruments and structured financial instruments issued and outstanding	2,367	3,784	8,654	25,696	534	-
Other liabilities (including provisions)	72,298	15,417	5,614	722	1,072	58,540
Capital and reserves	522	-	-	56,453	11,132	149,969
Total	1,650,647	291,836	508,737	565,222	79,584	208,509
Off-balance sheet claims						
Irrevocable loan commitments or facilities received	1,345	-	-	-	-	-
Off-balance sheet obligations						
Irrevocable loan commitments or facilities granted	334,024	-	-	-	-	-
Other off-balance sheet obligations	77,111	-	-	-	-	-
Total	411,135	-	-	-	-	-
Funding gaps						
Contractual Maturity Mismatch	(1,110,937)	(26,367)	111,596	233,032	435,539	
Cumulative Contractual Maturity Mismatch	(1,110,937)	(1,137,304)	(1,025,708)	(792,676)	(357,137)	

8 Liquidity (continued)

b. Liquidity Coverage Ratio – for category 1 institution (LIQ1)

The following table sets out the details of LCR, high quality liquid assets (“HQLA”), and a breakdown of cash outflows and inflows.

Number of data points used in calculating the average value of the Liquidity Coverage Ratio (LCR) and related components set out in this Template for the quarter ending on 30 September 2022 and 31 December 2022 are 77 and 75.

		Q4 2022 Currency: (HK\$mil)		Q3 2022 Currency: (HK\$mil)	
Basis of disclosure: Consolidated		UNWEIGHTED AMOUNT (Average Value)	WEIGHTED AMOUNT (Average Value)	UNWEIGHTED AMOUNT (Average Value)	WEIGHTED AMOUNT (Average Value)
A. HIGH QUALITY LIQUID ASSETS					
1	Total high quality liquid assets (HQLA)		465,501		458,535
B. CASH OUTFLOWS					
2	Retail deposits and small business funding, of which:	761,913	59,994	757,562	60,569
3	Stable retail deposits and stable small business funding	212,935	10,647	228,311	11,417
4	Less stable retail deposits and less stable small business funding	437,970	43,797	453,802	45,380
4a	Retail term deposits and small business term funding	111,008	5,550	75,449	3,772
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	889,616	378,957	922,803	395,979
6	Operational deposits	450,448	111,997	455,086	113,103
7	Unsecured wholesale funding (other than small business funding) not covered in Row 6	436,891	264,683	465,606	280,765
8	Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period	2,277	2,277	2,111	2,111
9	Secured funding transactions (including securities swap transactions)		17,805		13,924
10	Additional requirements, of which:	356,670	63,346	370,736	67,895
11	Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements	28,314	28,314	31,911	31,911
12	Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions	123	123	74	74
13	Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)	328,233	34,909	338,751	35,910
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	46,465	46,465	44,443	44,443
15	Other contingent funding obligations (whether contractual or non-contractual)	673,589	2,287	667,409	2,300
16	TOTAL CASH OUTFLOWS		568,854		585,110
C. CASH INFLOWS					
17	Secured lending transactions (including securities swap transactions)	133,439	6,819	123,806	5,970
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	302,570	194,505	309,668	193,942
19	Other cash inflows	88,675	80,377	94,445	84,798
20	TOTAL CASH INFLOWS	524,684	281,701	527,919	284,710
D. LIQUIDITY COVERAGE RATIO			ADJUSTED VALUE		ADJUSTED VALUE
21	TOTAL HQLA		465,501		458,535
22	TOTAL NET CASH OUTFLOWS		287,153		300,400
23	LCR (%)		163%		154%

8 Liquidity (continued)

b. Liquidity Coverage Ratio – for category 1 institution (LIQ1) (continued)

Key Drivers

Liquidity Coverage Ratio (LCR) measures the short-term resilience of the Group's liquidity risk profile, and is sensitive to balance sheet movement and composition. The Group has maintained a strong liquidity position well above the regulatory requirement of 100% throughout Q4 of 2022. The average LCR was 163% for the quarter ending 31 December 2022 (30 September 2022: 154%), mainly as a result of increase in HQLA funded by retail deposits and partially offset by decrease in short-term wholesale funding, thereby having a positive impact on our LCR position.

Composition of High Quality Liquid Asset ("HQLA")

The Group holds significant levels of high quality unencumbered liquid assets that can be liquefied, repo-ed or used as collateral in the event of a liquidity stress.

The liquid assets consist predominately of Level 1 assets, including mainly cash and central bank reserves, Hong Kong exchange fund bills and notes, US treasuries and other marketable debt securities issued or guaranteed by other central banks and governments. In addition, the Group also holds level 2 assets such as high quality covered bonds, corporate bonds and bonds issued by public sector entities.

Concentration of Funding Sources

Our assets are primarily funded by customer deposits, largely made up of low cost and stable current and savings accounts. This forms a stable base for the Group's funding requirement. In addition, wholesale funding is widely diversified by client type and maturity which helps managing liquidity mismatches as required. The Group has various internal quantitative limits and metrics in place to monitor deposit concentrations, as well as HQLA Issuer concentrations.

The Regional Asset and Liability Committee ("RALCO") and the Country Asset and Liability Committee ("ALCO") monitor trends in the balance sheet and ensure that any concerns that might impact the stability of deposits are addressed in an effective and timely manner. RALCO and ALCO also review balance sheet plans to ensure that projected asset growth is matched by growth in customer deposits.

Derivatives Exposure

The use of derivatives for hedging and sale to customers as risk management products is an important part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk. The principal derivative instruments used by the Group are foreign exchange related and interest rate related contracts. Derivative positions are mark-to-market on a daily basis.

Currency Mismatch on LCR

Customer assets are as far as possible funded in the same currency. Where mismatches arise, they are controlled by limits on the amount of foreign currency that can be swapped to local currency and vice versa. Such limits are therefore a means of controlling reliance on foreign exchange markets, which minimizes the risk that obligations could not be met in the required currency in the event that access to foreign exchange markets becomes restricted.

Majority of the Group's customer deposits are denominated in HKD, USD, CNY and KRW. The Group holds higher USD denominated HQLA due to its significant market depth and ease of conversion in the event of liquidity stress. This is in line with the Alternative Liquidity Approach option prescribed by HKMA. During this period, the Group maintained an amount of HKD-denominated level 1 assets well above the regulatory requirement of 20% of its HKD-denominated total net cash outflows.

Liquidity management

Treasury Markets is responsible for managing the Group's liquidity position within the approved liquidity and funding risk limits and thresholds. Oversight under the liquidity and funding framework resides with RALCO and ALCO, supported by Treasury Markets. RALCO and ALCO also ensure the Group remains in compliance with liquidity policies and practices, as well as local regulatory requirements.

It is the Group's policy to manage liquidity without presumption of the Group's parent support. RALCO and ALCO are responsible for ensuring that the Group is able to maintain adequate liquidity at all times and be in a position to meet all obligations as they fall due; repay depositors and fulfil all commitments to lend.

8 Liquidity (continued)

c. Net Stable Funding Ratio – for category 1 institution (LIQ2)

The following table sets out the details of NSFR and details of ASF and RSF components.

Table 1: LIQ2 for Quarter ending 31 December 2022

	(a)	(b)	(c)	(d)	(e)
	Unweighted value by residual maturity				Weighted amount
Basis of disclosure: consolidated Currency: (HK\$mil)	No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
A. Available stable funding (“ASF”) item					
1 Capital:	180,323	–	–	42,226	222,550
2 Regulatory capital	180,323	–	–	12,739	193,063
2a Minority interests not covered by row 2	–	–	–	–	–
3 Other capital instruments	–	–	–	29,487	29,487
4 Retail deposits and small business funding:	–	732,309	59,123	5,171	727,166
5 Stable deposits		191,930	2,186	434	184,844
6 Less stable deposits		540,379	56,937	4,737	542,322
7 Wholesale funding:		1,029,581	36,074	13,090	404,111
8 Operational deposits		432,222	–	–	216,111
9 Other wholesale funding	–	597,359	36,074	13,090	188,000
10 Liabilities with matching interdependent assets	55,451	–	–	–	–
11 Other liabilities:	89,663	38,642	7,530	24,499	28,264
12 Net derivative liabilities	3,793				
13 All other funding and liabilities not included in the above categories	85,870	38,642	7,530	24,499	28,264
14 Total ASF					1,382,091
B. Required stable funding (“RSF”) item					
15 Total HQLA for NSFR purposes				620,434	37,146
16 Deposits held at other financial institutions for operational purposes	–	12,331	–	–	6,165
17 Performing loans and securities:	48,891	617,284	115,427	725,194	886,799
18 Performing loans to financial institutions secured by Level 1 HQLA	–	67,390	2,082	–	7,780
19 Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	16,938	148,918	26,536	71,121	123,665
20 Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:	31,953	287,911	51,976	126,166	401,126
21 With a risk-weight of less than or equal to 35% under the STC approach	–	–	–	10,732	10,789
22 Performing residential mortgages, of which:	–	75,069	6,105	441,350	247,292
23 With a risk-weight of less than or equal to 35% under the STC approach	–	11,018	6,746	366,639	247,197

8 Liquidity (continued)

c. Net Stable Funding Ratio – for category 1 institution (LIQ2) (continued)

Table 1: LIQ2 for Quarter ending 31 December 2022 (continued)

		(a)	(b)	(c)	(d)	(e)
		Unweighted value by residual maturity				Weighted amount
Basis of disclosure: consolidated Currency: (HK\$mil)		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	37,996	28,728	86,557	106,936
25	Assets with matching interdependent liabilities	55,451	–	–	–	–
26	Other assets:	152,542	10,044	–	82	97,343
27	Physical traded commodities, including gold	586				498
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	4,994				4,814
29	Net derivative assets	–				–
30	Total derivative liabilities before adjustments for deduction of variation margin posted	58,249				2,912
31	All other assets not included in the above categories	88,713	10,044	–	82	89,119
32	Off-balance sheet items				1,028,466	16,701
33	Total RSF					1,044,154
34	Net Stable Funding Ratio (%)					132%

Table 2: LIQ2 for Quarter ending 30 September 2022

		(a)	(b)	(c)	(d)	(e)
		Unweighted value by residual maturity				Weighted amount
Basis of disclosure: consolidated Currency: (HK\$mil)		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
A. Available stable funding (“ASF”) item						
1	Capital:	176,139	4,710	–	41,369	217,508
2	Regulatory capital	176,139	–	–	12,290	188,429
2a	Minority interests not covered by row 2	–	–	–	–	–
3	Other capital instruments	–	4,710	–	29,079	29,079
4	Retail deposits and small business funding:	–	689,716	47,293	5,206	678,582
5	Stable deposits		199,284	2,079	343	191,638
6	Less stable deposits		490,432	45,214	4,863	486,944
7	Wholesale funding:		1,063,712	29,256	14,061	397,946
8	Operational deposits		417,161	–	–	208,581
9	Other wholesale funding	–	646,551	29,256	14,061	189,365
10	Liabilities with matching interdependent assets	55,691	–	–	–	–
11	Other liabilities:	105,377	29,295	11,551	22,360	28,135
12	Net derivative liabilities	–				
13	All other funding and liabilities not included in the above categories	105,377	29,295	11,551	22,360	28,135
14	Total ASF					1,322,171

8 Liquidity (continued)

c. Net Stable Funding Ratio – for category 1 institution (LIQ2) (continued)

Table 2: LIQ2 for Quarter ending 30 September 2022 (continued)

		(a)	(b)	(c)	(d)	(e)
		Unweighted value by residual maturity				Weighted amount
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	
Basis of disclosure: consolidated Currency: (HK\$mil)						
B. Required stable funding (“RSF”) item						
15	Total HQLA for NSFR purposes				537,617	33,082
16	Deposits held at other financial institutions for operational purposes	–	9,850	–	–	4,925
17	Performing loans and securities:	58,689	580,435	130,047	752,927	903,177
18	Performing loans to financial institutions secured by Level 1 HQLA	–	73,398	–	–	7,340
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	24,029	162,098	28,260	67,807	130,281
20	Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:	34,660	307,784	53,721	121,874	429,973
21	With a risk-weight of less than or equal to 35% under the STC approach	–	–	–	9,690	9,690
22	Performing residential mortgages, of which:	–	11,051	6,089	490,760	239,929
23	With a risk-weight of less than or equal to 35% under the STC approach	–	10,844	6,809	355,366	239,814
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	26,104	41,977	72,486	95,654
25	Assets with matching interdependent liabilities	55,691	–	–	–	–
26	Other assets:	213,006	35,325	–	83	133,302
27	Physical traded commodities, including gold	3,390				2,881
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	6,170				5,995
29	Net derivative assets	24,104				24,104
30	Total derivative liabilities before adjustments for deduction of variation margin posted	83,266				4,163
31	All other assets not included in the above categories	96,076	35,325	–	83	96,159
32	Off-balance sheet items				995,433	16,335
33	Total RSF					1,090,821
34	Net Stable Funding Ratio (%)					121%

8 Liquidity (continued)

c. Net Stable Funding Ratio – for category 1 institution (LIQ2) (continued)

NSFR Key Drivers

Net Stable Funding Ratio (NSFR) requires the bank to maintain sufficient stable funding relative to required stable funding. It reflects a bank's long-term funding profile and complement Liquidity Coverage Ratio (LCR) which measures short-term resilience to liquidity risk. The Group has continuously maintained a healthy NSFR ratio during the second half of 2022, and well above the regulatory requirement minimum of 100%. NSFR was 132% for the quarter ending 31 December 2022 (30 September 2022: 121%), mainly due to an increase in retail deposits, reduction in loan deployments and net derivative assets, thereby having a positive impact on NSFR position.

Composition of AI's interdependent assets and liabilities

Complying with HKMA Banking (Liquidity) Rules, the Group's interdependent assets and liabilities consist of legal tender notes and certificates of indebtedness, being one of the note-issuing banks in Hong Kong.

