



招商永隆銀行
CMB WING LUNG BANK

Regulatory Disclosures

As at 31 December 2021

CMB WING LUNG BANK LIMITED

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CMB WING LUNG BANK LIMITED

1 Introduction

Purpose

The information contained in this document is for CMB Wing Lung Bank Limited (“the Bank”) and its subsidiaries (together “the Group”) and is prepared in accordance with the Banking (Disclosure) Rules and the disclosure templates issued by the Hong Kong Monetary Authority (“HKMA”).

These regulatory disclosures are governed by the Group’s disclosure policy, the disclosure policy sets out the governance, control and assurance requirements for publication of the document, while this document is not required to be subject to external audit, it has been reviewed within the Group in accordance with the Group’s governance processes over financial reporting and policies on disclosures.

Basis of Preparation

The approaches used in calculating the Group’s regulatory capital or capital charge are in accordance with the Banking (Capital) Rules. The Group uses the standardised approach to calculate its credit risk and market risk. For operational risk, the Group uses the basic indicator approach to calculate its operational risk.

The financial information contained in this document has been prepared on a consolidated basis including the Bank and certain of its subsidiaries as specified by the Hong Kong Monetary Authority (“HKMA”) for its regulatory purposes. For financial reporting purposes, all the subsidiaries have been consolidated in the Group’s financial statements, the subsidiaries which are excluded from the regulatory scope of consolidation are specified in note 1 to the supplementary financial information of the Group’s 2021 Annual Report.

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2 Key prudential ratios, overview of risk management and RWA

2.1 KM1: Key prudential ratios

| | | (a) | (b) | (c) | (d) | (e) |
|-----|---|---------------------------------------|--|-----------------------------------|------------------------------------|---------------------------------------|
| | | As at 31 December 2021 HK\$'000 | As at 30 September 2021 HK\$'000 | As at 30 June 2021 HK\$'000 | As at 31 March 2021 HK\$'000 | As at 31 December 2020 HK\$'000 |
| | Regulatory capital (amount) | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 39,152,257 | 39,144,997 | 35,570,963 | 34,130,952 | 33,284,337 |
| 2 | Tier 1 | 46,726,830 | 46,719,570 | 43,145,536 | 41,705,525 | 40,858,910 |
| 3 | Total capital | 52,962,447 | 52,938,978 | 49,396,666 | 47,950,801 | 46,980,957 |
| | RWA (amount) | | | | | |
| 4 | Total RWA | 270,579,228 | 262,898,910 | 263,757,194 | 261,370,033 | 250,652,923 |
| | Risk-based regulatory capital ratios (as a percentage of RWA) | | | | | |
| 5 | CET1 ratio (%) | 14.5% | 14.9% | 13.5% | 13.1% | 13.3% |
| 6 | Tier 1 ratio (%) | 17.3% | 17.8% | 16.4% | 16.0% | 16.3% |
| 7 | Total capital ratio (%) | 19.6% | 20.1% | 18.7% | 18.3% | 18.7% |
| | Additional CET1 buffer requirement (as a percentage of RWA) | | | | | |
| 8 | Capital conservation buffer requirement (%) | 2.500% | 2.500% | 2.500% | 2.500% | 2.500% |
| 9 | Countercyclical capital buffer requirement (%) | 0.593% | 0.596% | 0.591% | 0.566% | 0.572% |
| 10 | Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs) | - | - | - | - | - |
| 11 | Total AI-specific CET1 buffer requirements (%) | 3.093% | 3.096% | 3.091% | 3.066% | 3.072% |
| 12 | CET1 available after meeting the AI's minimum capital requirements (%) | 10.0% | 10.4% | 9.0% | 8.6% | 8.8% |
| | Basel III Leverage ratio | | | | | |
| 13 | Total leverage ratio (LR) exposure measure | 394,644,002 | 375,820,926 | 384,680,250 | 397,864,958 | 380,414,501 |
| 14 | LR (%) | 11.8% | 12.4% | 11.2% | 10.5% | 10.7% |
| | Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR) | | | | | |
| | Applicable to category 1 institution only: | | | | | |
| 15 | Total high quality liquid assets (HQLA) | 64,363,553 | 71,064,697 | 63,138,436 | 57,072,729 | 69,462,873 |
| 16 | Total net cash outflows | 40,463,439 | 41,969,493 | 34,240,803 | 33,280,922 | 41,671,128 |
| 17 | LCR (%) | 159.9% | 181.5% | 188.7% | 174.3% | 172.5% |
| | Applicable to category 2 institution only: | | | | | |
| 17a | LMR (%) | N/A | N/A | N/A | N/A | N/A |
| | Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR) | | | | | |
| | Applicable to category 1 institution only: | | | | | |
| 18 | Total available stable funding | 239,536,764 | 235,611,699 | 238,008,499 | 235,556,537 | 232,532,575 |
| 19 | Total required stable funding | 180,654,128 | 175,802,284 | 178,337,457 | 180,222,445 | 173,088,690 |
| 20 | NSFR (%) | 132.6% | 134.0% | 133.5% | 130.7% | 134.3% |
| | Applicable to category 2A institution only: | | | | | |
| 20a | CFR (%) | N/A | N/A | N/A | N/A | N/A |

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2 Key prudential ratios, overview of risk management and RWA (continued)

2.2 OVA: Overview of risk management

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group recognises that taking risk is core to its financial business and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Board and Executives are responsible for establishing, maintaining and operating an effective system of internal control. The internal control system of the Group comprises a well-established organizational structure and comprehensive policies and standards. The Audit Committee, Risk Committee and other designated committees have been established with the objective of assisting the Board to manage and monitor various risks. The Board's expectations regarding duty, responsibility and integrity of each department are clearly spelled out in formal policy statements, which include Firm-wide Risk Management & Control Policy, Code of Conduct, Internal Control Policy and Compliance Policy Statement, etc. The Board has clearly defined the lines of authority and responsibilities of each business and operational unit to ensure adequate checks and balances.

The Group's internal control system covers every business and operational function so as to safeguard its assets against loss and misappropriation; to maintain proper accounting records for producing reliable financial information; to provide reasonable, but not absolute, assurance against material fraud and errors. Policies and procedures are established to ensure compliance with applicable laws, regulations and industry standards. To cope with the increasingly stringent requirements from relevant regulatory authorities together with ever-changing business environment, the Board has dedicated more resources and efforts to further strengthen the Group's management structure and oversight.

The Group has had in place various risk management policies and procedures. There are specific committees and units that are responsible for identifying, assessing, monitoring and managing the risks that the Group faces. Risk management policies and major risk control limits are established and approved by the Board or the Management Committee. A more detailed discussion of the policies and procedures for managing each of the major types of risk the Group is facing, including credit, market, liquidity and operational risk, is included in note 4 "Financial Risk Management" section to the Group's 2021 Annual Report.

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2 Key prudential ratios, overview of risk management and RWA (continued)

2.2 OVA: Overview of risk management (continued)

The Board is responsible for the Group's internal control system and for reviewing its effectiveness. The Group's internal audit function plays an important role in the Group's internal control framework. It provides objective assurance to the Board that a sound internal control system is maintained and operated in compliance with the established processes and standards through regular and comprehensive audits on all business and operational functions. The Audit Committee reviews the significant issues raised in the internal audit reports. Significant issues raised in the management letters from external auditors and reports from regulatory authorities will be brought to the attention of the Audit Committee to ensure that prompt remedial action is taken. All recommendations will be properly followed up to ensure they are implemented within a reasonable period of time. Pursuant to a risk based methodology, the Audit Department plans its internal audit schedules annually with audit resources prioritised towards higher risk areas. The Internal Audit Plan is submitted to the Management Committee for review and the Audit Committee for approval. To preserve the audit independence, the Board has established the Audit Charter to set out the authorities and responsibilities of internal audit function. The Group Chief Auditor reports directly to the Audit Committee, Chief Executive Officer and ultimately reports to the Board.