9 Credit risk for non-securitization exposures

a. General information about credit risk (CRA)

Our approach to credit risk can be found in the Risk management approach section in notes 33 on pages 89 to 105 of the 2022 consolidated financial statements.

b. Credit quality of exposures (CR1)

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

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Gross carrying amounts of			Of which ECL accounting provisions for credit losses ¹ on STC approach exposures	Allocated in regulatory category of specific provisions	Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values (a+b-c)
At 31 December 2022	Defaulted Exposures HK\$'M	Non-defaulted Exposures HK\$'M	Allowances/ Impairments HK\$'M	Allocated in regulatory category of specific provisions HK\$'M	Allocated in regulatory category of collective provisions HK\$'M	approach exposures HK\$'M	HK\$'M
1 Loans	13,013	1,350,580	11,254	214	477	10,563	1,352,339
2 Debt securities	–	425,879	28	–	–	28	425,851
3 Off-balance sheet exposures	825	1,049,450	248	–	27	221	1,050,027
4 Total²	13,838	2,825,909	11,530	214	504	10,812	2,828,217

¹ The categorisation of Expected Credit Loss ('ECL') accounting provisions into the regulatory categories of specific and collective provisions follows the treatment specified in the completion instructions of the HKMA Capital Adequacy Ratio – MA(BS)3 return. According to the completion instructions, the ECL accounting provisions classified into Stage 1 and Stage 2 are treated as collective provisions, while those classified under Stage 3 are treated as specific provisions.

² Increase in total exposures was in line with the balance sheet movement during the period.

9 Credit risk for non-securitization exposures (continued)

c. Changes in defaulted loans and debt securities (CR2)

The following table sets out information on the changes in defaulted loans and debt securities, including any changes in the amount of defaulted exposures, movements between non-defaulted and defaulted exposures, and reductions in the defaulted exposures due to write-offs.

	(a) HK\$'M
1 Defaulted loans and debt securities at end of the previous reporting period (30 June 2022)	8,812
2 Loans and debt securities that have defaulted since the last reporting period	6,322
3 Returned to non-defaulted status	(83)
4 Amounts written off	(890)
5 Other changes ¹	(1,148)
6 Defaulted loans and debt securities at end of the current reporting period (31 December 2022)	13,013

¹ Other changes included repayment, foreign exchange movement and the net increase in defaulted loans and debt securities.

d. Additional disclosure related to credit quality of exposures (CRB)

The following tables set out an additional qualitative and quantitative information on the credit quality of exposures to supplement the quantitative information provided under templates CR1 and CR2.

Please refer to note 2(k) of the consolidated financial statements for the approach for determining credit-impairment provisions and the definition of "credit impaired" and "forborne loans".

Financial assets are considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset or it was past due for more than 90 days in respect of principal and / or interest.

I. Exposures by geographical location (CRB1)

At 31 December 2022	Gross carrying amount HK\$'M
1 Hong Kong	1,081,686
2 South Korea	552,373
3 Mainland China	461,216
4 Others ¹	744,472
5 Total	2,839,747

¹ "Others" constitutes geographical locations less than 10% of total RWA and is disclosed on an aggregated basis.

Exposures decreased across geographical location was in line with the balance sheet movement during the period.

II. Exposures by Industry (CRB2)

At 31 December 2022	Gross carrying amount HK\$'M
1 Individuals	880,582
2 Financial concerns	507,729
3 Manufacturing	328,644
4 Others ¹	1,122,792
5 Total	2,839,747

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

Exposures decreased across industries was in line with the balance sheet movement during the period.

9 Credit risk for non-securitization exposures (continued)

d. Additional disclosure related to credit quality of exposures (CRB) (continued)

III. Exposures by residual maturity (CRB3)

At 31 December 2022		Repayable on demand to 1 year HK\$'M	Due between 1 year to 5 years HK\$'M	Due after 5 years HK\$'M	Total HK\$'M
1	Loans	641,097	206,844	515,652	1,363,593
2	Debt securities	252,824	152,791	20,264	425,879
3	Off-balance sheet exposures	667,237	316,315	66,723	1,050,275
4	Total	1,561,158	675,950	602,639	2,839,747

Decrease in exposures due between 1 year to 5 years was mainly due to the decrease in loans and debt securities.

IV. Impaired exposures and related allowances and write-offs by geographical location (CRB4)

At 31 December 2022		Gross impaired advances HK\$'M	Specific provisions ² HK\$'M	Advances written-off in a year HK\$'M
1	Hong Kong	5,493	3,715	1,112
2	Mainland China	5,547	2,594	677
3	Taiwan	749	170	155
4	South Korea	1,020	383	384
5	Others ¹	204	96	26
6	Total	13,013	6,958	2,354

¹ "Others" constitutes geographical locations less than 10% of total RWA and is disclosed on an aggregated basis.

² Please refer to note 9(b) for the classification of specific provisions.

V. Impaired exposures and related allowances and write-offs by Industry (CRB5)

At 31 December 2022		Gross impaired advances HK\$'M	Specific provisions ² HK\$'M	Advances written-off in a year HK\$'M
1	Property development	7,623	4,508	31
2	Individuals	2,271	832	1,310
3	Manufacturing	1,158	859	50
4	Property investment	614	42	36
5	Wholesale and retail trade	470	202	822
6	Others ¹	877	515	105
7	Total	13,013	6,958	2,354

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

² Please refer to note 9(b) for the classification of specific provisions.

9 Credit risk for non-securitization exposures (continued)

d. Additional disclosure related to credit quality of exposures (CRB) (continued)

VI. Aging analysis of accounting past due exposures (CRB6)

Please refer to note 19 for aging analysis of past due exposures.

VII. Breakdown of restructured exposures (CRB7)

At 31 December 2022	HK\$'M
Impaired	2,910
Not impaired	185
	3,095

e. Qualitative disclosures related to credit risk mitigation (CRC)

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation, correlation and credit risk of the guarantor. The requirement for risk mitigation is, however, not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

Collateral types which are eligible for risk mitigation include: cash; account receivables; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; risk participations; guarantees; credit insurance; and standby letters of credit. The Group also enters into collateralised reverse repurchase agreements. Physical collateral, such as property, fixed assets and commodities, and financial collateral must be independently valued and an active secondary resale market must exist. The collateral must be valued prior to drawdown and regularly thereafter. The valuation frequency is at minimum annual and more frequent valuations are driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. For financial collateral to be eligible for recognition the collateral must be sufficiently liquid, and its value over time sufficiently stable, to provide appropriate certainty as to the credit protection achieved. Risk mitigation benefits may be reduced or removed where the collateral value is not supported by a recent independent valuation.

Our approach to credit risk mitigation can be found in the Risk management approach section in notes 33(a) on pages 91 to 92 of the 2022 consolidated financial statements.

f. Overview of recognized credit risk mitigation (CR3)

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

	(a)	(b1)	(b)	(d)	(f)
	Exposures unsecured: carrying amount HK\$'M	Exposures to be secured HK\$'M	Exposures secured by recognized collateral HK\$'M	Exposures secured by recognized guarantees HK\$'M	Exposures secured by recognized credit derivative contracts HK\$'M
At 31 December 2022					
1 Loans	717,547	634,792	543,135	49,602	–
2 Debt securities	412,099	13,752	7,711	–	–
3 Total	1,129,646	648,544	550,846	49,602	–
4 Of which defaulted	10,337	2,676	1,685	39	–

9 Credit risk for non-securitization exposures (continued)

g. Qualitative disclosures on use of ECAI ratings under STC approach (CRD)

External ratings, where available, are used to assign risk weights for standardized approach (SA) exposures under the following exposure classes: Multilateral development bank exposures, certain Bank and Corporate exposures are which exempt from application of IRB Approach.

These external ratings must come from External Credit Assessment Institutions (ECAI); which currently include Moody's, Standard & Poor's and Fitch. The Group uses the ECAI ratings from these agencies in its day-to-day business, which are tracked and kept updated.

The Group determines ECAI issuer ratings or ECAI issue-specific ratings in a process consistent with Part 4 of BCR and the exposures classes are assigned risk weightings as prescribed in the BCR.

h. Credit risk exposures and effects of recognized credit risk mitigation – for STC approach (CR4)

The following table sets out the effect of any recognized CRM (including recognized collateral under both comprehensive and simple approaches) on the calculation of capital requirements. RWA density provides a synthetic metric on riskiness of each portfolio.

At 31 December 2022	(a) Exposures pre-CCF and pre-CRM		(c) Exposures post-CCF and post-CRM		(e) RWA and RWA density		(f)
	On-balance sheet amount HK\$'M	Off-balance sheet amount HK\$'M	On-balance sheet amount HK\$'M	Off-balance sheet amount HK\$'M	RWA amount HK\$'M	RWA density %	
<i>Exposure classes</i>							
1 Sovereign exposures	3	16	122	–	–	0%	
2 PSE exposures	119	–	755	–	151	20%	
2a <i>Of which: domestic PSEs</i>	119	–	281	–	56	20%	
2b <i>Of which: foreign PSEs</i>	–	–	474	–	95	20%	
3 Multilateral development bank exposures	38,148	–	38,148	–	–	0%	
4 Bank exposures	2,152	–	2,152	–	430	20%	
6 Corporate exposures	26,697	4,215	18,148	609	14,773	79%	
10 Regulatory retail exposures	15,433	43,910	13,366	–	10,025	75%	
11 Residential mortgage loans	16,685	29	16,685	6	6,343	38%	
12 Other exposures which are not past due exposures	19,462	39,353	8,608	1,360	9,968	100%	
13 Past due exposures	753	51	753	–	1,056	140%	
15 Total	119,452	87,574	98,737	1,975	42,746	42%	

Decrease in total exposures was mainly driven by decrease in multilateral development bank exposures, bank exposures and corporate exposures.

9 Credit risk for non-securitization exposures (continued)

i. Credit risk exposures by asset classes and by risk weights – for STC approach (CR5)

The following table sets out a breakdown of credit risk exposures by asset classes and by risk weights (corresponding to the classification of exposures according to the approaches used).

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
31 December 2022											Total credit risk exposures amount (post CCF and post CRM)
Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	
Exposure class	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
1 Sovereign exposures	122	-	-	-	-	-	-	-	-	-	122
2 PSE exposures	-	-	755	-	-	-	-	-	-	-	755
2a Of which: domestic PSEs	-	-	281	-	-	-	-	-	-	-	281
2b Of which: foreign PSEs	-	-	474	-	-	-	-	-	-	-	474
3 Multilateral development bank exposures	38,148	-	-	-	-	-	-	-	-	-	38,148
4 Bank exposures	-	-	2,152	-	-	-	-	-	-	-	2,152
6 Corporate exposures	-	-	2,871	-	3,377	-	12,509	-	-	-	18,757
10 Regulatory retail exposures	-	-	-	-	-	13,366	-	-	-	-	13,366
11 Residential mortgage loans	-	-	-	15,573	-	900	218	-	-	-	16,691
12 Other exposures which are not past due exposures	-	-	-	-	-	-	9,968	-	-	-	9,968
13 Past due exposures	3	-	50	-	-	-	4	696	-	-	753
15 Total	38,273	-	5,828	15,573	3,377	14,266	22,699	696	-	-	100,712

Please refer to note 9(h) for the main drivers of the change in total exposures post-CCF and post-CRM.

9 Credit risk for non-securitization exposures (continued)

j. Qualitative disclosures related to internal models for measuring credit risk under IRB approach (CRE)

Model Governance

All IRB models are developed by independent model analytics teams aligned to the CCIB and CPBB business functions, following internal standards informed by regulatory requirements for model development, validation, and performance monitoring approved by the Group Credit Model Assessment Committee (CMAC). New models, changes to new models, and existing models (periodically) are subject to dependent validation by Group Model Validation (GMV), and are approved by the Asia Risk Committee (Asia RC) and the SCBHK Model Assessment Committee (MAC) based on materiality. SCBHK Group Model Risk Management (SCBHK MRM) team was established to provide ongoing assessment and independent oversight of model risk management and adherence to HKMA requirements in aspects related to model development and use.

The performance of regulatory capital credit risk IRB models in use, including comparative metrics on actual against predicted estimates, is monitored regularly by the model owners based on internal standards and regulatory requirements and is reported to both SCBHK MAC and to the Asia RC. In addition, existing models are subject to annual independent validation by GMV. The Board Risk Committee is updated on the status and performance of IRB models on an annual basis.

The Group has a strong monitoring and governance framework in place to identify and mitigate model performance issues. While most models are conservative and over predict PD, LGD, and EAD, in cases the models under predict, an analysis may be taken to determine the impact and a post model adjustment may be applied to ensure adequate capitalisation, in addition to ensuring an appropriate remediation plan is put in place.

Group Internal Audit is responsible for carrying out independent audit reviews on the effectiveness of the controls supporting IRB models' development, validation, approval, and monitoring.

Probability of Default (PD)

Probability of Default (PD) is modelled through one of three industry standard approaches, namely the good-bad approach (when sufficient number of internal defaults is available for modelling), the shadow-bond approach (used in the case there are no sufficient internal defaults but there are external ratings for a large number of obligors), or the constrained expert judgement approach (used when neither internal defaults nor external ratings are available).

In Corporate, Commercial & Institutional Banking (CCIB), the largest portfolios are rated based on the shadow bond approach (Sovereigns and Large Corporates) or the good-bad approach (Banks and Mid Corporates). Central governments and central banks are rated using the Sovereign model. Non-bank financial institutions are rated using one of six constrained expert judgement models according to their respective line of business, with the largest being Funds, Finance & Leasing, and Broker Dealers. Corporate clients are differentiated by their annual sales turnover and rated using one of the corporate models unless they are commodity buyers and traders, for which a separate model has been developed and used, or are classified under specialised lending. Excluding the Sovereign model, the CCIB internal rating-based (IRB) PD models are subject to the regulatory floor of 0.03 per cent.

PD models for retail clients under each asset class are developed following the good-bad approach. The same PD modelling approach is adopted across the four key retail client product types: Residential Mortgages, Credit Cards (Qualifying Revolving Retail), Personal Instalment Loans (Other Retail) and Retail SME (Small Business Retail). The approach employs country and product-specific application scorecards for new to bank clients and behaviour scorecards for existing clients. Scorecards are built using demographic information, credit bureau data, observed client performance data (for behaviour scores), and where applicable, financial information. Statistical techniques are used to develop a relationship between this information and the probability of default. The scorecards and PD models are used to make credit decisions. All retail client PD models are built and validated using internal default data and are subject to the 0.03 per cent regulatory floor.

Estimates of PD are computed as of 31 December 2021 and are compared with default observations through 31 December 2022.

9 Credit risk for non-securitization exposures (continued)

j. Qualitative disclosures related to internal models for measuring credit risk under IRB approach (CRE) (continued)

Probability of Default (PD) (continued)

Our historical default experience for sovereigns is minimal, so the predicted PD reflects a particularly low number of defaults. There are no defaults for sovereigns during 2022. The observed default rate for banks is higher than the predicted PD, through influence of Sri Lanka's sovereign default. However, the model passes statistical tests, which indicates its continued conservativeness. Realised default rates for 'Corporates', 'Residential mortgages', 'Qualifying revolving retail', 'Small business retail' and 'Other retail' asset classes in 2022 remain within model predictions, based on the arithmetic average PD by obligors.

Loss Given Default

The CCIB loss given default (LGD) model is a component-based model reflecting the Group's recovery and workout process, which considers risk drivers such as portfolio segment, jurisdiction, product, and collateral associated to the exposure. Model calibration is based on downturn experience if that is more conservative than the long-run experience.

The comparison of realised versus predicted LGD should consider that the workout process may take years to complete. As such, an observed (or "empirical") recovery value cannot be assigned to the majority of the 2022 defaults, making it statistically challenging to compare realised versus predicted outcomes in a manner similar to that for PD and exposure at default (EAD).

To address this, for 'Sovereign', 'Banks' and 'Corporates' asset classes, we have adopted an approach based on a four-year rolling period of predicted and realised LGD, which for the current reporting year includes 2019 to 2022 defaults that have completed their workout process as at the end of 2022. This approach compares the four-year rolling predicted LGD, providing the predicted outcome of these resolved defaults one year prior to default, against the realised LGD for the same set of defaults. These two figures are thus comparable, thereby providing a meaningful assessment of the LGD model's performance. There were no defaults in the previous four years for 'Sovereign' and 'Banks' while realised LGD values for 'Corporates' are lower than the respective predicted LGD values, demonstrating conservatism of predictions. This conservativeness is driven by the regulatory guidance to calibrate LGD models to economic downturn conditions.

LGDs for retail portfolios follow two approaches:

- LGDs for unsecured products are based on historical loss experience of defaults during a downturn; these are portfolio-specific LGD estimates segmented by default status (including restructuring).
- LGDs for secured products are parameter-based estimates mainly driven by how the default is resolved (cure, sale or charge-off), due to the very low volume of defaults observed historically. Key LGD parameters are differentiated by segments such as loan- to-value, property type and default status. These parameters are calibrated based on the portfolio's downturn experience.

Retail LGD model development considers defaults from a cohort and the actual recoveries up to the end of the workout window which is typically two to three years. For workout window of 2 years, the observed LGD from the December 2019 cohort (existing defaults and those defaulted in the next 12 months) was calculated based on actual recoveries observed from January 2020 until December 2022. This is compared to the predicted outcome of the same set of defaults.

Under this approach, realised LGD values for all retail asset classes are lower than their respective predicted LGD values, primarily due to the regulatory guidance to calibrate LGD models to downturn conditions.

Exposure At Default

EAD takes into consideration the potential drawdown of a commitment as an obligor moves towards default by estimating the Credit Conversion Factor (CCF) of undrawn commitments, resulting in the amount expected to be outstanding when default takes place.

9 Credit risk for non-securitization exposures (continued)

j. Qualitative disclosures related to internal models for measuring credit risk under IRB approach (CRE) (continued)

Exposure At Default (continued)

The CCIB EAD model has adopted the “momentum approach” to estimate the CCF, with the type of facility and the level of utilisation being key drivers of CCF. The model is calibrated based on the Group’s internal downturn experience.

EAD for retail portfolios differs between revolving products and term (instalment) products. For revolving products, EAD is computed by estimating the CCF of undrawn commitments. For term products, EAD is set at the outstanding balance plus any undrawn portion. All the retail client EAD models are built and validated using internal default data.

The comparison of realised versus predicted EAD is summarised as ratio of the sum of outstanding amount at time of default to the sum of predicted EAD of assets of each defaulted client in 2022. The ratios for all models are smaller than one, indicating that the predicted EAD amount is higher than the realised outstanding amount at default. This is explained by the regulatory guidance to assign conservatism to the CCF of certain exposure types and to calibrate the models to downturn conditions.

At 31 December 2022, the portion of exposure at default (“EAD”) and RWA within the Group covered by IRB approach are summarised in the following table. The remaining portions not covered by IRB approach are under STC approach.

Percentage of total EAD and RWA covered by IRB approach

At 31 December 2022 Portfolio	<i>Percentage of total EAD under IRB approach</i>	<i>Percentage of total RWA under IRB approach</i>
Corporate exposures (includes SME and other corporates and specialised lending)	97%	94%
Sovereign exposures	92%	100%
Bank exposures (including securities firms)	99%	99%
Residential mortgage loans	97%	93%
Other retail exposures	90%	83%
Equity exposures	0%	0%
Other exposures	100%	100%

The above table covers credit risk for non-securitization exposures excluding counterparty credit risk.

For counterparty credit risk, the percentage of total RWA covered by models is 98% for corporate exposures and 100% for bank exposures.

9 Credit risk for non-securitization exposures (continued)

k. Credit risk exposures by portfolio and PD ranges – for IRB approach (CR6)

The following table sets out the main parameters of internal models used for the calculation of credit risk capital requirements under the IRB approach, for the purpose of enhancing the transparency of RWA calculations and the reliability of regulatory measures.

At 31 December 2022 PD scale	(a) Original on- balance sheet gross exposure HK\$'M	(b) Off- balance sheet exposures pre-CCF HK\$'M	(c) Average CCF	(d) EAD post-CRM and post-CCF HK\$'M	(e) Average PD	(f) Number of obligors	(g) Average LGD	(h) Average maturity	(i) RWA HK\$'M	(j) RWA density	(k) EL HK\$'M	(l) Provisions HK\$'M
Portfolio (i) – Sovereign												
0.00 to < 0.15	443,441	6,950	19.3%	459,762	0.02%	60	45.8%	1.24	30,908	7%	45	
0.15 to < 0.25	196	–	0.0%	196	0.22%	1	45.0%	2.73	95	48%	–	
0.25 to < 0.50	–	–	0.0%	–	0.00%	–	0.0%	–	–	0%	–	
0.50 to < 0.75	–	–	0.0%	–	0.00%	–	0.0%	–	–	0%	–	
0.75 to < 2.50	2,501	1,537	53.0%	3,316	1.10%	2	45.0%	1	2,524	76%	17	
2.50 to < 10.00	563	1,408	53.0%	205	4.62%	2	45.0%	5	360	176%	4	
10.00 to < 100.00	–	–	0.0%	–	0.00%	–	0.0%	–	–	0%	–	
100.00 (Default)	53	283	37.0%	2	100.00%	1	45.0%	2.2	10	563%	–	
Sub-total	446,754	10,178	23.5%	463,481	0.03%	66	45.7%	1.24	33,897	7%	66	341
Portfolio (ii) – Bank												
0.00 to < 0.15	223,367	124,391	9.8%	248,485	0.04%	169	44.0%	1.04	32,832	13%	49	
0.15 to < 0.25	6,901	8,367	13.2%	8,001	0.22%	51	49.7%	0.79	3,026	38%	9	
0.25 to < 0.50	1,988	5,801	20.5%	3,174	0.39%	23	35.6%	0.84	1,341	42%	4	
0.50 to < 0.75	4,449	15,230	25.5%	7,618	0.54%	57	37.2%	1.06	3,875	51%	16	
0.75 to < 2.50	4,875	6,112	30.1%	4,245	1.22%	64	25.9%	0.69	2,279	54%	14	
2.50 to < 10.00	1,011	2,226	7.3%	1,130	2.82%	51	40.7%	1.43	1,218	108%	13	
10.00 to < 100.00	9	31	37.0%	15	16.66%	8	10.7%	0.41	8	56%	–	
100.00 (Default)	194	1	100.0%	195	100.00%	10	63.7%	0.92	358	184%	95	
Sub-total	242,794	162,159	12.6%	272,863	0.17%	433	43.6%	1.03	44,937	16%	200	548
Portfolio (iii) – Corporate – Other												
0.00 to < 0.15	149,933	266,603	22.2%	224,739	0.08%	1,085	45.3%	1.35	41,912	19%	77	
0.15 to < 0.25	52,205	77,378	17.6%	66,558	0.22%	611	43.4%	1.24	23,393	35%	63	
0.25 to < 0.50	33,808	69,424	19.5%	44,689	0.39%	576	44.6%	1.23	22,137	50%	78	
0.50 to < 0.75	40,743	70,952	27.5%	54,867	0.58%	606	40.8%	1.24	29,807	54%	124	
0.75 to < 2.50	45,042	51,531	25.0%	48,957	1.27%	879	36.6%	1.5	32,677	67%	213	
2.50 to < 10.00	29,792	29,481	24.4%	29,957	3.99%	405	38.1%	1.47	28,980	97%	350	
10.00 to < 100.00	22,185	10,734	10.4%	10,639	19.45%	312	37.7%	2.14	17,376	163%	668	
100.00 (Default)	9,670	426	10.6%	9,242	100.00%	96	69.1%	1.34	14,327	155%	6,063	
Sub-total	383,378	576,529	22.2%	489,648	2.85%	4,570	43.4%	1.35	210,609	43%	7,636	8,335

9 Credit risk for non-securitization exposures (continued)

k. Credit risk exposures by portfolio and PD ranges – for IRB approach (CR6) (continued)

At 31 December 2022 PD scale	(a) Original on-balance sheet gross exposure HK\$'M	(b) Off- balance sheet exposures pre-CCF HK\$'M	(c) Average CCF	(d) EAD post-CRM and post-CCF HK\$'M	(e) Average PD	(f) Number of obligors	(g) Average LGD	(h) Average maturity	(i) RWA HK\$'M	(j) RWA density	(k) EL HK\$'M	(l) Provisions HK\$'M
Portfolio (iv) – Corporate – Small- and-medium sized corporates												
0.00 to < 0.15	–	218	14.40%	31	0.13%	4	61.4%	1	8	24%	1	
0.15 to < 0.25	810	1,380	40.50%	1,366	0.22%	359	25.0%	1.15	245	18%	1	
0.25 to < 0.50	789	547	25.00%	922	0.35%	396	34.7%	1.9	332	36%	1	
0.50 to < 0.75	3,600	1,442	22.00%	3,879	0.59%	487	23.1%	1.32	1,072	28%	5	
0.75 to < 2.50	8,480	2,566	18.50%	8,770	1.49%	1,805	24.9%	1.53	3,809	43%	31	
2.50 to < 10.00	6,308	1,474	17.50%	6,321	4.35%	590	21.8%	1.28	3,179	50%	60	
10.00 to < 100.00	2,109	267	21.40%	1,647	17.16%	120	25.1%	1.28	1,383	84%	74	
100.00 (Default)	457	56	0.90%	302	100.00%	68	36.0%	1.64	502	166%	94	
Sub-total	22,553	7,950	22.70%	23,238	4.39%	3,829	24.4%	1.4	10,530	45%	267	232
Portfolio (v) – Retail – QRRE												
0.00 to < 0.15	5,248	97,318	49.40%	53,335	0.07%	871,060	88.5%	–	2,144	4%	34	
0.15 to < 0.25	287	2,670	81.90%	2,474	0.18%	83,094	78.9%	–	194	8%	4	
0.25 to < 0.50	1,156	10,597	52.40%	6,708	0.30%	102,402	88.5%	–	885	13%	18	
0.50 to < 0.75	2,315	24,406	49.50%	14,394	0.68%	171,416	89.5%	–	3,652	25%	87	
0.75 to < 2.50	1,601	8,308	51.90%	5,911	1.57%	76,872	89.3%	–	2,822	48%	83	
2.50 to < 10.00	2,055	3,849	57.20%	4,255	5.84%	47,195	89.5%	–	4,902	115%	222	
10.00 to < 100.00	519	407	57.80%	754	29.71%	8,377	89.6%	–	1,684	223%	201	
100.00 (Default)	114	6	0.10%	114	100.00%	2,463	63.7%	–	97	85%	65	
Sub-total	13,295	147,561	50.60%	87,945	0.95%	1,362,879	88.5%	–	16,380	19%	714	165
Portfolio (vi) – Retail – Residential mortgage exposures												
0.00 to < 0.15	255,153	1,054	100.60%	256,214	0.09%	112,363	15.4%	–	45,557	18%	36	
0.15 to < 0.25	128,082	14,141	100.10%	142,236	0.19%	83,604	16.0%	–	18,620	13%	45	
0.25 to < 0.50	38,948	644	100.70%	39,596	0.45%	31,295	12.9%	–	4,153	10%	22	
0.50 to < 0.75	12,655	11	100.60%	12,666	0.55%	7,870	18.9%	–	2,567	20%	13	
0.75 to < 2.50	23,346	371	100.30%	23,718	1.15%	18,066	13.6%	–	4,707	20%	38	
2.50 to < 10.00	5,086	71	100.20%	5,156	4.14%	4,368	12.9%	–	1,923	37%	27	
10.00 to < 100.00	619	6	100.00%	625	29.94%	736	13.3%	–	425	68%	24	
100.00 (Default)	700	–	100.00%	700	100.00%	938	13.8%	–	564	81%	51	
Sub-total	464,589	16,298	100.20%	480,911	0.44%	259,240	15.4%	–	78,516	16%	256	798

9 Credit risk for non-securitization exposures (continued)

k. Credit risk exposures by portfolio and PD ranges – for IRB approach (CR6) (continued)