The members of the Risk Committee are all appointed by the Board. They collectively possess relevant technical expertise and experience in risk disciplines that are adequate to enable them to discharge their responsibilities effectively. The principal duties of the Risk Committee include the following:

- To review and recommend for the Board's approval of the Group's risk management strategies, key risk policies and risk appetite, at least annually;
- To review and recommend for the Board's approval of specified types of risk management policies and procedures;
- To review and assess the adequacy of the Group's risk management framework and policies in identifying, measuring, monitoring and controlling risks and the extent to which these are operating effectively;
- To monitor, review and conduct regular assessment of the internal control system of the Group and to monitor the risk management of the Group's exposures to credit risks, market risks, operational risks, interest rate risk, strategic risk, legal and compliance risk, reputation risk, liquidity risk, cyber security and technology risk by the Executives;
- To oversee the establishment and maintenance by senior management of appropriate infrastructure, resources and systems for risk management, particularly in relation to the Group's adherence to the approved risk appetite and related policies;
- To oversee and discuss the strategies for capital and liquidity management, and those for all relevant risks (on both an aggregated basis and by type of risk) of the Group, to ensure they are consistent with the stated risk appetite;
- To oversee and evaluate the design and execution of stress testing and scenario analyses;

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2 Key prudential ratios, overview of risk management and RWA (continued)

2.2 OVA: Overview of risk management (continued)

- To review periodic reports provided by the senior management (including the Chief Risk Officer) on the state of the Group's risk culture, risk exposure and risk management activities;
- To ensure that the staff members of the Group responsible for implementing risk management systems and controls are sufficiently independent of the Group's relevant risk-taking activities;
- To examine, without prejudice to the tasks of the Remuneration and Appraisal Committee, the incentives created by the remuneration system are aligned with the Group's risk culture and risk appetite, and ensure remuneration awards appropriately reflect risk-taking and risk outcomes; and
- To execute other duties as may be delegated by the Board.

The Group has implemented Enterprise Risk Management framework for identifying and managing potential risks of the Group. Under such framework, three lines of defence are adopted for risk management.

The first line of defence comprises risk owners at business units. They are primarily responsible for the management of the risks that their unit incur in the course of activities. These risk owners are required to set up a specific control mechanism, establish detailed procedures, and carry out ongoing risk control for their unit according to the Group's risk management framework and policy.

The second line of defence refers to those risk control units. They are responsible for providing independent oversight over the risk owners by establishing bank-wide framework, policy and control mechanism, reviewing risk issues identified by the risk takers, and reporting significant risk issues identified to the Risk Committee and the Board.

The Audit Department serves as the third line of defence. The Audit Department assists the Audit Committee in its oversight of the Group's overall risk management and internal control systems by conducting periodic reviews to assess the adequacy of the Group's risk management framework, control, and governance processes as designed by the first and second lines of defence.

To provide the Board and Executives with a clear view of the Group's exposures to different risk types, risk information such as those of asset quality, credit concentration, liquidity, profitability, portfolio mix, capital adequacy etc. is regularly reported to the Management Committee, the Risk Committee and the Board for review and discussion. The information is analysed with regard to factors such as the Group's risk profile, risk management strategies and market statistics.

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2 Key prudential ratios, overview of risk management and RWA (continued)

2.3 OV1: Overview of RWA

The table below provides an overview of the Group's total RWAs, breakdown by the approaches with which the RWAs are computed.

During the fourth quarter of 2021, total RWA increased by HK\$7,680 million, mainly due to the increase in credit risk RWA for non-securitization exposures, which was mainly driven by the increase in loans and advances to customers.

| | | (a) | (b) | (c) |
|-----|--|---------------------------------------|--|---------------------------------------|
| | | RWA | | Minimum capital requirements |
| | | As at 31 December 2021 HK\$'000 | As at 30 September 2021 HK\$'000 | As at 31 December 2021 HK\$'000 |
| 1 | Credit risk for non-securitization exposures | 247,979,890 | 240,316,360 | 19,838,391 |
| 2 | Of which STC approach | 247,979,890 | 240,316,360 | 19,838,391 |
| 2a | Of which BSC approach | - | - | - |
| 3 | Of which foundation IRB approach | - | - | - |
| 4 | Of which supervisory slotting criteria approach | - | - | - |
| 5 | Of which advanced IRB approach | - | - | - |
| 6 | Counterparty default risk and default fund contributions | 1,451,008 | 1,506,200 | 116,080 |
| 7 | Of which SA-CCR approach | 615,730 | 694,106 | 49,258 |
| 7a | Of which CEM | - | - | - |
| 8 | Of which IMM(CCR) approach | - | - | - |
| 9 | Of which others | - | - | - |
| 10 | CVA risk | 195,913 | 235,850 | 15,673 |
| 11 | Equity positions in banking book under the simple risk-weight method and internal models method | - | - | - |
| 12 | Collective investment scheme ("CIS") exposures – LTA* | N/A | N/A | N/A |
| 13 | CIS exposures – MBA* | N/A | N/A | N/A |
| 14 | CIS exposures – FBA* | N/A | N/A | N/A |
| 14a | CIS exposures – combination of approaches* | N/A | N/A | N/A |
| 15 | Settlement risk | - | - | - |
| 16 | Securitization exposures in banking book | - | - | - |
| 17 | Of which SEC-IRBA | - | - | - |
| 18 | Of which SEC-ERBA (including IAA) | - | - | - |
| 19 | Of which SEC-SA | - | - | - |
| 19a | Of which SEC-FBA | - | - | - |
| 20 | Market risk | 4,828,075 | 4,254,313 | 386,246 |
| 21 | Of which STM approach | 4,828,075 | 4,254,313 | 386,246 |
| 22 | Of which IMM approach | - | - | - |
| 23 | Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)* | N/A | N/A | N/A |
| 24 | Operational risk | 11,642,250 | 11,646,825 | 931,380 |
| 24a | Sovereign concentration risk | - | - | - |
| 25 | Amounts below the thresholds for deduction (subject to 250% RW) | 6,551,273 | 7,038,413 | 524,102 |

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2 Key prudential ratios, overview of risk management and RWA (continued)

2.3 OV1: Overview of RWA (continued)

| | | (a) | (b) | (c) |
|-----|--|---------------------------------------|--|---------------------------------------|
| | | RWA | | Minimum capital requirements |
| | | As at 31 December 2021 HK\$'000 | As at 30 September 2021 HK\$'000 | As at 31 December 2021 HK\$'000 |
| 26 | Capital floor adjustment | - | - | - |
| 26a | Deduction to RWA | 2,069,181 | 2,099,051 | 165,534 |
| 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 | 2,069,181 | 2,099,051 | 165,534 |
| 27 | Total | 270,579,228 | 262,898,910 | 21,646,338 |

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

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3 Linkages between financial statements and regulatory exposures

3.1 LI1: Difference between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

| 31 December 2021 HK\$'000 | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
|--|---|---|----------------------------------|---|---|----------------------------------|--|
| | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items: | | | | |
| | | | subject to credit risk framework | subject to counterparty credit risk framework | subject to the securitization framework | subject to market risk framework | not subject to capital requirements or subject to deduction from capital |
| Assets | | | | | | | |
| Cash, balances and placements with and loans and advances to banks | 70,303,930 | 69,709,741 | 69,709,741 | - | - | - | - |
| Derivative financial instruments [#] | 503,360 | 503,360 | - | 503,360 | - | 355,617 | - |
| Financial assets at fair value through profit or loss | 2,575,441 | 1,939,586 | 1,057,471 | - | - | 882,115 | - |
| Investments in securities | 102,877,910 | 101,746,972 | 101,746,972 | - | - | - | - |
| Advances and other accounts | 207,780,923 | 207,132,886 | 204,751,584 | 2,301,463 | - | - | 79,839 |
| Interests in subsidiaries | - | 543,908 | 543,908 | - | - | - | - |
| Interests in jointly controlled entities | 237,468 | 43,000 | 43,000 | - | - | - | - |
| Interests in associates | 248,833 | 145,000 | 145,000 | - | - | - | - |
| Investment properties | 2,695,310 | 2,697,901 | 2,697,901 | - | - | - | - |
| Interests in leasehold land | 150,167 | 106,124 | 106,124 | - | - | - | - |
| Other properties and equipment | 1,637,470 | 1,571,588 | 1,571,588 | - | - | - | - |
| Tax recoverable | 12,429 | 12,429 | 12,429 | - | - | - | - |
| Deferred tax assets | 51,475 | 51,381 | - | - | - | - | 51,381 |
| Total Assets | 389,074,716 | 386,203,876 | 382,385,718 | 2,804,823 | - | 1,237,732 | 131,220 |

[#] Assets/liabilities arising from derivative contracts held in the regulatory trading book are subject to both market risk and counterparty credit risk because derivative contracts are marked to market and there is a risk that the counterparty may not be able to fulfil the contractual obligations. Therefore, the amount shown in column (b) does not equal to the sum of the amounts shown in columns (d) and (f).