At 31 December 2022 PD scale	(a) Original on-balance sheet gross exposure HK\$'M	(b) Off- balance sheet exposures pre-CCF HK\$'M	(c) Average CCF	(d) EAD post-CRM and post-CCF HK\$'M	(e) Average PD	(f) Number of obligors	(g) Average LGD	(h) Average maturity	(i) RWA HK\$'M	(j) RWA density	(k) EL HK\$'M	(l) Provisions HK\$'M
Portfolio (vii) – Retail – Small business retail exposures												
0.00 to < 0.15	116	10	83.10%	105	0.07%	9	56.8%	–	11	10%	–	
0.15 to < 0.25	149	5	43.20%	94	0.20%	23	33.8%	–	13	13%	–	
0.25 to < 0.50	629	8	75.30%	422	0.38%	21	22.2%	–	57	14%	–	
0.50 to < 0.75	631	5	54.70%	404	0.62%	31	28.3%	–	93	23%	1	
0.75 to < 2.50	1,926	21	34.20%	1,288	1.45%	140	56.1%	–	843	65%	11	
2.50 to < 10.00	839	3	58.50%	546	4.35%	62	76.4%	–	605	111%	18	
10.00 to < 100.00	132	2	82.80%	68	25.24%	30	85.2%	–	113	166%	15	
100.00 (Default)	30	–	0.00%	27	100.00%	13	83.4%	–	76	277%	18	
Sub-total	4,452	54	54.70%	2,954	3.10%	329	51.4%	–	1,811	61%	63	32
Portfolio (viii) – Other retail exposures to individuals												
0.00 to < 0.15	1,541	11,867	81.20%	11,182	0.05%	60,292	80.9%	–	1,398	13%	5	
0.15 to < 0.25	3,060	2,922	76.00%	5,280	0.16%	23,305	80.4%	–	1,478	28%	7	
0.25 to < 0.50	11,499	5,041	61.60%	14,605	0.34%	47,855	75.9%	–	6,343	43%	38	
0.50 to < 0.75	6,080	3,062	50.00%	7,611	0.67%	32,012	78.8%	–	5,049	66%	40	
0.75 to < 2.50	23,473	5,990	37.70%	25,730	1.35%	75,599	53.9%	–	15,631	61%	189	
2.50 to < 10.00	33,517	7,139	65.90%	38,218	4.63%	117,098	57.2%	–	31,239	82%	889	
10.00 to < 100.00	3,849	546	47.40%	4,108	23.29%	25,014	71.1%	–	5,802	141%	656	
100.00 (Default)	841	2	0.00%	841	100.00%	14,213	64.1%	–	815	97%	474	
Sub-total	83,860	36,569	64.90%	107,575	3.74%	395,388	64.6%	–	67,755	63%	2,298	778
Total (all portfolios subject to the IRB approaches)	1,661,675	957,298	27.90%	1,928,615	1.17%	2,026,734	40.0%	1.24	464,435	24%	11,500	11,229

Provisions in this table represent the eligible provisions as defined under Division 1, Part 6 of the BCR which include the regulatory reserves for general banking risks and the impairment allowances reported under IRB approach, which increases as customer loan increases.

Decrease in exposures was in line with the balance sheet movement during the period.

9 Credit risk for non-securitization exposures (continued)

I. Effects on RWA of recognized credit derivative contracts used as recognized credit risk mitigation – for IRB approach (CR7)

The following table sets out the effect of recognized credit derivative contracts on the calculation of credit risk capital requirements under the IRB approach. The hypothetical RWA before taking into account the mitigation effect of recognized credit derivative contracts (column (a) below) is disclosed to evaluate the impact of recognized credit derivative contracts on RWA. This is irrespective of the extent that recognized CRM are taken into account in calculating the RWA.

At 31 December 2022	(a) Pre-credit derivatives RWA HK\$'M	(b) Actual RWA HK\$'M
1 Corporate – Specialized lending under supervisory slotting criteria approach (project finance)	–	–
2 Corporate – Specialized lending under supervisory slotting criteria approach (object finance)	13,705	13,705
3 Corporate – Specialized lending under supervisory slotting criteria approach (commodities finance)	–	–
4 Corporate – Specialized lending under supervisory slotting criteria approach (income-producing real estate)	10,139	10,139
5 Corporate – Specialized lending (high-volatility commercial real estate)	–	–
6 Corporate – Small-and-medium sized corporates	10,530	10,530
7 Corporate – Other corporates	210,609	210,609
8 Sovereigns	28,716	28,716
9 Sovereign foreign public sector entities	5,181	5,181
10 Multilateral development banks	–	–
11 Bank exposures – Banks	36,838	36,838
12 Bank exposures – Securities firms	5,570	5,570
13 Bank exposures – Public sector entities (excluding sovereign foreign public sector entities)	2,529	2,529
14 Retail – Small business retail exposures	1,811	1,811
15 Retail – Residential mortgages to individuals	76,391	76,391
16 Retail – Residential mortgages to property-holding shell companies	2,125	2,125
17 Retail – Qualifying revolving retail exposures (QRRE)	16,380	16,380
18 Retail – Other retail exposures to individuals	67,755	67,755
19 Equity – Equity exposures under market-based approach (simple risk-weight method)	–	–
20 Equity – Equity exposures under market-based approach (internal models method)	–	–
21 Equity – Equity exposures under PD/LGD approach (publicly traded equity exposures held for long-term investment)	–	–
22 Equity – Equity exposures under PD/LGD approach (privately owned equity exposures held for long-term investment)	–	–
23 Equity – Equity exposures under PD/LGD approach (other publicly traded equity exposures)	–	–
24 Equity – Equity exposures under PD/LGD approach (other equity exposures)	–	–
24a Equity – Equity exposures associated with equity investments in funds (CIS exposures)	–	–
25 Other – Cash items	3,412	3,412
26 Other – Other items	55,547	55,547
27 Total	547,238	547,238

There is no effect in RWA as the Group does not have credit derivative contracts used as recognised credit risk mitigation.

9 Credit risk for non-securitization exposures (continued)

m. RWA flow statements of credit risk exposures under IRB approach (CR8)

The following table sets out a flow statement explaining variations in the RWA for credit risk determined under the IRB approach.

	(a) Amount HK\$'M
1 RWA as at end of previous reporting period (30 September 2022)	542,519
2 Asset size	(17,430)
3 Asset quality	12,888
4 Model updates	-
5 Methodology and policy	-
6 Acquisitions and disposals	-
7 Foreign exchange movements	9,165
8 Other	-
9 RWA as at end of reporting period (31 December 2022)	547,142

The decrease in RWA during the quarter were mainly due to the following items:

- RWA decrease from asset size which is in line with balance sheet movement,
- RWA increase from asset quality mainly due to credit migration during the period.
- RWA increase from foreign exchange rate movement mainly due to the appreciation of KRW, CNY and TWD in relation to HKD during the period.

n. Back-testing of PD per portfolio – for IRB approach (CR9)

The following table sets out the comparison between observed and predicted PD, LGD and EAD.

Observed vs. Predicted PD, LGD and EAD

2022	Asset Class	PD (%)		LGD (%)		EAD Ratio (Observed /Predicted)
		Observed	Predicted	Observed	Predicted	
	Sovereigns	0.00	0.16	N/A	N/A	N/A
	Banks	1.59	1.40	N/A	N/A	0.66
	Corporates	1.04	3.22	35.64	49.25	0.68
	Qualifying revolving retail exposures (QRRE)	0.21	0.56	67.75	80.29	0.79
	Residential mortgages	0.09	0.36	10.84	19.19	0.96
	Small business retail exposures	1.79	3.38	83.13	86.22	0.81
	Other retail exposures to individuals	1.64	2.97	48.62	59.23	0.997*

* The EAD ratio for “Other retail exposures to individuals” asset class is shown with three decimal places for clarity

2021	Asset Class	PD (%)		LGD (%)		EAD Ratio (Observed /Predicted)
		Observed	Predicted	Observed	Predicted	
	Sovereigns	0.00	0.02	N/A	N/A	N/A
	Banks	0.00	1.07	N/A	N/A	N/A
	Corporates	0.90	3.01	35.70	53.94	0.89
	Qualifying revolving retail exposures (QRRE)	0.19	0.55	65.81	77.63	0.82
	Residential mortgages	0.09	0.40	9.45	20.60	0.99
	Small business retail exposures	1.86	2.84	90.26	86.51	0.85
	Other retail exposures to individuals	1.66	3.15	51.09	59.14	0.96

9 Credit risk for non-securitization exposures (continued)

n. Back-testing of PD per portfolio – for IRB approach (CR9) (continued)

The following table sets out back-testing data to validate the reliability of PD calculations, including a comparison of the PD used to calculate capital requirements with the effective default rates of obligors under the IRB approach.

(a)	(b)	(c)	(d)	(e)	(f)		(g)	(h)	(i)
	PD Range (as of 31 December 2021)	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	31 December 2021	31 December 2022	Defaulted obligors in the year	Of which: new defaulted obligors in the year	Average historical annual default rate
Portfolio (i) – Sovereign			0.03%	0.16%	108	118	1	1	0.00%
	0.00 to < 0.15	AAA to BBB-			105	89			
	0.15 to < 0.25	BBB, BBB-			0	0			
	0.25 to < 0.50	BBB-, BB+, BB			0	0			
	0.50 to < 0.75	BB+, BB			0	0			
	0.75 to < 2.50	BB, BB-, B+, B			1	1			
	2.50 to < 10.00	B, B-, CCC, C			2	2			
	10.00 to < 100.00	CCC, C			0	0			
New obligors acquired during the year	D					26			
Portfolio (ii) – Bank			0.11%	1.40%	818	932	16	3	0.34%
	0.00 to < 0.15	AAA to BBB-			354	282			
	0.15 to < 0.25	BBB, BBB-			71	52			
	0.25 to < 0.50	BBB-, BB+, BB			48	37			
	0.50 to < 0.75	BB+, BB			97	73			
	0.75 to < 2.50	BB, BB-, B+, B			141	115			
	2.50 to < 10.00	B, B-, CCC, C			78	48			
	10.00 to < 100.00	CCC, C			29	16			
New obligors acquired during the year	D					309			
Portfolio (iii) – Corporate – Specialized Lending under supervisory slotting criteria approach (object finance)			0.98%	0.83%	165	174	2	0	0.24%
	0.00 to < 0.15	AAA to BBB-			26	23			
	0.15 to < 0.25	BBB, BBB-			32	19			
	0.25 to < 0.50	BBB-, BB+, BB			13	10			
	0.50 to < 0.75	BB+, BB			37	33			
	0.75 to < 2.50	BB, BB-, B+, B			56	55			
	2.50 to < 10.00	B, B-, CCC, C			0	0			
	10.00 to < 100.00	CCC, C			1	0			
New obligors acquired during the year	D					34			
Portfolio (iv) – Corporate – Small-and- medium sized corporates			3.59%	3.94%	6,477	6,446	98	5	2.16%
	0.00 to < 0.15	AAA to BBB-			2	1			
	0.15 to < 0.25	BBB, BBB-			448	357			
	0.25 to < 0.50	BBB-, BB+, BB			324	259			
	0.50 to < 0.75	BB+, BB			961	764			
	0.75 to < 2.50	BB, BB-, B+, B			2,030	1,676			
	2.50 to < 10.00	B, B-, CCC, C			1,835	1,460			
	10.00 to < 100.00	CCC, C			877	646			
New obligors acquired during the year	D					1,283			

9 Credit risk for non-securitization exposures (continued)

n. Back-testing of PD per portfolio – for IRB approach (CR9) (continued)

(a)	(b)	(c)	(d)	(e)	(f)		(g)	(h)	(i)
	PD Range (as of 31 December 2021)	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	31 December 2021	31 December 2022	Defaulted obligors in the year	Of which: new defaulted obligors in the year	Average historical annual default rate
Portfolio (v) –			0.87%	2.65%	7,625	8,094	54	0	0.61%
Corporate –									
Other	0.00 to < 0.15	AAA to BBB-			1,224	1,058			
corporates	0.15 to < 0.25	BBB, BBB-			1,238	1,015			
	0.25 to < 0.50	BBB, BB+, BB			848	718			
	0.50 to < 0.75	BB+, BB			1,017	866			
	0.75 to < 2.50	BB, BB-, B+, B			1,616	1,400			
	2.50 to < 10.00	B, B-, CCC, C			789	654			
	10.00 to < 100.00	CCC, C			893	625			
	New obligors acquired during the year	D				1,758			
Portfolio (vi) –			0.69%	0.56%	1,429,663	1,384,820	3,069	96	0.25%
Retail –									
Qualifying	0.00 to < 0.15				931,717	811,627			
revolving retail	0.15 to < 0.25				92,243	80,390			
exposures	0.25 to < 0.50				105,760	95,564			
	0.50 to < 0.75				174,826	163,358			
	0.75 to < 2.50				76,594	70,727			
	2.50 to < 10.00				41,061	36,826			
	10.00 to < 100.00				7,462	5,839			
	New obligors acquired during the year					120,489			
Portfolio (vii) –			0.33%	0.36%	268,592	263,546	238	6	0.13%
Retail –									
Residential	0.00 to < 0.15				123,221	106,380			
mortgage	0.15 to < 0.25				85,318	75,284			
exposures	0.25 to < 0.50				30,512	26,809			
	0.50 to < 0.75				8,343	7,200			
	0.75 to < 2.50				16,760	14,824			
	2.50 to < 10.00				3,770	3,317			
	10.00 to < 100.00				668	564			
	New obligors acquired during the year					29,168			
Portfolio (viii) –			3.44%	3.38%	15,586	14,190	284	5	2.27%
Retail – Small									
business retail	0.00 to < 0.15				621	454			
exposures	0.15 to < 0.25				591	450			
	0.25 to < 0.50				1,787	1,426			
	0.50 to < 0.75				1,836	1,489			
	0.75 to < 2.50				6,344	5,154			
	2.50 to < 10.00				3,731	2,988			
	10.00 to < 100.00				676	459			
	New obligors acquired during the year					1,770			

9 Credit risk for non-securitization exposures (continued)

n. Back-testing of PD per portfolio – for IRB approach (CR9) (continued)

(a)	(b)	(c)	(d)	(e)	(f)		(g)	(h)	(i)
	PD Range (as of 31 December 2021)	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	31 December 2021	31 December 2022	Defaulted obligors in the year	Of which: new defaulted obligors in the year	Average historical annual default rate
Portfolio (x) –			4.11%	2.97%	427,806	413,557	7,847	831	1.90%
Retail –	0.00 to < 0.15				67,187	60,271			
Other retail	0.15 to < 0.25				24,499	22,013			
exposures	0.25 to < 0.50				58,821	49,525			
to individuals	0.50 to < 0.75				38,410	31,470			
	0.75 to < 2.50				85,016	65,495			
	2.50 to < 10.00				133,620	103,895			
	10.00 to < 100.00				20,253	14,108			
	New obligors acquired during the year					66,780			

Please refer to note 9j (CRE) for the explanation on back-testing results.

o. Specialized lending under supervisory slotting criteria approach and equities under simple risk-weight method – for IRB approach (CR10)

The following table sets out the quantitative information in respect of specialized lending under the supervisory slotting criteria approach.

Specialized Lending under supervisory slotting criteria approach – Other than HVCRE

At 31 December 2022		(a)	(b)	(c)	(d)					(e)	(f)
Regulatory Categories	Remaining Maturity	On-balance sheet exposure amount HK\$'M	Off-balance sheet exposure amount HK\$'M	SRW	PF	OF	CF	IPRE	Total	RWA	Expected loss amount HK\$'M
					HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Strong [^]	Less than 2.5 years	3,227	903	50%	–	962	–	2,525	3,487	1,744	–
Strong	Equal to or more than 2.5 years	6,283	443	70%	–	5,801	–	625	6,426	4,498	26
Good [^]	Less than 2.5 years	6,781	2,134	70%	–	–	–	7,455	7,455	5,218	30
Good	Equal to or more than 2.5 years	3,979	1,697	90%	–	1,971	–	2,837	4,808	4,327	38
Satisfactory		7,008	29	115%	–	6,426	–	580	7,006	8,057	196
Weak		–	–	250%	–	–	–	–	–	–	–
Default		1,655	–	0%	–	–	–	1,655	1,655	–	827
Total		28,933	5,206		–	15,160	–	15,677	30,837	23,844	1,117

[^] Use of preferential risk-weights.

Increase in total exposure was in line with the balance sheet movement during the period.

10 Counterparty Credit risk

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

Counterparty credit risk (CCR) is the risk that a counterparty in foreign exchange, interest rate, commodity, equity or credit derivative or repo contract defaults prior to the maturity date of the contract, and that the Group at the time has a claim on the counterparty. CCR arises predominantly in the trading book, but also arises in the non-trading book when hedging with external counterparties is required.

CCR is managed within the overall credit risk appetite for corporate and financial institutions. CCR limits are set for individual counterparties, including central clearing counterparties, and for specific portfolios. Individual limits are calibrated to the credit grade and business model of the counterparties. Portfolio limits are set to contain concentration risk across multiple dimensions and are set on PFE or other equivalent measures.

The Group reduces its credit exposures to counterparties by entering into contractual netting agreements where feasible. This results in a single amount owed by or to the counterparty. The amount is calculated by netting the Mark-To-Market (MTM) owed by the counterparty to the Group and the MTM owed by the Group to the counterparty on the transactions covered by the netting agreement. In line with the International Accounting Standard (IAS) 32 principles, the Group's balance sheet will present assets and liabilities on a net basis provided there is a legally enforceable right to set off assets and liabilities, and the Group intends to settle on a net basis or realise the asset and liability simultaneously.

Wrong-way risk

Wrong-way risk occurs when an exposure increase is coupled with a decrease in the credit quality of the obligor. Specifically, as the MTM on a derivative or repo contract increases in favour of the Group, the driver of this MTM change also reduces the ability of the counterparty to meet its payment, margin call or collateral posting requirements. Wrong-way risk mostly arises from FX transactions and financing transactions. The Group employs various policies and procedures to ensure that wrong-way risk exposures are recognised upfront, monitored, and where required, contained by limits on country, tenor, collateral type and counterparty.

Stress Testing

Stress testing is an integral part of CCR management, complementing PFE or other portfolio limits. Single and multi-factor scenarios are regularly applied to the CCR portfolio to identify and quantify exposures that could become a concern for the Group. The stressed exposures are monitored weekly and discussed monthly at regional and global counterparty credit risk exposure forums. The relevance and severity of the stress scenarios are periodically reviewed with cross functional stakeholders.

Exposure value calculation

Exposure calculation used for risk management is based on PFE and Cash out. The PFE is mostly calculated from simulation models, and from PFE add-ons for the non-simulated products.

Derivatives exposures are calculated using SA-CCR from January 2022. Under this approach, EAD is calculated as the sum of replacement cost and potential future exposure multiplied by Alpha. Exposure for repurchase transactions and securities lending or borrowing transactions is calculated using the Financial Collateral Comprehensive Method. Supervisory volatility adjustments are applied to both collateral and exposure legs.

The Group has credit policies and procedures setting out the criteria for collateral to be recognised as a credit risk mitigant, including requirements concerning legal certainty, priority, concentration, correlation, liquidity and valuation parameters such as frequency of review and independence.

The Group seeks to negotiate Credit Support Annexes (CSAs) with counterparties when collateral is deemed a necessary or desirable mitigant to the exposure. The credit terms of a CSA are specific to each legal document and determined by the credit risk approval unit responsible for the counterparty. The nature of the collateral is specified in the legal document and is typically cash or highly liquid securities.

10 Counterparty Credit risk (continued)

a. Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs) (CCRA) (continued)

Exposure value calculation (continued)

The MTM of all trades captured under CSAs is calculated daily. Additional collateral will be called from the counterparty if total uncollateralised MTM exposure exceeds the threshold and minimum transfer amount specified in the CSA. Additional collateral may be required from the counterparty to provide an extra buffer to the daily variation margin process.

In line with market convention, the Group negotiates CSA terms for certain counterparties where the thresholds related to each party are dependent on their ECAI long-term rating. Such clauses are typically mutual in nature. As a result, a downgrade in the Group's rating would result in some counterparties seeking additional collateral calls to cover negative MTM portfolios where thresholds are lowered. As of 31 Dec 2022, the amount of collateral that the Group would be required to provide given a one-notch credit rating downgrade is approximately US\$ 15.2 million.

The Group also has policies and procedures in place setting out the criteria for guarantees to be recognised as a credit risk mitigant. Where guarantees meet regulatory criteria, the Group treats the exposure as guarantor risk from counterparty credit risk capital standpoint.

Credit valuation adjustments

Credit valuation adjustments (CVA) measures potential MTM loss associated with the deterioration in the creditworthiness of the counterparty. The Group applies standardized approach to calculate CVA capital charge on over-the-counter derivative contracts.

b. Analysis of counterparty default risk exposures (other than those to CCPs) by approaches (CCR1)

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

	(a)	(b)	(c)	(d)	(e)	(f)
	Replacement cost (RC)	PFE	Effective EPE	Alpha (a) used for computing default risk exposure	Default risk exposure after CRM	RWA
At 31 December 2022	HK\$'M		%		HK\$'M	HK\$'M
1 SA-CCR (for derivative contracts) ¹	21,744	40,802		1.4	86,706	31,568
1a CEM (for derivative contracts)	-	-		1.4	-	-
2 IMM (CCR) approach			-	1.4	-	-
3 Simple Approach (for SFTs)					-	-
4 Comprehensive Approach (for SFTs) ²					241,727	4,692
5 VaR (for SFTs)					-	-
6 Total						36,260

¹ Decrease in default risk exposures was due to decrease in volume of derivative exposures.

² Increase in default risk exposure was due to increase in volume of SFTs.

10 Counterparty Credit risk (continued)

c. CVA capital charge (CCR2)

The following table sets out an information on portfolios subject to the CVA capital charge and the CVA calculations based on standardized CVA method and advanced CVA method.

At 31 December 2022	(a) EAD post CRM HK\$'M	(b) RWA HK\$'M
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	86,492	15,509
4 Total	86,492	15,509

Decrease in CVA capital charge was mainly due to decrease in volume of derivative exposures.

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

The following table sets out a breakdown of default risk exposures, other than those to CCPs, in respect of derivative contracts and SFTs that are subject to the STC approach, by asset classes and risk-weights (the latter representing the riskiness attributed to the exposure according to the respective approaches), irrespective of the approach used to determine the amount of default risk exposures.

At 31 December 2022	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k) Total default risk exposure after CRM
Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	HK\$'M
Exposure class	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
1 Sovereign exposures	738	-	-	-	-	-	-	-	-	-	738
3 Multilateral development bank exposures	19	-	-	-	-	-	-	-	-	-	19
6 Corporate exposures	-	-	299	-	-	-	423	-	-	-	722
12 Total	757	-	299	-	-	-	423	-	-	-	1,479

Decrease in total default risk exposure after CRM was mainly due to decrease in multilateral development bank and corporate exposures; partially offset by increase in sovereign exposures.

10 Counterparty Credit risk (continued)

e. Counterparty default risk exposures (other than those to CCPs) by portfolio and PD range – for IRB approach (CCR4)

The following table sets out all the relevant parameters used for the calculation of counterparty default risk capital requirements for IRB exposures (other than those to CCPs).

At 31 December 2022 PD scale	(a) EAD post-CRM HK\$'M	(b) Average PD	(c) Number of obligors	(d) Average LGD	(e) Average maturity	(f) RWA HK\$'M	(g) RWA density
Portfolio (i) – Sovereign							
0.00 to < 0.15	83,900	0.02%	27	40.1%	0.13	1,647	2%
0.15 to < 0.25	–	0.00%	–	0.0%	–	–	0%
0.25 to < 0.50	–	0.00%	–	0.0%	–	–	0%
0.50 to < 0.75	–	0.00%	–	0.0%	–	–	0%
0.75 to < 2.50	–	0.00%	–	0.0%	–	–	0%
2.50 to < 10.00	–	0.00%	–	0.0%	–	–	0%
10.00 to < 100.00	–	0.00%	–	0.0%	–	–	0%
100.00 (Default)	–	0.00%	–	0.0%	–	–	0%
Sub-total	83,900	0.02%	27	40.1%	0.13	1,647	2%
Portfolio (ii) – Bank							
0.00 to < 0.15	182,643	0.05%	176	16.5%	0.38	8,743	5%
0.15 to < 0.25	10,098	0.22%	41	21.4%	1.01	2,325	23%
0.25 to < 0.50	1,019	0.39%	18	14.5%	0.28	156	15%
0.50 to < 0.75	2,611	0.52%	27	19.3%	0.76	611	23%
0.75 to < 2.50	497	1.62%	10	41.8%	1.01	436	88%
2.50 to < 10.00	–	3.51%	1	45.0%	1.00	–	116%
10.00 to < 100.00	–	13.77%	3	72.0%	1.00	–	318%
100.00 (Default)	–	0.00%	–	0.0%	–	–	0%
Sub-total	196,868	0.07%	276	16.9%	0.42	12,271	6%
Portfolio (iii) – Corporate							
0.00 to < 0.15	18,418	0.09%	403	52.1%	1.39	4,395	24%
0.15 to < 0.25	8,752	0.22%	457	51.7%	1.32	3,918	45%
0.25 to < 0.50	2,996	0.39%	144	60.2%	1.36	2,077	69%
0.50 to < 0.75	10,969	0.55%	157	33.7%	0.70	4,873	44%
0.75 to < 2.50	2,656	1.22%	107	49.2%	0.98	2,427	91%
2.50 to < 10.00	2,137	4.45%	36	56.1%	1.00	3,422	160%
10.00 to < 100.00	61	18.66%	34	67.9%	1.25	202	329%
100.00 (Default)	197	100.00%	3	60.6%	3.14	545	277%
Sub-total	46,186	0.96%	1,341	48.3%	1.18	21,859	47%
Total (all portfolios subject to the IRB approaches)	326,954	0.18%	1,644	27.3%	0.45	35,777	11%

Increase in EAD post-CRM was mainly due to the increase in sovereign exposures partially offset by decrease in corporates exposures.

10 Counterparty Credit risk (continued)

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

The following table sets out a breakdown of all types of collateral posted or recognized collateral received to support or reduce the exposures to counterparty default risk exposures in respect of derivative contracts or SFTs entered into, including contracts or transactions cleared through a CCP.

At 31 December 2022	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
Exposure classes	Segregated HK\$'M	Unsegregated HK\$'M	Segregated HK\$'M	Unsegregated HK\$'M	HK\$'M	HK\$'M
Cash – domestic currency	–	200	–	–	–	6,165
Cash – other currencies	–	13,028	–	17,380	29,214	181,196
Domestic sovereign debt	–	–	–	–	–	–
Other sovereign debt	–	7,894	–	7,802	56,902	17,734
Government agency debt	–	–	–	–	17,033	357
Corporate bonds	–	6,668	–	1,877	36,674	35,217
Equity securities	–	–	–	–	6,540	1,059
Other collateral	–	281	–	–	–	–
Total	–	28,071	–	27,059	146,363	241,728

Movement in unsegregated collateral received and posted for derivative contracts were mainly driven by the decrease in volume of derivative contracts, while the movement in collateral received and posted for SFTs was in line with the increased volume of SFTs.

g. Credit-related derivatives contracts (CCR6)

The following table sets out the amount of credit-related derivative contracts, broken down into credit protection bought and credit protection sold.

At 31 December 2022	(a) Protection bought HK\$'M	(b) Protection sold HK\$'M
Notional amounts		
Single-name credit default swaps	–	–
Index credit default swaps	–	–
Total return swaps	25,273	2,146
Credit-related options	–	–
Other credit-related derivative contracts	18,021	1,851
Total notional amounts	43,294	3,997
Fair values		
Positive fair value (asset)	541	10
Negative fair value (liability)	(74)	(36)

Decrease in total notional amount were mainly driven by the decrease in transaction volume.