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3 Linkages between financial statements and regulatory exposures (continued)

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

| | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
|---|---|---|----------------------------------|---|---|----------------------------------|--|
| | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items: | | | | |
| | | | subject to credit risk framework | subject to counterparty credit risk framework | subject to the securitization framework | subject to market risk framework | not subject to capital requirements or subject to deduction from capital |
| 31 December 2021 | | | | | | | |
| HK\$'000 | | | | | | | |
| Liabilities | | | | | | | |
| Deposits and balances from banks | 30,281,502 | 30,222,584 | - | - | - | - | 30,222,584 |
| Trading liabilities | 348,837 | 348,837 | - | - | - | 348,837 | - |
| Derivative financial instruments [#] | 514,382 | 514,382 | - | 514,382 | - | 343,922 | - |
| Deposits from customers | 293,060,718 | 294,031,519 | - | - | - | - | 294,031,519 |
| Certificates of deposit issued | 270,000 | 270,000 | - | - | - | - | 270,000 |
| Subordinated debts issued | 3,115,586 | 3,115,586 | - | - | - | - | 3,115,586 |
| Current taxation | 440,696 | 440,399 | - | - | - | - | 440,399 |
| Deferred tax liabilities | 2,237 | 1,735 | - | - | - | - | 1,735 |
| Other accounts and accruals | 8,607,947 | 6,046,446 | - | - | - | - | 6,046,446 |
| Total Liabilities | 336,641,905 | 334,991,488 | - | 514,382 | - | 692,759 | 334,128,269 |

[#] Assets/liabilities arising from derivative contracts held in the regulatory trading book are subject to both market risk and counterparty credit risk because derivative contracts are marked to market and there is a risk that the counterparty may not be able to fulfil the contractual obligations. Therefore, the amount shown in column (b) does not equal to the sum of the amounts shown in columns (d) and (f).

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3 Linkages between financial statements and regulatory exposures (continued)

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

| | | (a) | (b) | (c) | (d) | (e) |
|------------------------------|--|--------------------|--------------------------|-----------------------------|--|--------------------------|
| | | Total | Items subject to: | | | |
| 31 December 2021 HK\$'000 | | | credit risk framework | securitization framework | counterparty credit risk framework | market risk framework |
| 1 | Asset carrying value amount under scope of regulatory consolidation (as per template LI1) | 386,072,656 | 382,385,718 | - | 2,804,823 | 1,237,732 |
| 2 | Liabilities carrying value amount under regulatory scope of consolidation(as per template LI1) | 863,219 | - | - | 514,382 | 692,759 |
| 3 | Total net amount under regulatory scope of consolidation | 385,209,437 | 382,385,718 | - | 2,290,441 | 544,973 |
| 4 | Off-balance sheet amounts | 102,209,447 | 9,821,449 | - | 1,363,723 | - |
| 5 | Differences due to consideration of provisions | | 821,702 | - | - | - |
| 6 | Difference due to potential exposure for counterparty credit risk | | - | - | 721,654 | - |
| 7 | Exposure amounts considered for regulatory purposes | 487,418,884 | 393,028,869 | - | 4,375,818 | 544,973 |

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3 Linkages between financial statements and regulatory exposures (continued)

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

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with Section 3C of the Banking (Capital) Rules. Subsidiaries not included in consolidation for regulatory purposes are non-financial companies and the insurance 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 authorised institutions under the Banking (Capital) Rules and the Banking Ordinance.

The main difference between accounting and regulatory exposure amounts is that accounting exposure amount is net of impairment allowance for the expected credit loss (“ECL”) for stage 1,2,3 financial assets, whereas regulatory exposure amount is net of impairment allowance for the ECL for stage 3 financial assets only. Impairment allowance for the ECL for stage 1 and 2 financial assets is included in Tier 2 capital for regulatory capital purposes.

On the other hand, counterparty credit risk exposures for regulatory purposes consist of both the current exposures and the potential exposures which are derived by applying the credit conversion factor (CCF) to the notional principal of the transactions or contracts.

Systems and controls applied to assets valuation

In order to ensure that the valuation estimates are prudent and reliable, the Group has implemented the following valuation processes and methodologies:

The Group measures fair values using the following hierarchy of methods:

Level 1 – Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2 – Valuation techniques based on observable input either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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3 Linkages between financial statements and regulatory exposures (continued)

3.3 LIA: Explanations of differences between accounting and regulatory exposure amounts (continued)

Market prices or model inputs used in the valuation process are either determined or validated by an independent function. Fair values of financial instruments are determined with reference to external quoted market prices or observable model inputs and validated against secondary sources when appropriate. For fair values that are determined through valuation models, the validation may include the logics, inputs, and outputs by an independent function, and evaluation of any adjustments required on top of the valuation models.

Valuation adjustment will be applied on instruments where significant valuation uncertainty and financial impact may arise. The Group considers that bid offer adjustment, liquidity valuation adjustment and model risk adjustment are relevant.

(i) Bid offer adjustment:

For the equity, bond, foreign exchange spot, foreign exchange forward, foreign exchange swap, currency options and interest rate swap and cross currency swap portfolio, would be adjusted to the prudent side of the bid offer close-out price.

(ii) Liquidity valuation adjustment:

Liquidity valuation adjustment would be applied to level 2 and level 3 financial instruments only.

For the fixed income, liquidity valuation adjustment is being performed for less liquid position based on the product specific nature.

For the foreign exchange portfolio, liquidity valuation adjustment of spot, forward and swap is not being performed due to the highly liquid market and insignificant positions on minor currencies.

For the currency option portfolio, liquidity valuation adjustment is not being performed due to insignificant position.

For the interest rate swap and cross currency swap, liquidity valuation adjustment is not being performed considering that the outstanding positions largely originate from dynamic hedging of the underlying bond/loans or customers demand since customers are normally not allowed or expected to early terminate the contracts, thus the associated hedging positions would be held to maturity by the Group at the same time.

(iii) Model risk adjustment:

If simulation technique is used for the structured product, model risk adjustment would be considered. The adjustment would be based on the alternate model if there is a significant variance between the original valuation and the price derived from alternate model.

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3 Linkages between financial statements and regulatory exposures (continued)

3.4 PV1: Prudent valuation adjustments

The following table shows a detailed breakdown of the constituent elements of valuation adjustment that have not been taken into account in the calculation of the amount of the Group's retained earnings or other disclosed reserves as at 31 December 2021:

| 31 December 2021 HK\$'000 | | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) |
|------------------------------|----------------------------------|--------|----------------|-----|--------|-------------|-------|----------------------------------|----------------------------------|
| | | Equity | Interest rates | FX | Credit | Commodities | Total | Of which: In the trading book | Of which: In the banking book |
| 1 | Close-out uncertainty, of which: | - | - | - | - | - | - | - | - |
| 2 | <i>Mid-market value</i> | - | - | - | - | - | - | - | - |
| 3 | <i>Close-out costs</i> | - | - | - | - | - | - | - | - |
| 4 | <i>Concentration</i> | - | - | - | - | - | - | - | - |
| 5 | Early termination | - | - | - | - | - | - | - | - |
| 6 | Model risk | - | - | - | - | - | - | - | - |
| 7 | Operational risks | - | - | - | - | - | - | - | - |
| 8 | Investing and funding costs | - | - | - | - | - | - | - | - |
| 9 | Unearned credit spreads | - | - | - | - | - | - | - | - |
| 10 | Future administrative costs | - | - | - | - | - | - | - | - |
| 11 | Other adjustments | - | - | - | - | - | - | - | - |
| 12 | Total adjustments | - | - | - | - | - | - | - | - |

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4 Composition of regulatory capital

4.1 CC1: Composition of regulatory capital

31 December 2021

| | | (a) | (b) |
|----|---|--------------------|---|
| | | Amount HK\$'000 | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation |
| | CET1 capital: instruments and reserves | | |
| 1 | Directly issued qualifying CET1 capital instruments plus any related share premium | 1,160,951 | [k] |
| 2 | Retained earnings | 40,998,786 | [r] |
| 3 | Disclosed reserves | 1,478,077 | [l] + [m] + [n] + [q] |
| 4 | <i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i> | Not applicable | Not applicable |
| 5 | Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group) | - | |
| 6 | CET1 capital before regulatory adjustments | 43,637,814 | |
| | CET1 capital: regulatory deductions | | |
| 7 | Valuation adjustments | - | |
| 8 | Goodwill (net of associated deferred tax liabilities) | - | |
| 9 | Other intangible assets (net of associated deferred tax liabilities) | - | |
| 10 | Deferred tax assets (net of associated deferred tax liabilities) | 51,381 | [h] |
| 11 | Cash flow hedge reserve | - | |
| 12 | Excess of total EL amount over total eligible provisions under the IRB approach | - | |
| 13 | Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions | - | |
| 14 | Gains and losses due to changes in own credit risk on fair valued liabilities | - | |
| 15 | Defined benefit pension fund net assets (net of associated deferred tax liabilities) | 66,666 | [d] + [i] |
| 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) | - | [a] + [c] + [e] + [f] + [g] |
| 20 | Mortgage servicing rights (net of associated deferred tax liabilities) | Not applicable | Not applicable |
| 21 | Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities) | Not applicable | Not applicable |
| 22 | Amount exceeding the 15% threshold | Not applicable | Not applicable |

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4 Composition of regulatory capital (continued)