10 Counterparty Credit risk (continued)

h. Exposures to CCPs (CCR8)

The following table sets out a comprehensive breakdown of exposures to both qualifying and non-qualifying CCPs and the respective RWAs, covering all types of credit risk exposures (including default risk exposures to the CCPs, credit risk exposures arising from initial margins posted, and default fund contributions made, to the CCPs).

At 31 December 2022	(a) Exposure after CRM HK\$'M	(b) RWA HK\$'M
1 Exposures of the AI as clearing member or client to qualifying CCPs (total)		193
2 Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	7,411	148
3 (i) OTC derivative transactions	-	-
4 (ii) Exchange-traded derivative contracts	7,411	148
5 (iii) Securities financing transactions	-	-
6 (iv) Netting sets subject to valid cross-product netting agreements	-	-
7 Segregated initial margin	-	
8 Unsegregated initial margin	519	10
9 Funded default fund contributions	686	35
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	-	-

Increase in total RWA was mainly due to the increase in volume of exchange-traded derivative contracts.

11 Securitization exposures

a. Qualitative disclosures related to securitization exposure (SECA)

Securitization activities are undertaken by the Group for risk-taking purpose by various businesses acting as investors. The Group adopts the SEC-ERBA and SEC-SA to calculate the credit risk for asset securitizations in which it is an investing institution. For the Group's originated positions, these are all reported under the SEC-IRBA.

The Group uses the following external credit assessment institutions to calculate the capital adequacy requirements: S&P, Moody's and Fitch Ratings.

The Group's securitization exposures are measured in accordance with the accounting policy described in note 2(i) of the 2022 consolidated financial statements.

11 Securitization exposures (continued)

a. Qualitative disclosures related to securitization exposure (SECA) (continued)

The securitised assets have appropriate credit and market risk limits in place with exposures being monitored against these limits. There is also a periodic performance analysis of the underlying collateral pools through review of trustee reports, market research and monitoring the changes of their external ratings. In addition, for Corporate & Institutional Banking and Commercial Banking clients, there is an internal credit model in place to measure any change in the performance of the underlying collateral pools.

b. Securitization exposures in banking book (SEC1)

The following table sets out a breakdown of securitization exposures in the banking book.

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Acting as originator (excluding sponsor)			Acting as sponsor			Acting as investor		
	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
1 Retail (total) – of which:	-	-	-	-	-	-	35,544	-	35,544
2 residential mortgage	-	-	-	-	-	-	26,530	-	26,530
3 credit card	-	-	-	-	-	-	3,495	-	3,495
4 other retail exposures	-	-	-	-	-	-	5,519	-	5,519
5 re-securitization exposures	-	-	-	-	-	-	-	-	-
6 Wholesale (total) – of which:	-	5,403	5,403	-	-	-	7,014	-	7,014
7 loans to corporates	-	5,403	5,403	-	-	-	863	-	863
8 commercial mortgage	-	-	-	-	-	-	934	-	934
9 lease and receivables	-	-	-	-	-	-	-	-	-
10 other wholesale	-	-	-	-	-	-	5,217	-	5,217
11 re-securitization exposures	-	-	-	-	-	-	-	-	-

The increase in exposures during the period was mainly driven by the increase in investor exposures under retail.

c. Securitization exposures in trading book (SEC2)

The following table sets out a breakdown of securitization exposures in the trading book.

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Acting as originator (excluding sponsor)			Acting as sponsor			Acting as investor		
	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
1 Retail (total) – of which:	-	-	-	-	-	-	3,573	-	3,573
2 residential mortgage	-	-	-	-	-	-	2,013	-	2,013
3 credit card	-	-	-	-	-	-	-	-	-
4 other retail exposures	-	-	-	-	-	-	1,560	-	1,560
5 re-securitization exposures	-	-	-	-	-	-	-	-	-
6 Wholesale (total) – of which:	-	-	-	-	-	-	554	-	554
7 loans to corporates	-	-	-	-	-	-	540	-	540
8 commercial mortgage	-	-	-	-	-	-	7	-	7
9 lease and receivables	-	-	-	-	-	-	-	-	-
10 other wholesale	-	-	-	-	-	-	7	-	7
11 re-securitization exposures	-	-	-	-	-	-	-	-	-

The increase in exposures during the period was mainly driven by the increase in exposures under residential mortgage.

11 Securitization exposures (continued)

d. Securitization exposures in banking book and associated capital requirements – where the Group acts as originator (SEC3)

The following table sets out the securitization exposures in the banking book where the Group acts as originator of securitization transactions and the associated capital requirements.

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
	Exposure values (by RW bands)				Exposure values (by regulatory approach)				RWAs (by regulatory approach)				Capital charges after cap				
	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	SEC-IRBA	SEC-ERBA (incl IAA)	SEC-SA	SEC-FBA	SEC-IRBA	SEC-ERBA (incl IAA)	SEC-SA	SEC-FBA	SEC-IRBA	SEC-ERBA (incl IAA)	SEC-SA	SEC-FBA
1 Total exposures	5,373	-	-	30	-	5,403	-	-	-	1,000	-	-	-	80	-	-	-
2 Traditional securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3 Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4 Of which retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5 Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6 Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7 Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8 Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9 Synthetic securitization	5,373	-	-	30	-	5,403	-	-	-	1,000	-	-	-	80	-	-	-
10 Of which securitization	5,373	-	-	30	-	5,403	-	-	-	1,000	-	-	-	80	-	-	-
11 Of which retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12 Of which wholesale	5,373	-	-	30	-	5,403	-	-	-	1,000	-	-	-	80	-	-	-
13 Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14 Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15 Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

e. Securitization exposures in banking book and associated capital requirements – where the Group acts as investor (SEC4)

The following table sets out the securitization exposures in the banking book where the Group acts as an investing institution of securitization transactions and the associated capital requirements.

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
	Exposure values (by RW bands)				Exposure values (by regulatory approach)				RWA (by regulatory approach)				Capital charge after cap				
	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	SEC-IRBA	SEC-ERBA (incl IAA)	SEC-SA	SEC-FBA	SEC-IRBA	SEC-ERBA (incl IAA)	SEC-SA	SEC-FBA	SEC-IRBA	SEC-ERBA (incl IAA)	SEC-SA	SEC-FBA
1 Total exposures	41,909	337	312	-	-	-	40,792	1,766	-	-	7,576	265	-	-	606	21	-
2 Traditional securitization	41,909	337	312	-	-	-	40,792	1,766	-	-	7,576	265	-	-	606	21	-
3 Of which securitization	41,909	337	312	-	-	-	40,792	1,766	-	-	7,576	265	-	-	606	21	-
4 Of which retail underlying	35,423	-	121	-	-	-	34,113	1,431	-	-	6,369	215	-	-	509	17	-
5 Of which wholesale	6,486	337	191	-	-	-	6,679	335	-	-	1,207	50	-	-	97	4	-
6 Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7 Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8 Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9 Synthetic securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10 Of which securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11 Of which retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12 Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Of which re-securitization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14 Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15 Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Please refer to SEC1 for the main drivers of the exposures

12 Market risk

a. Qualitative disclosures related to market risk (MRA, MRB)

Our approach to Market risk can be found in the Risk Management approach section in traded risk section of the 2022 consolidated financial statements.

The primary categories of market risk for the Group are:

- Interest rate risk: arising from changes in yield curves, and implied volatilities on interest rate options
- Foreign exchange rate risk: arising from changes in currency exchange rates and implied volatilities on foreign exchange options
- Commodity Risk: arising from changes in commodity prices and implied volatilities on commodity options; covering energy, precious metals, base metals and agriculture as well as commodity baskets
- Credit spread risk: arising from changes in the price of debt instruments and credit-linked derivatives, driven by factors other than the level of risk-free interest rates.
- Equity Risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options

Trading book

The Trading book contains positions held with trading intent or hedges for such positions. The Traded Risk Framework sets out the Group's standard systematic approach to risk managing market risk. The Market Risk Standard identifies the policies and procedures determining the positions included in the Trading book and their risk management and valuation. All trading book desks are subject to market risk limits. Traded Risk Management, an independent risk control function, monitors the limits and reports daily to senior management.

Valuation framework

Valuation of financial assets and liabilities held at fair value is subject to an independent review by Valuation Control within the Finance function. For those financial assets and liabilities whose fair value is determined by reference to externally quoted prices or market observable pricing inputs or to a valuation model, an assessment is made by Valuation Control against external market data and consensus services. Valuation Control also ensures adherence to the valuation adjustment policies to incorporate bid/ask spreads, model risk and other reserves, and, where appropriate, to mark all positions in accordance with prevailing accounting and regulatory guidelines.

The HK Valuation Committee (VC) provides oversight and governance of valuation adjustments, price testing and valuation policies, and reviews the results of the valuation control process on a quarterly basis. In addition, the Hong Kong Benchmark Rates Review Committee governs the benchmark rates setting, submission, monitoring and review policies and provides the platform to which issues are escalated.

Management VaR

Management VaR is one of the tools used by management to monitor the total market risk within the trading and non-trading books.

Regulatory VaR

Regulatory VaR is used to estimate the potential loss, from market movements, across trading book positions for which the Bank has received permission to apply the internal model approach (IMM). Regulatory VaR, including Stressed VaR and Risk-Not-in-VaR (RNIV) measures, is used to calculate market risk RWAs for positions falling under the IMM permission.

12 Market risk (continued)

a. Qualitative disclosures related to market risk (MRA, MRB) (continued)

Regulatory VaR vs Management VaR

Variable	Regulatory VaR	Management VaR
Confidence level	99%	97.5%
Historical Observation	Max (260 business days unweighted, 130 business days unweighted)	260 business days unweighted
Liquidity Horizon	1 day scaled to 10-day VaR by multiplying by the square root of 10. A more conservative multiplier is applied if statistical hypothesis testing shows that the square root of 10 multiplier is not sufficiently appropriate.	1 day
Updating Frequency	1 day	1 day
Scope	As approved by HKMA, under Internal Model Approval (IMM)	All non-structural market risk exposures across the trading and non-trading books

Hong Kong Monetary Authority (“HKMA”) has granted SCBHK permission to use the Internal Models Approach (IMM) to calculate its general market risk capital charge from December 2021 onwards in selected asset classes. In addition, SCBHK has agreed with HKMA and started providing a VaR number with a shorter 6-month window to increase its responsiveness to market volatility. The 6-month VaR has been implemented since November 2022.

For December 2022, VaR contributed 13% and stressed VaR contributed 32% for SCBHK general market risk capital charge.

Backtesting

Backtesting is performed to ensure that the VaR model is fit for purpose. It measures the ability of the model to correctly reflect the potential level of losses under normal trading conditions, for a certain confidence level.

A backtesting breach is recorded when the net trading P&L loss in one day is greater than the estimated VaR for the same day.

HKMA regulation specifies that a model with fewer than five backtesting exceptions in the last 250 trading days is deemed to be in the ‘green zone’.

Stressed VaR

Stressed VaR applies the same model as for regulatory VaR but using a one-year historical observation period from a stressed period relevant to the trading book portfolio.

For SCBHK the stressed period applied was the 260 business days ending 30 June 2009 reflecting the Global Financial Crisis. This is the same period used for the Group stressed VaR calculation.

Risks-not-in-VaR framework

The Risks-not-in-VaR (RniV) framework is used to supplement the main VaR model in the context of estimating risks that are not captured in the model. An example of this is the use of proxies where market data is not available during the stressed period. In such instances, the RniV approach is used to quantify the capital requirement.

12 Market risk (continued)

a. Qualitative disclosures related to market risk (MRA, MRB) (continued)

Stress testing

Group-wide stress testing is performed to measure the potential loss on a portfolio of financial positions due to low probability market events or risk to the Group posed by a breakdown of risk model assumptions.

So stress testing supplements the use of VaR as the primary measure of risk. The roles and responsibilities of the various functions are set out in the Traded Risk Stress Testing standard.

Market risk changes

High inflation around the world was the dominant issue in 2022. Central Banks had been aggressively raising interest rates to contain inflation which triggered a price correction in many assets classes such as stocks and bonds. Economic growth projections were revised down and the market expected a recession will hit most of the countries in 2023.

Management VaR allows SCB to manage the market risk across the trading book and most of the fair valued non-trading books. In addition, market volatility was much higher across asset classes on the back of rate hikes to tackle the inflation and potential risks of recession. The average and high point of VaR were lower in 2022 despite many tail risk scenarios had started moving into the VaR window in 2022. The lower usages were driven by the active risk management actions taken by the business to offload the positions and reduce the overall risk exposure.

Trading and Non-trading (VaR at 97.5%, 1 day)

Value at risk:	2022				2021			
	Average HK\$'M	High** HK\$'M	Low** HK\$'M	Actual* HK\$'M	Average HK\$'M	High** HK\$'M	Low** HK\$'M	Actual* HK\$'M
Total	120.8	150.5	95.9	128.0	136.4	271.3	90.0	124.0

Trading (VaR at 97.5%, 1 day)

Value at risk:	2022				2021			
	Average HK\$'M	High** HK\$'M	Low** HK\$'M	Actual* HK\$'M	Average HK\$'M	High** HK\$'M	Low** HK\$'M	Actual* HK\$'M
Interest rate risk	39.1	57.9	23.2	36.4	35.2	57.1	20.3	23.6
Foreign exchange risk	15.7	29.5	8.3	18.6	13.9	33.0	7.2	9.0
Credit spread risk	27.8	45.7	16.0	36.6	14.4	24.6	8.4	21.6
Total [^]	45.7	75.4	30.7	45.8	41.4	68.4	23.9	34.1

Non-trading (VaR at 97.5%, 1 day)

Value at risk:	2022				2021			
	Average HK\$'M	High** HK\$'M	Low** HK\$'M	Actual* HK\$'M	Average HK\$'M	High** HK\$'M	Low** HK\$'M	Actual* HK\$'M
Interest rate risk ^{^^}	94.0	134.0	69.5	107.3	110.4	222.9	72.0	95.4

* Actual one day VaR at period end date.