4.1 CC1: Composition of regulatory capital (continued)

| | | (a) | (b) |
|---|--|--------------------|---|
| | | Amount HK\$'000 | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation |
| 31 December 2021 | | | |
| 23 | of which: significant investments in the ordinary share of financial sector entities | Not applicable | Not applicable |
| 24 | of which: mortgage servicing rights | Not applicable | Not applicable |
| 25 | of which: deferred tax assets arising from temporary differences | Not applicable | Not applicable |
| 26 | National specific regulatory adjustments applied to CET1 capital | 4,367,510 | |
| 26a | Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) | 3,762,147 | [m] + [s] |
| 26b | Regulatory reserve for general banking risks | 605,363 | [t] |
| 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 | 4,485,557 | |
| 29 | CET1 capital | 39,152,257 | |
| AT1 capital: instruments | | | |
| 30 | Qualifying AT1 capital instruments plus any related share premium | 7,574,573 | [u] |
| 31 | of which: classified as equity under applicable accounting standards | 7,574,573 | |
| 32 | of which: classified as liabilities under applicable accounting standards | - | |
| 33 | <i>Capital instruments subject to phase-out arrangements from AT1 capital</i> | - | |
| 34 | AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group) | - | |
| 35 | <i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i> | - | |
| 36 | AT1 capital before regulatory deductions | 7,574,573 | |
| 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 | - | |

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4 Composition of regulatory capital (continued)

4.1 CC1: Composition of regulatory capital (continued)

| | | (a) | (b) |
|---|--|--------------------|---|
| | | Amount HK\$'000 | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation |
| 31 December 2021 | | | |
| 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 | 7,574,573 | |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 46,726,830 | |
| Tier 2 capital: instruments and provisions | | | |
| 46 | Qualifying Tier 2 capital instruments plus any related share premium | 3,115,586 | [j] |
| 47 | <i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i> | - | |
| 48 | Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group) | - | |
| 49 | <i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i> | - | |
| 50 | Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital | 1,427,065 | [-b] + [t] |
| 51 | Tier 2 capital before regulatory deductions | 4,542,651 | |
| 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 | (1,692,966) | |

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4 Composition of regulatory capital (continued)

4.1 CC1: Composition of regulatory capital (continued)

31 December 2021

| | | (a) | (b) |
|---|---|--------------------|---|
| | | Amount HK\$'000 | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation |
| 56a | Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital | (1,692,966) | 45% of ([m] + [s]) |
| 56b | Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR | - | |
| 57 | Total regulatory adjustments to Tier 2 capital | (1,692,966) | |
| 58 | Tier 2 capital (T2) | 6,235,617 | |
| 59 | Total regulatory capital (TC = T1 + T2) | 52,962,447 | |
| 60 | Total RWA | 270,579,228 | |
| Capital ratios (as a percentage of RWA) | | | |
| 61 | CET1 capital ratio | 14.47% | |
| 62 | Tier 1 capital ratio | 17.27% | |
| 63 | Total capital ratio | 19.57% | |
| 64 | Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements) | 3.093% | |
| 65 | of which: capital conservation buffer requirement | 2.500% | |
| 66 | of which: bank specific countercyclical capital buffer requirement | 0.593% | |
| 67 | of which: higher loss absorbency requirement | 0.00% | |
| 68 | CET1 (as a percentage of RWA) available after meeting minimum capital requirements | 9.97% | |
| 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 | 4,000,044 | |
| 73 | Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation | 2,620,509 | |
| 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) | 1,427,065 | |

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4 Composition of regulatory capital (continued)

4.1 CC1: Composition of regulatory capital (continued)

| | | (a) | (b) |
|--|--|--------------------|---|
| | | Amount HK\$'000 | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation |
| 31 December 2021 | | | |
| 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 | 3,202,226 | |
| 78 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap) | - | |
| 79 | Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA | - | |
| Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022) | | | |
| 80 | <i>Current cap on CET1 capital instruments subject to phase-out arrangements</i> | Not applicable | Not applicable |
| 81 | <i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i> | Not applicable | Not applicable |
| 82 | <i>Current cap on AT1 capital instruments subject to phase-out arrangements</i> | - | |
| 83 | <i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i> | - | |
| 84 | <i>Current cap on Tier 2 capital instruments subject to phase-out arrangements</i> | - | |
| 85 | <i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i> | - | |

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4 Composition of regulatory capital (continued)

4.1 CC1: Composition of regulatory capital (continued)

Notes to the template:

| Row No. | Description | Hong Kong basis | Basel III basis |
|---------|--|-----------------|-----------------|
| | | HK\$'000 | HK\$'000 |
| 9 | Other intangible assets (net of associated deferred tax liability) | - | - |
| | <u>Explanation</u> 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. | | |
| 10 | Deferred tax assets (net of associated deferred tax liabilities) | 51,381 | - |
| | <u>Explanation</u> 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) | - | - |
| | <u>Explanation</u> For the purpose of determining the total amount of insignificant LAC 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) | - | - |
| | <u>Explanation</u> For the purpose of determining the total amount of significant LAC 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. | | |

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4 Composition of regulatory capital (continued)

4.1 CC1: Composition of regulatory capital (continued)

Notes to the template:

| Row No. | Description | Hong Kong basis | Basel III basis |
|---|---|-----------------|-----------------|
| | | HK\$'000 | HK\$'000 |
| 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) | - | - |
| | <p><u>Explanation</u></p> <p>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 LAC 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.</p> | | |
| 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) | - | - |
| | <p><u>Explanation</u></p> <p>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 LAC investments in Tier 2 capital instruments and non-capital LAC liabilities 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.</p> | | |
| <p>Remarks:</p> <p>The amount of the 10% threshold and 5% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.</p> | | | |

Abbreviations:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

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4 Composition of regulatory capital (continued)

4.2 CC2: Reconciliation of regulatory capital to balance sheet

| | (a) | (b) | (c) |
|---|--|--|------------------|
| | Consolidated statement of financial position as in published financial statements | Under regulatory scope of consolidation | Reference |
| | As at 31 December 2021 HK\$'000 | As at 31 December 2021 HK\$'000 | |
| Assets | | | |
| Cash, balances and placements with and loans and advances to banks | 70,303,930 | 69,709,741 | |
| Derivative financial instruments | 503,360 | 503,360 | |
| Financial assets at fair value through profit or loss | 2,575,441 | 1,939,586 | |
| Investments in securities | 102,877,910 | 101,746,972 | |
| of which: | | | |
| - significant capital investments in financial sector entities exceeding 10% threshold | - | - | [a] |
| Advances and other accounts | 207,780,923 | 207,132,886 | |
| - Loans | - | - | |
| of which: | | | |
| - collective impairment allowances reflected in regulatory capital | - | (821,702) | [b] |
| - significant capital investments in financial sector entities exceeding 10% threshold | - | - | [c] |
| - Other assets | - | - | |
| of which: | | | |
| - Defined benefit pension fund net assets | - | 79,839 | [d] |
| Interests in subsidiaries | - | 543,908 | |
| of which: | | | |
| - significant capital investments in financial sector entities exceeding 10% threshold | - | - | [e] |
| Interests in jointly controlled entities | 237,468 | 43,000 | |
| of which: | | | |
| - significant capital investments in financial sector entities exceeding 10% threshold | - | - | [f] |
| Interests in associates | 248,833 | 145,000 | |
| of which: | | | |
| - significant capital investments in financial sector entities exceeding 10% threshold | - | - | [g] |
| Investment properties | 2,695,310 | 2,697,901 | |
| Interests in leasehold land | 150,167 | 106,124 | |
| Other properties and equipment | 1,637,470 | 1,571,588 | |
| Tax recoverable | 12,429 | 12,429 | |
| Deferred tax assets | 51,475 | 51,381 | [h] |
| of which: | | | |
| - Deferred tax liabilities on defined benefit pension fund net assets | - | (13,173) | [i] |
| Total assets | 389,074,716 | 386,203,876 | |

CMB WING LUNG BANK LIMITED

4 Composition of regulatory capital (continued)

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

| | (a) | (b) | (c) |
|--|--|--|------------------|
| | Consolidated statement of financial position as in published financial statements | Under regulatory scope of consolidation | Reference |
| | As at 31 December 2021 HK\$'000 | As at 31 December 2021 HK\$'000 | |
| Liabilities | | | |
| Deposits and balances from banks | 30,281,502 | 30,222,584 | |
| Trading liabilities | 348,837 | 348,837 | |
| Derivative financial instruments | 514,382 | 514,382 | |
| Deposits from customers | 293,060,718 | 294,031,519 | |
| Certificates of deposit issued | 270,000 | 270,000 | |
| Subordinated debts issued | 3,115,586 | 3,115,586 | |
| of which: | | | |
| - subordinated debt eligible for inclusion in regulatory capital | - | 3,115,586 | [j] |
| Current taxation | 440,696 | 440,399 | |
| Deferred tax liabilities | 2,237 | 1,735 | |
| Other accounts and accruals | 8,607,947 | 6,046,447 | |
| Total liabilities | 336,641,905 | 334,991,489 | |
| Shareholders' equity | | | |
| Share capital | 1,160,951 | 1,160,951 | [k] |
| Reserves | 43,686,589 | 42,476,863 | |
| of which: | | | |
| - Capital reserve | - | 20,000 | [l] |
| - Bank premises revaluation reserve | - | 398,182 | [m] |
| - Financial asset revaluation reserve | - | (19,284) | [n] |
| - Other reserve | - | 1,079,179 | [q] |
| - Retained earnings | - | 40,998,786 | [r] |
| of which: | | | |
| - revaluation of land and buildings | - | 3,363,965 | [s] |
| - regulatory reserve for general banking risks | - | 605,363 | [t] |
| Total equity attributable to shareholders of the Bank | 44,847,540 | 43,637,814 | |
| Additional equity instruments | 7,574,573 | 7,574,573 | [u] |
| Non-controlling interests | 10,698 | - | |
| Total equity | 52,432,811 | 51,212,387 | |
| Total equity and liabilities | 389,074,716 | 386,203,876 | |