** Highest and lowest VaR for each risk factor are independent and usually occur on different days.

[^] Total Trading VaR shown in the tables above is not a sum of the component risks due to offsets between them.

^{^^} Includes credit spread risk arising from fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVOCI") securities.

Total trading VaR includes Equity and Commodity risks which are immaterial in exposure.

12 Market risk (continued)

b. Market risk under STM approach (MR1)

The following table sets out the components of the market risk capital requirements calculated using the standardized (market risk) approach (STM approach).

At 31 December 2022		(a) RWA HK\$'M
Outright product exposures		
1	Interest rate exposures (general and specific risk)	9,591
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	4,196
4	Commodity exposures	2,760
Option exposures		
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	15,342
9	Total	31,889

Increase in market risk RWA under STM approach was mainly due to increase in securitization exposures and commodity exposures.

c. RWA flow statements of market risk exposures under IMM approach (MR2)

The table below shows the RWA under IMM model as of December 2022.

	(a) VaR HK\$'M	(b) Stressed VaR HK\$'M	(c) IRC HK\$'M	(d) CRC HK\$'M	(e) Other HK\$'M	(f) Total RWA HK\$'M	
1	RWA as at end of previous reporting period	5,294	20,414	N/A	N/A	N/A	25,708
2	Movement in risk levels	1,797	(2,411)	N/A	N/A	N/A	(614)
3	Model updates/changes	0	0	N/A	N/A	N/A	0
4	Methodology and policy	0	0	N/A	N/A	N/A	0
5	Acquisitions and disposals	0	0	N/A	N/A	N/A	0
6	Foreign exchange movements	4	10	N/A	N/A	N/A	14
7	Other	0	0	N/A	N/A	N/A	0
8	RWA as at end of reporting period	7,095	18,013	N/A	N/A	N/A	25,108

12 Market risk (continued)

d. IMM approach values for market risk exposures (MR3)

Internal Models Approach

The table below shows only the 2nd half of 2022 results. The results reflect only the portfolio covered by the internal model approach and are calculated at a 99 per cent confidence level, excluding RNIV and Capital add-on that also contributes to the capital charge.

VaR in SCBHK was mainly driven by interest rates risk in RMB, HKD and KRW, and foreign exchange risk in RMB.

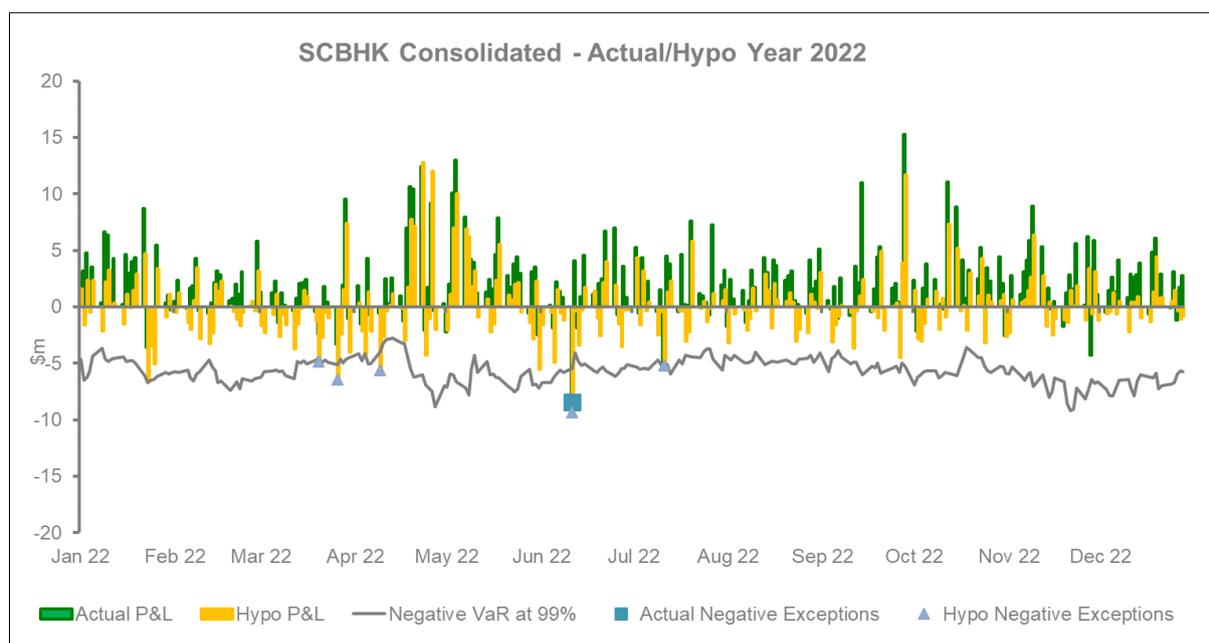
		(a) HK\$'M
VaR (10 days – one-tailed 99% confidence interval)		
1	Maximum Value	227
2	Average Value	139
3	Minimum Value	89
4	Period End	144
Stressed VaR (10 days – one-tailed 99% confidence interval)		
5	Maximum Value	490
6	Average Value	323
7	Minimum Value	211
8	Period End	231
Incremental risk charge (IRC) (99.9% confidence interval)		
9	Maximum Value	N/A
10	Average Value	N/A
11	Minimum Value	N/A
12	Period End	N/A
Comprehensive risk charge (CRC) (99.9% confidence interval)		
13	Maximum Value	N/A
14	Average Value	N/A
15	Minimum Value	N/A
16	Period End	N/A
17	Floor	N/A

12 Market risk (continued)

e. Comparison of VaR estimates with gains or losses (MR4)

The graphs below illustrate the performance of the VaR model used in the Group capital calculations. They compare the 99 percentile loss confidence level given by the VaR model with the Hypothetical and Actual P&L of each day given the real market movements. Actual backtesting P&L excludes from trading P&L: brokerage expense, fees & commissions, non-market-related accounting valuation adjustments and accounting debit valuation adjustments. Hypothetical backtesting P&L further excludes P&L from new deals and market operations.

Backtesting chart for Internal Model Approach regulatory trading book at SCBHK Consolidated level with profit and loss (P&L) versus VaR (99 per cent, one day)



In total, there have been 5 SCBHK exceptions in the previous 250 business days which is within the 'Amber zone' applied according to HKMA's regulation. These exceptions occurred on:

- 22nd & 28th March, 11th April, 13th June, 13th July: Interest rates moved a lot higher in 2022 as central banks became more hawkish across the globe.

f. Market risk exposures on guaranteed retirement funds

The capital requirement for the Group's guaranteed retirement funds is calculated based on the potential shortfall between the estimated returns from the funds and the guaranteed returns after considering accounting provisions. The projected returns are estimated using a simulation approach with a 99% confidence level. The model is backtested against actual results. As of 31 December 2022, the accounting provisions exceed the potential shortfalls, hence there are no additional capital requirements.

13 Interest rate risk

a. Interest rate risk in banking book – risk management objectives and policies (IRRBBA)

Overview

The Group defines Interest Rate Risk in the Banking Book ('IRRBB') as the potential for a reduction in future earnings or economic value due to changes in interest rates. This risk arises from differences in the repricing profile, interest rate basis, and optionality of banking book assets, liabilities, and off-balance sheet items. IRRBB represents an economic and commercial risk to the Group and its capital adequacy. The Group monitors IRRBB against Board-approved Risk Appetite.

IRRBB is managed at country level by the ALCO and at regional level by the RALCO, is monitored by Regional Treasury, subject to independent oversight and challenge from Treasury Risk and Group Internal Audit. IRRBB models are independently validated and approved by a designated model approval body.

Measurement of IRRBB

The Group uses two key metric types for measuring IRRBB: Net Interest Income ('NII') Sensitivity, an income measure which quantifies the potential change in projected net interest income over a one-year horizon from defined movements in interest rates; and Economic Value of Equity ('EVE'), a value measure which estimates the potential change in the present value of the Group's Banking Book assets and liabilities from defined movements in interest rates. Both NII and EVE are monitored monthly against defined Risk Appetite limits.

Methodology

NII and EVE are calculated under various interest rate scenarios, including parallel and non-parallel shifts and a range of internally designed scenarios that assess vulnerabilities in the Group's business model and key behavioural assumptions under interest rate shocks and stresses. Risk Appetite limits are monitored with respect to six interest rate scenarios prescribed by the HKMA.

The model assumptions used internally do not differ from the ones set by the HKMA.

The EVE is calculated based on the assumption that expired interest rate sensitive positions are not replaced. The cash flows include commercial spread components and financial investments consider credit dependent spread components. Cash flows including commercial margins and other spread components are discounted with a risk-free rate curve per currency (based on IBOR and Swap market rates). The NII is computed based on the assumption of a constant balance sheet excluding non-rate-sensitive items.

The non-maturing deposits (NMD) are repriced based on the NMD behavioral model. The average repricing maturity of NMD has been determined based on the relationship between market interest rate and interest rate offered to the customer with consideration of the historical run off behavior. As at 31 December 2022, the Group's average and longest repricing maturity assigned to non-maturing deposits are 0.66 year and 4.5 years respectively, with parameter updates to reflect the NMD behaviour.

Prepayment model has been used to forecast prepayment rates on retail fixed rate loans and floating rate mortgage portfolios without prime rate cap. The redemption rates of the term deposits have been determined via the parametric time series model.

The Group has identified certain automatic options positions in the banking book. Statistical models have been used for computing the values of the automatic options for EVE calculation. The optionality is split out and priced in isolation using applicable method.

Adverse currency impacts on EVE are aggregated for significant currencies following HKMA's standardized framework.

Stress tests are performed regularly to identify structural risks to NII or EVE under adverse but plausible interest rate scenarios.

13 Interest rate risk (continued)

a. Interest rate risk in banking book – risk management objectives and policies (IRRBB) (continued)

Management of IRRBB

The Group uses Funds Transfer Pricing (FTP) to transfer repricing risk from the business to Treasury Markets, including that arising from structural positions such as the investment of equity and non-maturity deposit balances. For non-maturity deposits, the assumed duration is dependent on the portion that can be considered stable and the degree to which these balances are considered price sensitive.

Certain structural balances have been approved by RALCO and ALCOs to be risk managed directly under the SC PLC's structural hedging programme, with impact on local risk metrics being closely monitored. Other repricing risks transferred to Treasury Markets are managed on an integrated basis with a securities portfolio maintained for liquidity and investment management purposes. Any basis risk that is not transferred and cannot be hedged by Treasury Markets is reported and overseen at RALCO and ALCO.

Repricing risk arising within Treasury Markets is managed using a combination of on-balance sheet and derivative hedges; derivative hedges are subject to Fair Value and Cash Flow Hedge accounting treatment where available under Hong Kong Financial Reporting Standards. Banking books' fair valued interest rate risk positions and limits are independently monitored by the Traded Risk Management (TRM) function.

b. Quantitative information on interest rate risk in banking book

The interest rate risk sensitivity figures presented in the IRRBB1 table represent the effect of six interest rate scenarios defined by HKMA on the expected present value of the banking book as well as the impact of the two parallel shock scenarios on the net interest income of the banking book.

HK\$'M	Period	Δ EVE		Δ NII	
		Change in economic value of equity ¹		Change in net interest income ¹	
		December 2022	31 December 2021	31 December 2022	31 December 2021
1	Parallel up	3,291	11,161	(3,619)	1,558
2	Parallel down	5,201	709	3,875	(1,426)
3	Steeper	1,679	747		
4	Flattener	2,283	5,079		
5	Short rate up	1,050	4,916		
6	Short rate down	4,279	87		
7	Maximum	5,201	11,161	3,875	1,558
	Period	31 December 2022		31 December 2021	
8	Tier 1 capital	161,939		155,597	

¹ Positive values of Δ EVE and Δ NII indicate losses under the respective scenarios, in accordance with HKMA's disclosure requirement

As of 31 December 2022, the most adverse of the six HKMA interest rate scenarios with regard to EVE was changed from "Parallel up" to "Parallel down" scenario (a constant parallel shock down across all time buckets), resulting in an adverse change of economic value of equity of HK\$ 5,201 million (2021: HK\$ 11,161 million), representing an effect equal to 3.2% (2021: 7.2%) of Tier 1 capital.

The more adverse of the two parallel interest rate scenarios with regard to NII over the next 12 months was changed from "Parallel up" to "Parallel down" scenario, resulting in a potential loss of HK\$ 3,875 million (2021: HK\$ 1,558 million).

Under interest rate hike in 2022, the EVE gain of floating rate mortgage from parallel down scenario was reduced due to cap feature and resulted in the change of most adverse scenario to parallel down. In addition, the increase in EVE and NII loss under parallel down was mainly due to the shortening of net asset duration.

14 Remuneration (REMA/REM1/REM2/REM3)

Pursuant to Section 3 of CG-5 on Guideline on a Sound Remuneration System of the Supervisory Policy manual issued by the HKMA and to comply with the Banking (Disclosure) Rules Section 16ZS-16ZV, the following disclosures are required:

- a) Information relating to the governance structure of the remuneration system
- b) Information relating to the design and structure of the remuneration processes
- c) Description of the ways in which current and future risks are taken into account in the remuneration processes
- d) Description of the ways in which the Group seeks to link performance during a performance measurement period with levels of remuneration
- e) Description of the ways in which the Group seeks to adjust remuneration to take account of longer-term performance
- f) Description of the different forms of variable remuneration that the Group utilises and the rationale for using these different forms
- g) Number of meetings held by the PLC Remuneration Committee during the financial year and remuneration paid to the staff

The Group adopts the remuneration policy and systems of SC PLC. Please refer to the Directors' Remuneration Report in the Annual Report of SC PLC for details of the PLC Remuneration Committee, the major characteristics of the remuneration system, and how risks are taken into account in the remuneration processes.