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments

4.3.1 Terms and conditions of regulatory capital instruments issued as at 31 December 2021

The regulatory capital instruments included in the Bank's consolidated capital base as at 31 December 2021 are as follows:

- Common Equity Tier 1 Capital (Ordinary share capital)
- US\$170 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 Apr 2017)
- US\$400 million subordinated fixed rate notes due 2027 (issued on 22 Nov 2017)
- US\$400 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 24 Jan 2019)
- US\$260 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 Dec 2019)
- RMB1,000 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 Feb 2020)

The main features of the regulatory capital instruments are set out in the following sections. Full terms and conditions, which are available in English only, are published on the Bank's website at http://www.cmbwinglungbank.com/wlb_corporate/en/about-us/investor-communication/capital-instruments-issued-terms_20211231.html

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.2 Common Equity Tier 1 Capital (Ordinary share capital)

| | | (a) |
|----|--|--|
| | | Quantitative / qualitative information |
| 1 | Issuer | CMB Wing Lung Bank Limited |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | N/A |
| 3 | Governing law(s) of the instrument | Law of Hong Kong Special Administrative Region |
| | <i>Regulatory treatment</i> | |
| 4 | Transitional Basel III rules # | Common Equity Tier 1 |
| 5 | Post-transitional Basel III rules + | Common Equity Tier 1 |
| 6 | Eligible at solo / group / solo and group | Solo and group |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary shares |
| 8 | Amount recognised in regulatory capital (currency in millions, as of most recent reporting date) | HK\$1,161 million as at 31 December 2021 |
| 9 | Par value of instrument | N/A |
| 10 | Accounting classification | Shareholders' equity |
| 11 | Original date of issuance | Since incorporation |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity |
| 14 | Issuer call subject to prior supervisory approval | N/A |
| 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 | Discretionary dividend amount |
| 18 | Coupon rate and any related index | N/A |
| 19 | Existence of a dividend stopper | N/A |
| 20 | Fully discretionary, partially discretionary or mandatory | Fully discretionary |
| 21 | Existence of step-up or other incentive to redeem | N/A |
| 22 | Non-cumulative or cumulative | N/A |
| 23 | Convertible or non-convertible | N/A |
| 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 | N/A |

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.2 Common Equity Tier 1 Capital (Ordinary share capital) (continued)

| | | (a) |
|----|---|--|
| | | Quantitative / qualitative information |
| 31 | If write-down, write-down trigger(s) | N/A |
| 32 | If write-down, full or partial | N/A |
| 33 | If write-down, permanent or temporary | N/A |
| 34 | If temporary write-down, description of write-up mechanism | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned). | Non-cumulative subordinated additional tier 1 capital securities |
| 36 | Non-compliant transitioned features | N/A |
| 37 | If yes, specify non-compliant features | N/A |

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

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

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.3 US\$170 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 April 2017)

| | | (a) |
|-----------------------------|--|--|
| | | Quantitative / qualitative information |
| 1 | Issuer | CMB Wing Lung Bank Limited |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | ISIN number: HK0000337607 |
| 3 | Governing law(s) of the instrument | English Law (subordination governed by Law of Hong Kong Special Administrative Region) |
| <i>Regulatory treatment</i> | | |
| 4 | Transitional Basel III rules # | N/A |
| 5 | Post-transitional Basel III rules + | Additional Tier 1 |
| 6 | Eligible at solo / group / solo and group | Solo and group |
| 7 | Instrument type (types to be specified by each jurisdiction) | Undated Non-Cumulative Subordinated Capital Securities |
| 8 | Amount recognised in regulatory capital (currency in millions, as of most recent reporting date) | US\$170 million as at 31 December 2021 |
| 9 | Par value of instrument | US\$170 million |
| 10 | Accounting classification | Equity - par value |
| 11 | Original date of issuance | 27 April 2017 |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | Optional redemption date: 28 April 2022 (First Call Date) Redemption for taxation reasons: Yes Redemption for regulatory reasons: Yes Redemption price: Redeemed at the outstanding principal amount together with distributions accrued to the date of redemption |
| 16 | Subsequent call dates, if applicable | Any Distribution Payment Date after the First Call Date |
| <i>Coupons / dividends</i> | | |
| 17 | Fixed or floating dividend / coupon | Fixed |
| 18 | Coupon rate and any related index | 5.2 per cent per annum for the period from, and including, the Issue Date to, but excluding the First Call Date. The then prevailing 5 year U.S. Treasury Rate plus 313 bps for the period from, and including, the First Call Date and each Distribution Reset Date thereafter to, but excluding, the immediately following Distribution Reset Date Any distributions are subject to there being no Mandatory Distribution Cancellation Event or Optional Distribution Cancellation Event. |
| 19 | Existence of a dividend stopper | Yes |
| 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 |

CMB WING LUNG BANK LIMITED

4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.3 US\$170 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 April 2017) (continued)

| | | (a) |
|----|---|--|
| | | Quantitative / qualitative information |
| 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 | Yes |
| 31 | If write-down, write-down trigger(s) | <p>If a Non-Viability Event occurs, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then principal amount of, and cancel any accrued but unpaid distribution in respect of, each Capital Security in whole or in part.</p> <p>"Non-Viability Event" means the earlier of:</p> <p>(a) the HKMA notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; and</p> <p>(b) the HKMA 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> <p>At the sole discretion of the relevant Hong Kong Resolution Authority, the outstanding amount of Additional Tier 1 Capital Securities can be adjusted upon the exercise of Hong Kong Bail-in Power in accordance with the Hong Kong Financial Institutions (Resolution) Ordinance without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:</p> <p>(a) the reduction or cancellation of all or a part of the principal amount of, or Distributions on, the Capital Securities;</p> <p>(b) the conversion of all or a part of the principal amount of, or Distributions on, the Capital Securities into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Capital Securities; and</p> <p>(c) the amendment or alteration of the maturity of the Capital Securities or amendment or alteration of the amount of Distributions payable on the Capital Securities, or the date on which the Distributions become payable, including by suspending payment for a temporary period, or any other amendment or alteration of these Conditions.</p> |

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.3 US\$170 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 April 2017) (continued)

| | | (a) |
|----|---|---|
| | | Quantitative / qualitative information |
| 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 |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned). | Subordinate to the claims of: (i) all unsubordinated creditors of the Issuer (including its depositors); (ii) creditors in respect of Tier 2 Capital Securities of the Issuer; and (iii) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operation of law or contract. |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | N/A |

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

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

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.4 US\$400 million subordinated fixed rate notes due 2027 (issued on 22 November 2017)

| | | (a) |
|----|--|---|
| | | Quantitative / qualitative information |
| 1 | Issuer | CMB Wing Lung Bank Limited |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | ISIN number: XS1716657876 |
| 3 | Governing law(s) of the instrument | English Law (subordination governed by Law of Hong Kong Special Administrative Region) |
| | <i>Regulatory treatment</i> | |
| 4 | Transitional Basel III rules # | N/A |
| 5 | Post-transitional Basel III rules + | Tier 2 |
| 6 | Eligible at solo / group / solo and group | Solo and group |
| 7 | Instrument type (types to be specified by each jurisdiction) | Other Tier 2 instruments - Subordinated Notes |
| 8 | Amount recognised in regulatory capital (currency in millions, as of most recent reporting date) | US\$399.61 million as at 31 December 2021 |
| 9 | Par value of instrument | US\$400 million |
| 10 | Accounting classification | Liability - amortised cost |
| 11 | Original date of issuance | 22 November 2017 |
| 12 | Perpetual or dated | Dated |
| 13 | Original maturity date | 22 November 2027 |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | Optional redemption date: 22 November 2022 (First Call Date) Redemption for taxation reasons: Yes Redemption price: Redemption at par together with interest accrued to the date fixed for redemption, final amount subject to adjustment following occurrence of a Non-Viability Event Redemption for regulatory reasons: Redemption at par together with interest accrued to the date fixed for redemption, final amount subject to adjustment following occurrence of a Non-Viability Event |
| 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 | Interest at 3.75% per annum is payable on a semi-annually basis for the first 5 years from the date of issue to the optional redemption date. Thereafter, if the notes are not redeemed, the interest rate will reset and the notes will bear interest at 5 year US Treasury rate on that date plus 175 basis points. |
| 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 | N/A |

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.4 US\$400 million subordinated fixed rate notes due 2027 (issued on 22 November 2017) (continued)

| | | (a) |
|----|---|---|
| | | Quantitative / qualitative information |
| 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 | Yes |
| 31 | If write-down, write-down trigger(s) | <p>If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then prevailing principal amount and cancel any accrued but unpaid interest in respect of, each Subordinated Note (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Subordinated Note.</p> <p>"Non-Viability Event" means the earlier of:</p> <p>(a) the HKMA notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; and</p> <p>(b) the HKMA 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> <p>The Subordinated Notes may be written off, cancelled, converted or modified, or the form of the Subordinated Notes may be changed, in the exercise of any Hong Kong Resolution Authority Power under the Financial Institutions (Resolution) Ordination (Cap. 628) of Hong Kong by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:</p> <p>(i) the reduction or cancellation of all or a part of the principal amount of, or interest on, the Subordinated Notes;</p> <p>(ii) the conversion of all or a part of the principal amount of, or interest on, the Subordinated Notes into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Subordinated Notes; and</p> |

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.4 US\$400 million subordinated fixed rate notes due 2027 (issued on 22 November 2017) (continued)

| | | (a) |
|----|---|---|
| | | Quantitative / qualitative information |
| 31 | If write-down, write-down trigger(s) | (iii) the amendment or alteration of the maturity of the Subordinated Notes or amendment or alteration of the amount of interest payable on the Subordinated Notes, or the date on which the interest become payable, including by suspending payment for a temporary period, or any other amendment or alteration of these Conditions. |
| 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 |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned). | Subordinate to the claims of: (i) all unsubordinated creditors of the Issuer (including its depositors); and (ii) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Subordinated Notes or whose claims rank senior to the Subordinated Notes by operation of law or contract. |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | N/A |

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

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

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.5 US\$400 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 24 January 2019)

| | | (a) |
|-----------------------------|--|---|
| | | Quantitative / qualitative information |
| 1 | Issuer | CMB Wing Lung Bank Limited |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | ISIN number: XS1892343762 |
| 3 | Governing law(s) of the instrument | English Law (subordination governed by Law of Hong Kong Special Administrative Region) |
| <i>Regulatory treatment</i> | | |
| 4 | Transitional Basel III rules # | N/A |
| 5 | Post-transitional Basel III rules + | Additional Tier 1 |
| 6 | Eligible at solo / group / solo and group | Solo and group |
| 7 | Instrument type (types to be specified by each jurisdiction) | Undated Non-Cumulative Subordinated Capital Securities |
| 8 | Amount recognised in regulatory capital (currency in millions, as of most recent reporting date) | US\$398.49 million as at 31 December 2021 |
| 9 | Par value of instrument | US\$400 million |
| 10 | Accounting classification | Equity - par value |
| 11 | Original date of issuance | 24 January 2019 |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | Optional redemption date: 24 January 2024 (First Call Date) Redemption for taxation reasons: Yes Redemption for regulatory reasons: Yes Redemption price: Redeemed at the outstanding principal amount together with distributions accrued to the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event. |
| 16 | Subsequent call dates, if applicable | Any Distribution Payment Date after the First Call Date |
| <i>Coupons / dividends</i> | | |
| 17 | Fixed or floating dividend / coupon | Fixed |
| 18 | Coupon rate and any related index | 6.5 per cent per annum for the period from, and including, the Issue Date to, but excluding the First Call Date. The then prevailing 5 year U.S. Treasury Rate plus 394.8 bps for the period from, and including, the First Call Date and each Distribution Reset Date thereafter to, but excluding, the immediately following Distribution Reset Date. Any distributions are subject to there being no Mandatory Distribution Cancellation Event or Optional Distribution Cancellation Event. |
| 19 | Existence of a dividend stopper | Yes |
| 20 | Fully discretionary, partially discretionary or mandatory | Fully discretionary |
| 21 | Existence of step-up or other incentive to redeem | No |

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.5 US\$400 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 24 January 2019) (continued)

| | | (a) |
|----|---|--|
| | | Quantitative / qualitative information |
| 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 |
| 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>If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then prevailing principal amount of, and cancel any accrued but unpaid distribution in respect of, each Capital Security (in each case in whole or in part) by an amount equal to the Non-Viability Event write-off Amount per Capital Security.</p> <p>"Non-Viability Event" means the earlier of:</p> <p>(a) the HKMA notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; and</p> <p>(b) the HKMA 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> <p>The Capital Securities may be written off, cancelled, converted or modified, or the form of the Capital Securities may be changed, in the exercise of any Hong Kong Resolution Authority Power under the Financial Institutions (Resolution) Ordination (Cap. 628) of Hong Kong by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:</p> <p>(a) the reduction or cancellation of all or a part of the principal amount of, or Distributions on, the Capital Securities;</p> <p>(b) the conversion of all or a part of the principal amount of, or Distributions on, the Capital Securities into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Capital Securities; and</p> |

CMB WING LUNG BANK LIMITED

4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.5 US\$400 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 24 January 2019) (continued)

| | | (a) |
|----|---|--|
| | | Quantitative / qualitative information |
| 31 | If write-down, write-down trigger(s) | (c) the amendment or alteration of the maturity of the Capital Securities or amendment or alteration of the amount of Distributions payable on the Capital Securities, or the date on which the Distributions become payable, including by suspending payment for a temporary period, or any other amendment or alteration of these Conditions. |
| 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 |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned). | Subordinate to the claims of: (i) all unsubordinated creditors of the Issuer (including its depositors); (ii) creditors in respect of Tier 2 Capital Instruments of the Issuer; and (iii) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operation of law or contract. |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | N/A |

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

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

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.6 US\$260 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 December 2019)

| | | (a) |
|----|--|--|
| | | Quantitative / qualitative information |
| 1 | Issuer | CMB Wing Lung Bank Limited |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | N/A |
| 3 | Governing law(s) of the instrument | Law of Hong Kong Special Administrative Region |
| | <i>Regulatory treatment</i> | |
| 4 | Transitional Basel III rules # | N/A |
| 5 | Post-transitional Basel III rules + | Additional Tier 1 |
| 6 | Eligible at solo / group / solo and group | Solo and group |
| 7 | Instrument type (types to be specified by each jurisdiction) | Undated Non-Cumulative Subordinated Capital Securities |
| 8 | Amount recognised in regulatory capital (currency in millions, as of most recent reporting date) | US\$260 million as at 31 December 2021 |
| 9 | Par value of instrument | US\$260 million |
| 10 | Accounting classification | Equity - par value |
| 11 | Original date of issuance | 27 December 2019 |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | Optional redemption date: 27 December 2024 (First Call Date) Redemption for taxation reasons: Yes Redemption for regulatory reasons: Yes Redemption price: Redeemed at the outstanding principal amount together with distributions accrued to the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event. |
| 16 | Subsequent call dates, if applicable | Any Distribution Payment Date after the First Call Date |
| | <i>Coupons / dividends</i> | |
| 17 | Fixed or floating dividend / coupon | Fixed |
| 18 | Coupon rate and any related index | 5.23 per cent per annum for the period from, and including, the Issue Date to, but excluding the First Call Date. The then prevailing 5 year U.S. Treasury Rate plus 350 bps for the period from, and including, the First Call Date and each Distribution Reset Date thereafter to, but excluding, the immediately following Distribution Reset Date. Any distributions are subject to there being no Mandatory Distribution Cancellation Event or Optional Distribution Cancellation Event. |
| 19 | Existence of a dividend stopper | Yes |
| 20 | Fully discretionary, partially discretionary or mandatory | Fully discretionary |
| 21 | Existence of step-up or other incentive to redeem | No |

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.6 US\$260 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 December 2019) (continued)

| | | (a) |
|----|---|--|
| | | Quantitative / qualitative information |
| 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 |
| 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>If a Non-Viability Event occurs and is continuing, the Issuer shall, by the provision of a Non-Viability Event Notice, irrevocably reduce the then principal amount of, and cancel any accrued but unpaid distribution in respect of, each Capital Security in whole or in part.</p> <p>"Non-Viability Event" means the earlier of:</p> <p>(a) the HKMA notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; or</p> <p>(b) the HKMA 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> <p>The Capital Securities may be written off, cancelled, converted or modified, or the form of the Capital Securities may be changed, in the exercise of any Hong Kong Resolution Authority Power under the Financial Institutions (Resolution) Ordination (Cap. 628) of Hong Kong by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:</p> <p>(a) the reduction or cancellation of all or a part of the principal amount of, or Distributions on, the Capital Securities;</p> |