- h) Aggregate quantitative information on remuneration for Senior Management and Key Personnel (Note 1) for the years ended 31 December 2022 and 31 December 2021 are as follows:

REM1: Analysis of remuneration split between fixed and variable remuneration

Remuneration amount and quantitative information			2022		2021	
			Senior management ¹ HK\$'M	Key personnel ¹ HK\$'M	Senior management ¹ HK\$'M	Key personnel ¹ HK\$'M
1	Fixed remuneration	Number of employees	20	30	21	26
2		Total fixed remuneration	130	88	134	90
3		Of which: cash-based	130	88	134	90
4		Of which: deferred	-	-	-	-
5		Of which: shares or other share-linked instruments	-	-	-	-
6		Of which: deferred	-	-	-	-
7		Of which: other forms	-	-	-	-
8		Of which: deferred	-	-	-	-
9	Variable remuneration	Number of employees	20	30	21	26
10		Total variable remuneration	170	91	137	76
11		Of which: cash-based	98	58	74	49
12		Of which: deferred	39	18	22	13
13		Of which: shares or other share-linked instruments	72	33	63	27
14		Of which: deferred	47	18	40	15
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	Total remuneration		300	179	271	166

14 Remuneration (REMA/REM1/REM2/REM3) (continued)

REM2: Analysis of guaranteed bonuses, sign-on awards and severance payments

2022

Special payments		Guaranteed bonuses		Sign-on awards		Severance payments	
		Number of employees	Total amount HK\$'M	Number of employees	Total amount HK\$'M	Number of employees	Total amount HK\$'M
1	Senior management ¹	-	-	-	-	-	-
2	Key personnel ¹	-	-	-	-	2	10

2021

Special payments		Guaranteed bonuses		Sign-on awards		Severance payments	
		Number of employees	Total amount HK\$'M	Number of employees	Total amount HK\$'M	Number of employees	Total amount HK\$'M
1	Senior management ¹	-	-	-	-	2	8
2	Key personnel ¹	-	-	-	-	-	-

REM3: Analysis of deferred remuneration

2022

Deferred and retained remuneration		Total amount of outstanding deferred remuneration as of 31 Dec 2022 HK\$'M	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment HK\$'M	Total amount of amendment during the year due to ex post explicit adjustments HK\$'M	Total amount of amendment during the year due to ex post implicit adjustments HK\$'M	Total amount of deferred remuneration paid out in the financial year HK\$'M
1	Senior management ¹	234	234	(11)	46	60
2	Cash	95	95	-	-	27
3	Shares	139	139	(11)	46	33
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel ¹	70	70	-	12	29
7	Cash	34	34	-	-	14
8	Shares	36	36	-	12	15
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	Total	304	304	(11)	58	89

14 Remuneration (REMA/REM1/REM2/REM3) (continued)

REM3: Analysis of deferred remuneration (continued)

2021

	Deferred and retained remuneration	Total amount of outstanding deferred remuneration as of 31 Dec 2021 HK\$'M	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment HK\$'M	Total amount of amendment during the year due to ex post explicit adjustments HK\$'M	Total amount of amendment during the year due to ex post implicit adjustments HK\$'M	Total amount of deferred remuneration paid out in the financial year HK\$'M
1	Senior management¹	238	238	(44)	(6)	63
2	Cash	86	86	–	–	25
3	Shares	152	152	(44)	(6)	38
4	Cash-linked instruments	–	–	–	–	–
5	Other	–	–	–	–	–
6	Key personnel¹	69	69	(11)	(2)	27
7	Cash	31	31	–	–	12
8	Shares	38	38	(11)	(2)	15
9	Cash-linked instruments	–	–	–	–	–
10	Other	–	–	–	–	–
11	Total	307	307	(55)	(8)	90

1 In the HKMA CG-5 module Guideline on a Sound Remuneration System published in July 2021, Senior Management is defined as individuals who are responsible for oversight of the Group's firm-wide strategy or activities or those of the Group's material business lines (including, but not limited to, the chief executive and alternate chief executive(s), executive directors, and other senior executives with a role in the Group's business who report directly to the chief executive). Key Personnel is defined as individuals 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 Group. The lists of Senior Management and Key Personnel are reviewed annually as per HKMA CG-5 requirement to reflect the prevailing organization structure.

15 Operational Risk

The Group adopts the standardized (operational risk) approach for assessing capital requirements for operational risk.

Further information regarding operational risk governance and management is set out in note 33(f) on pages 118 to 119 of the 2022 consolidated financial statements.

16 International claims

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

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

At 31 December 2022	Banks HK\$'M	Official sector HK\$'M	Non-bank financial institution HK\$'M	Non-financial private sector HK\$'M	Total HK\$'M
Developed countries	226,203	70,857	42,153	48,057	387,270
– of which United Kingdom (excluding Guernsey, Isle of Man and Jersey)	168,054	255	2,137	2,788	173,234
Offshore centres	15,403	9,869	34,628	102,425	162,325
– of which Hong Kong SAR	4,085	1,617	26,720	86,751	119,173
Developing Asia and Pacific	119,079	43,575	29,142	104,436	296,232
– of which China	94,727	16,970	22,080	64,848	198,625

17 Advances to customers analysed by industry sector

The analysis of gross loans and advances to customers by industry sector is based on the categories used by the HKMA.

	At 31 December 2022 HK\$'M	% of loans and advances covered by collateral or other securities
Gross loans and advances for use in Hong Kong		
<i>Industrial, commercial and financial</i>		
– Property development	16,902	50%
– Property investment	22,645	79%
– Financial concerns	54,314	18%
– Stockbrokers	4,592	24%
– Wholesale and retail trade	12,429	15%
– Manufacturing	13,990	11%
– Transport and transport equipment	8,722	47%
– Recreational activities	21	0%
– Information technology	7,041	1%
– Others	24,625	12%
<i>Individuals</i>		
– Advances for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	977	100%
– Advances for the purchase of other residential properties	261,064	100%
– Credit card advances	29,192	0%
– Others	31,223	31%
<i>Total gross loans and advances for use in Hong Kong</i>	<i>487,737</i>	<i>65%</i>
Trade finance	81,276	25%
Trade bills	2,387	5%
Gross loans and advances for use outside Hong Kong	629,487	57%
Gross loans and advances to customers	1,200,887	58%

The above balances do not include inter-company loans and advances.

17 Advances to customers analysed by industry sector (continued)

The amount of impaired and overdue loans and advances to customers and expected credit loss provision for industry sectors which constitute not less than 10% of the Bank and its subsidiaries' total advances to customers are as follows:

	<i>Impaired loans and advances to customers HK\$'M</i>	<i>Overdue loans and advances to customers HK\$'M</i>	<i>Stage 3 expected credit loss provision HK\$'M</i>	<i>Stage 1 & 2 expected credit loss provision HK\$'M</i>	<i>Provision charge/ (release) HK\$'M</i>
At 31 December 2022					
Advances for the purchase of other residential properties	266	115	2	7	(26)
Gross loans and advances for use outside Hong Kong	9,799	2,288	4,662	2,220	5,225

18 Loans and advances to customers by geographical location

The analysis of gross loans and advances to customers by geographical location is in accordance with the location of counterparties, after taking into account of any recognised risk transfer.

	<i>Gross loans and advances to customers HK\$'M</i>	<i>Impaired loans and advances to customers HK\$'M</i>	<i>Overdue loans and advances to customers HK\$'M</i>	<i>Specific provisions HK\$'M</i>	<i>General provisions HK\$'M</i>
As at 31 December 2022					
Hong Kong	497,425	5,493	2,914	3,715	2,350
Mainland China	159,908	5,369	924	2,499	1,043
Taiwan	74,051	749	64	170	239
South Korea	389,698	1,020	90	383	611
Others	79,805	194	4	94	37
Total	1,200,887	12,825	3,996	6,861	4,280

19 Overdue assets

(i) Overdue loans and advances to customers

	At 31 December 2022	
	<i>HK\$'M</i>	<i>% of loans and advances to customers</i>
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
6 months or less but over 3 months	1,017	0.08%
1 year or less but over 6 months	1,977	0.16%
Over 1 year	1,002	0.08%
	3,996	0.32%

19 Overdue assets (continued)**(i) Overdue loans and advances to customers (continued)**

	At 31 December 2022 HK\$'M
Fair value of collateral held against the covered portion of overdue loans and advances to customers	1,571
Covered portion of overdue loans and advances to customers	826
Uncovered portion of overdue loans and advances to customers	3,170

The covered portion of overdue loans and advances to customers represents the amount of collateral held against outstanding balances. It does not include any collateral held over and above outstanding exposures.

The collateral held in respect of overdue loans and advances to customers consists of cash, properties, securities and government guarantee.

	At 31 December 2022 HK\$'M
Stage 3 expected credit loss provision against loans and advances to customers overdue more than 3 months	3,185

(ii) Overdue loans and advances to banks

	At 31 December 2022	
	HK\$'M	% of loans and advances to banks
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
6 months or less but over 3 months	10	0.01%
1 year or less but over 6 months	-	-
Over 1 year	178	0.19%
	188	0.2%

There is no collateral held against overdue loans and advances to banks.

	At 31 December 2022 HK\$'M
Stage 3 expected credit loss provision against loans and advances to banks overdue more than 3 months	97

As at 31 December 2022, there were no debt securities and other assets overdue more than 3 months.

20 Rescheduled assets

	At 31 December 2022	
	HK\$'M	% of loans and advances to customers
Rescheduled loans and advances to customers	1,545	0.13%

Rescheduled loans and advances are those loans and advances, which have been restructured or renegotiated because of a deterioration in the financial position of the borrowers, or the inability of the borrowers to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled loans and advances to customers are stated net of any loans and advances that have subsequently become overdue for over 3 months and reported as overdue loans and advances in note 19.

As at 31 December 2022, there were no rescheduled loans and advances to banks, debt securities and other assets.

21 Mainland Activities

	On-balance sheet exposure HK\$'M	Off-balance sheet exposure HK\$'M	Total HK\$'M
At 31 December 2022			
(i) Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	105,634	20,625	126,259
(ii) Local governments, local government-owned entities and their subsidiaries and JVs	7,322	2,075	9,397
(iii) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	168,848	46,249	215,097
(iv) Other entities of central government not reported in item (i) above	6,867	1,653	8,520
(v) Other entities of local governments not reported in item (ii) above	666	341	1,007
(vi) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	16,504	2,378	18,882
(vii) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	20,830	3,690	24,520
Total	326,671	77,011	403,682
Total assets after provision	1,819,719		
On-balance sheet exposures as percentage of total assets	17.95%		

The off-balance sheet exposure represents the amount at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contractual amounts do not represent future cash flows.

The note is compiled in accordance with the completion instructions of the return of Mainland activities ("MA(BS)20"), and hence only relates to the Bank and SCB China.

22 Off-balance sheet exposures

Contingent liabilities and commitments

	At 31 December 2022 HK\$'M
Contractual or notional amounts	
Direct credit substitutes	14,358
Transaction-related contingencies	47,407
Trade-related contingencies	14,288
Forward asset purchases	197
Forward forward deposits placed	50
Other commitments:	
which are not unconditionally cancellable:	
with original maturity of not more than one year	33,634
with original maturity of more than one year	152,262
which are unconditionally cancellable	788,079
	<u>1,050,275</u>
Credit risk weighted amount (before 1.06 scaling factor)	<u>76,414</u>

Contingent liabilities and commitments are credit-related instruments, which include letters of credit, guarantees and commitments to extend credit. The risk involved is similar to the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

Acronyms

AI	Authorized institution	PD	Probability of default
AIRB	Advanced internal ratings-based approach	PF	Project finance
ALCO	Asset and Liability Committee	PFE	Potential future exposure
ASA	Alternative standardized approach	PRC	People's Republic of China
ASF	Available stable funding	PVA	Prudential Valuation Adjustments
AT1	Additional tier 1	PSE	Public sector entity
Bank	Standard Chartered Bank (Hong Kong) Limited	QRRE	Qualifying revolving retail exposures
BCBS	Basel Committee on Banking Supervision	RC	Replacement cost
BCR	Banking (Capital) Rules	RSF	Required stable funding
BDR	Banking (Disclosure) Rules	RW	Risk-weight
BIA	Basic indicator approach	RWA	Risk-weighted asset/risk-weighted amount
BSC	Basic approach	S&P	Standard & Poor's
CCF	Credit conversion factor	SA-CCR	Standardized approach for counterparty credit risk
CCP	Central counterparty	SEC-ERBA	Securitization external ratings-based approach
CCR	Counterparty credit risk	SEC-FBA	Securitization fall back approach
CCyB	Countercyclical capital buffer	SEC-IRBA	Securitization internal ratings-based approach
CEM	Current exposure method	SEC-SA	Securitization standardized approach
CET1	Common equity tier 1	SFT	Securities financing transaction
CF	Commodities finance	SME	Small and Medium Enterprises
CIS	Collective investment scheme	SRW	Supervisory risk-weights
CRC	Comprehensive risk charge	STC	Standardized (credit risk) approach
CRM	Credit risk mitigation	STM	Standardized (market risk) approach
CVA	Credit valuation adjustment	STO	Standardized (operational risk) approach
D-SIB	Domestic systematically important authorized institution	VaR	Value at risk
DTAs	Deferred tax assets		
EAD	Exposure at default		
EL	Expected loss		
EPE	Expected positive exposure		
FBA	Fall-back approach		
G-SIB	Global systematically important bank		
HKMA	Hong Kong Monetary Authority		
HVCRE	High-volatility commercial real estate		
HQLA	High quality liquid assets		
IMM	Internal models approach		
IMM (CCR)	Internal models (counterparty credit risk) approach		
ICAAP	Internal Capital Adequacy Assessment Process		
IPRE	Income-producing real estate		
IRB	Internal ratings-based approach		
IRC	Incremental risk charge		
JCCyB	Jurisdictional countercyclical capital buffer		
JVs	Joint ventures		
LAC	Loss-absorbing capacity		
LCR	Liquidity coverage ratio		
LGD	Loss given default		
LMR	Liquidity Maintenance Ratio		
LR	Leverage Ratio		
LTA	Look through approach		
MBA	Mandate-based approach		
MSRs	Mortgage servicing rights		
N/A	Not applicable		
NSFR	Net stable funding ratio		
OF	Object finance		
OTC	Over-the-counter		