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.6 US\$260 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 December 2019)

| | | (a) |
|----|---|--|
| | | Quantitative / qualitative information |
| 31 | If write-down, write-down trigger(s) | (b) the conversion of all or a part of the principal amount of, or Distributions on, the Capital Securities into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Capital Securities; and (c) the amendment or alteration of the maturity of the Capital Securities or amendment or alteration of the amount of Distributions payable on the Capital Securities, or the date on which the Distributions become payable, including by suspending payment for a temporary period, or any other amendment or alteration of these Conditions. |
| 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 |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned). | Subordinate to the claims of: (i) all unsubordinated creditors of the Issuer (including its depositors); (ii) creditors in respect of Tier 2 Capital Instruments of the Issuer; and (iii) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operation of law or contract. |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | N/A |

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

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

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.7 RMB1,000 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 February 2020)

| | | (a) |
|-----------------------------|--|---|
| | | Quantitative / qualitative information |
| 1 | Issuer | CMB Wing Lung Bank Limited |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | N/A |
| 3 | Governing law(s) of the instrument | Law of Hong Kong Special Administrative Region |
| <i>Regulatory treatment</i> | | |
| 4 | Transitional Basel III rules # | N/A |
| 5 | Post-transitional Basel III rules + | Additional Tier 1 |
| 6 | Eligible at solo / group / solo and group | Solo and group |
| 7 | Instrument type (types to be specified by each jurisdiction) | Undated Non-Cumulative Subordinated Capital Securities |
| 8 | Amount recognised in regulatory capital (currency in millions, as of most recent reporting date) | RMB1,000 million as at 31 December 2021 |
| 9 | Par value of instrument | RMB1,000 million |
| 10 | Accounting classification | Equity - par value |
| 11 | Original date of issuance | 27 February 2020 |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | Optional redemption date: 27 February 2025 (First Call Date) Redemption for taxation reasons: Yes Redemption for regulatory reasons: Yes Redemption price: Redeemed at the outstanding principal amount together with distributions accrued to the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event. |
| 16 | Subsequent call dates, if applicable | Any Distribution Payment Date after the First Call Date |
| <i>Coupons / dividends</i> | | |
| 17 | Fixed or floating dividend / coupon | Fixed |
| 18 | Coupon rate and any related index | 4.78 per cent per annum for the period from, and including, the Issue Date to, but excluding the Distribution Payment Date falling on or nearest to the First Call Date. The then prevailing rate of 5 year Chinese government notes plus 212 bps for the period from, and including, the First Call Date and each Distribution Reset Date thereafter to, but excluding, the immediately following Distribution Reset Date. Any distributions are subject to there being no Mandatory Distribution Cancellation Event or Optional Distribution Cancellation Event. |
| 19 | Existence of a dividend stopper | Yes |
| 20 | Fully discretionary, partially discretionary or mandatory | Fully discretionary |

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.7 RMB1,000 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 February 2020) (continued)

| | | (a) |
|----|---|---|
| | | Quantitative / qualitative information |
| 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 |
| 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>If a Non-Viability Event occurs and is continuing, the Issuer shall, by the provision of a Non-Viability Event Notice, irrevocably reduce the then principal amount of, and cancel any accrued but unpaid distribution in respect of, each Capital Security in whole or in part.</p> <p>"Non-Viability Event" means the earlier of:</p> <p>(a) the HKMA notifying the Issuer in writing that the HKMA is of the opinion that a write-off or conversion is necessary, without which the Issuer would become non-viable; or</p> <p>(b) the HKMA 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> <p>The Capital Securities may be written off, cancelled, converted or modified, or the form of the Capital Securities may be changed, in the exercise of any Hong Kong Resolution Authority Power under the Financial Institutions (Resolution) Ordination (Cap. 628) of Hong Kong by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:</p> <p>(a) the reduction or cancellation of all or a part of the principal amount of, or Distributions on, the Capital Securities;</p> <p>(b) the conversion of all or a part of the principal amount of, or Distributions on, the Capital Securities into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Capital Securities; and</p> |

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4 Composition of regulatory capital (continued)

4.3 CCA: Main features of regulatory capital instruments (continued)

4.3.7 RMB1,000 million undated non-cumulative subordinated additional tier 1 capital securities (issued on 27 February 2020) (continued)

| | | (a) |
|----|---|--|
| | | Quantitative / qualitative information |
| 31 | If write-down, write-down trigger(s) | (c) the amendment or alteration of the maturity of the Capital Securities or amendment or alteration of the amount of Distributions payable on the Capital Securities, or the date on which the Distributions become payable, including by suspending payment for a temporary period, or any other amendment or alteration of these Conditions. |
| 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 |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned). | Subordinate to the claims of: (i) all unsubordinated creditors of the Issuer (including its depositors); (ii) creditors in respect of Tier 2 Capital Instruments of the Issuer; and (iii) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operation of law or contract. |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | N/A |

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

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

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5 Macprudential supervisory measures

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

| | 31 December 2021 | (a) | (c) | (d) | (e) |
|---|---|---|---|-----------------------------------|-----------------------------|
| | Geographical breakdown by Jurisdiction (J) | Applicable JCCyB ratio in effect (%) | RWA used in computation of CCyB ratio HK\$'000 | AI-specific CCyB ratio (%) | CCyB amount HK\$'000 |
| 1 | Hong Kong SAR | 1.0000% | 114,002,190 | | |
| 2 | Luxemburg | 0.5000% | 782,736 | | |
| 3 | Sum | | 114,784,926 | | |
| 4 | Total | | 192,840,854 | 0.5932% | 1,143,936 |

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6 Leverage ratio

6.1 LR1: Summary comparison of accounting assets against leverage ratio ("LR") exposure measure

| 31 December 2021 | | (a) |
|------------------|--|---------------------------------------|
| | Item | Value under the LR framework HK\$'000 |
| 1 | Total consolidated assets as per published financial statements | 389,074,716 |
| 2 | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | (2,870,840) |
| 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 LR exposure measure | - |
| 3a | Adjustments for eligible cash pooling transactions | - |
| 4 | Adjustments for derivative contracts | 823,797 |
| 5 | Adjustment for SFTs (i.e. repos and similar secured lending) | - |
| 6 | Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures) | 12,153,393 |
| 6a | Adjustments for prudent valuation adjustments and specific and collective provisions that are allowed to be excluded from exposure measure | (51,507) |
| 7 | Other adjustments | (4,485,557) |
| 8 | Leverage ratio exposure measure | 394,644,002 |

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6 Leverage ratio (continued)

6.2 LR2: Leverage ratio

| | | (a) | (b) |
|--|--|---------------------------|----------------------------|
| | | HK\$'000 | |
| | | As at 31 December 2021 | As at 30 September 2021 |
| On-balance sheet exposures | | | |
| 1 | On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral) | 384,795,133 | 367,991,362 |
| 2 | Less: Asset amounts deducted in determining Tier 1 capital | (4,485,557) | (4,489,258) |
| 3 | Total on-balance sheet exposures (excluding derivative contracts and SFTs) | 380,309,576 | 363,502,104 |
| Exposures arising from derivative contracts | | | |
| 4 | Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting) | 356,219 | 358,216 |
| 5 | Add-on amounts for PFE associated with all derivative contracts | 1,013,585 | 1,204,108 |
| 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 derivative contracts | (42,647) | (60,123) |
| 8 | Less: Exempted CCP leg of client-cleared trade exposures | - | - |
| 9 | Adjusted effective notional amount of written credit-related derivative contracts | - | - |
| 10 | Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts | - | - |
| 11 | Total exposures arising from derivative contracts | 1,327,157 | 1,502,201 |
| Exposures arising from SFTs | | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions | 905,383 | 870,491 |
| 13 | Less: Netted amounts of cash payables and cash receivables of gross SFT assets | - | - |
| 14 | CCR exposure for SFT assets | - | - |
| 15 | Agent transaction exposures | - | - |
| 16 | Total exposures arising from SFTs | 905,383 | 870,491 |
| Other off-balance sheet exposures | | | |
| 17 | Off-balance sheet exposure at gross notional amount | 45,712,412 | 39,472,148 |
| 18 | Less: Adjustments for conversion to credit equivalent amounts | (33,559,019) | (29,476,835) |
| 19 | Off-balance sheet items | 12,153,393 | 9,995,313 |
| Capital and total exposures | | | |
| 20 | Tier 1 capital | 46,726,830 | 46,719,570 |
| 20a | Total exposures before adjustments for specific and collective provisions | 394,695,509 | 375,870,109 |
| 20b | Adjustments for specific and collective provisions | (51,507) | (49,183) |
| 21 | Total exposures after adjustments for specific and collective provisions | 394,644,002 | 375,820,926 |
| Leverage ratio | | | |
| 22 | Leverage ratio | 11.8% | 12.4% |

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7 Liquidity

7.1 LIQA: Liquidity risk management

Governance of liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. This may be caused by market disruption or liquidity squeeze whereby the Group may only unwind specific exposures at significantly discounted values.

The Group adopts a prudent risk appetite in setting liquidity risk tolerance. Risk appetite is set in the form of liquidity risk limit and metric framework.

The management of the Group's liquidity risk is governed by the liquidity risk management policies and principles which are approved by the Board of Directors ("Board"). Management Committee is one of the committees set up under the Board. The duties of Management Committee are to approve the risk management framework that is in line with the Group's business objectives and risk profile. The Asset and Liability Management Committee ("ALCO") is a committee formed by the Management Committee on behalf of the Board. ALCO is responsible for overseeing the Group's overall liquidity management. Its main responsibility is to develop the strategy, policy and limits for managing liquidity risk. Regular meetings are held to review the compliance status of the risk matrix established and the needs for change in strategy and policy. Daily liquidity management is managed by the Treasury Management Team of Asset and Liability Management Department. Liquidity Risk Management Team of Asset and Liability Management Department monitors the risk matrix and submits regular reports of the liquidity profile to ALCO. Internal Audit periodically performs independent reviews on liquidity management framework to ensure the validity and effectiveness of the Group's liquidity risk management functions.

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7 Liquidity (continued)

7.1 LIQA: Liquidity risk management (continued)

Funding strategy

The Group sets its liquidity funding strategy according to the size and sophistication of its business, as well as the nature and complexity of its activities.

The objective of the Group's funding strategy is to strive for a balance between business growth opportunities and funding stability. The Group seeks to maintain diversified and stable funding sources with an appropriate mix of liabilities including customer deposits, interbank borrowings, issuance of negotiable certificates of deposit and debt instruments.

In setting the Group's annual budget, the diversity and stability of various funding sources is considered so that the appropriate mix of liabilities is maintained.

To manage the currency mismatch and avoid over-reliance on the currency swap market, the Group sets limits on cross currency funding ratios. The cross currency funding ratios limit the extent of one currency's assets being funded by other currencies through the swap market. In addition, the Group sets limits on individual currency liquidity coverage ratios so as to control the extent of cash flow mismatch by currencies.

Liquidity stress testing

Liquidity stress testing is regularly conducted to project the Group's cash flows under stress scenarios and to evaluate the sufficiency of liquidity cushion. The stress scenarios cover institution-specific crisis scenario, general market crisis scenario and combined scenario. The stress test results are regularly reported to ALCO. It is the Group's policy that the liquidity cushion should be able to cover projected cash outflows under various prescribed stress scenarios.

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7 Liquidity (continued)

7.1 LIQA: Liquidity risk management (continued)

Contingency funding plan

Contingency Funding Plan (CFP) of the Group clearly defines a set of triggering events that will activate the Plan. The mechanisms of CFP incorporate:

- A set of early warning indicators that helps to identify any emerging liquidity risks at an early stage.
- A list of potential funding sources, with due consideration of their reliability, priority and the expected available time during liquidity crisis.
- Detailed action steps and properly assigned responsibilities for implementing the CFP in case of need.

Balances of high quality liquid asset and maturity analysis

For details of the high quality liquid asset held by the Group, please refer to Note 4.3 (a)(vi) of the Group's 2021 Annual Report.

For the maturity analysis of the Group, please refer to Note 4.3 (b) and 4.3 (d) of the Group's 2021 Annual Report.

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7 Liquidity (continued)

7.2 LIQ1: Liquidity Coverage Ratio - for category 1 institution

For the quarter ended 31 December 2021

| Number of data points used in calculating the average value of the LCR and related components set out in this template: (75) | | HK\$000 equivalent | |
|--|--|-------------------------------|-----------------------------|
| | | (a) | (b) |
| Basis of disclosure: consolidated / unconsolidated / Hong Kong office (delete as appropriate) | | Unweighted value (average) | Weighted value (average) |
| A. HQLA | | | |
| 1 | Total HQLA | | 64,363,553 |
| B. Cash outflows | | | |
| 2 | Retail deposits and small business funding, of which: | 139,184,362 | 11,627,106 |
| 3 | <i>Stable retail deposits and stable small business funding</i> | 5,117,888 | 255,894 |
| 4 | <i>Less stable retail deposits and less stable small business funding</i> | 93,357,766 | 9,335,777 |
| 4a | <i>Retail term deposits and small business term funding</i> | 40,708,708 | 2,035,435 |
| 5 | Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which: | 110,436,404 | 64,954,006 |
| 6 | <i>Operational deposits</i> | - | - |
| 7 | <i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i> | 110,080,558 | 64,598,160 |
| 8 | <i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i> | 355,846 | 355,846 |
| 9 | Secured funding transactions (including securities swap transactions) | | 538,242 |
| 10 | Additional requirements, of which: | 19,450,697 | 3,659,140 |
| 11 | <i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i> | 1,094,334 | 1,094,334 |
| 12 | <i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i> | - | - |
| 13 | <i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i> | 18,356,363 | 2,564,806 |
| 14 | Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows | 3,384,105 | 3,384,105 |
| 15 | Other contingent funding obligations (whether contractual or non-contractual) | 4,928,080 | 398,572 |
| 16 | Total Cash Outflows | | 84,561,171 |
| C. Cash Inflows | | | |
| 17 | Secured lending transactions (including securities swap transactions) | - | - |
| 18 | Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions | 76,234,942 | 40,374,801 |
| 19 | Other cash inflows | 4,349,279 | 3,722,931 |
| 20 | Total Cash Inflows | 80,584,221 | 44,097,732 |
| D. Liquidity Coverage Ratio | | | Adjusted value |
| 21 | Total HQLA | | 64,363,553 |
| 22 | Total Net Cash Outflows | | 40,463,439 |
| 23 | LCR (%) | | 159.9% |

CMB WING LUNG BANK LIMITED

7 Liquidity (continued)

7.2 LIQ1: Liquidity Coverage Ratio - for category 1 institution (continued)

For the quarter ended 30 September 2021

| Number of data points used in calculating the average value of the LCR and related components set out in this template: (77) | | HK\$'000 equivalent | |
|--|--|--------------------------------------|------------------------------------|
| | | (a) | (b) |
| Basis of disclosure: consolidated / unconsolidated / Hong Kong office (delete as appropriate) | | Unweighted value (average) | Weighted value (average) |
| A. HQLA | | | |
| 1 | Total HQLA | | 71,064,697 |
| B. Cash outflows | | | |
| 2 | Retail deposits and small business funding, of which: | 140,015,900 | 11,692,731 |
| 3 | <i>Stable retail deposits and stable small business funding</i> | 5,155,485 | 257,774 |
| 4 | <i>Less stable retail deposits and less stable small business funding</i> | 93,838,730 | 9,383,873 |
| 4a | <i>Retail term deposits and small business term funding</i> | 41,021,685 | 2,051,084 |
| 5 | Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the AI, of which: | 116,848,316 | 74,694,474 |
| 6 | <i>Operational deposits</i> | - | - |
| 7 | <i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i> | 116,629,393 | 74,475,551 |
| 8 | <i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i> | 218,923 | 218,923 |
| 9 | Secured funding transactions (including securities swap transactions) | | 584,576 |
| 10 | Additional requirements, of which: | 18,122,226 | 3,936,362 |
| 11 | <i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i> | 1,408,268 | 1,408,268 |
| 12 | <i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i> | - | - |
| 13 | <i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i> | 16,713,958 | 2,528,094 |
| 14 | Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows | 4,053,127 | 4,053,127 |
| 15 | Other contingent funding obligations (whether contractual or non-contractual) | 5,389,490 | 430,527 |
| 16 | Total Cash Outflows | | 95,391,797 |
| C. Cash inflows | | | |
| 17 | Secured lending transactions (including securities swap transactions) | - | - |
| 18 | Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions | 77,740,422 | 46,415,289 |
| 19 | Other cash inflows | 7,969,811 | 7,245,285 |
| 20 | Total Cash Inflows | 85,710,233 | 53,660,574 |
| D. Liquidity Coverage Ratio | | | Adjusted value |
| 21 | Total HQLA | | 71,064,697 |
| 22 | Total Net Cash Outflows | | 41,969,493 |
| 23 | LCR (%) | | 181.5% |

CMB WING LUNG BANK LIMITED

7 Liquidity (continued)

7.2 LIQ1: Liquidity Coverage Ratio - for category 1 institution (continued)

Notes:

- The weighted amount of high-quality liquid assets ("HQLA") is to be calculated as the amount after applying the haircuts as required under the Banking (Liquidity) Rules.
- The unweighted amounts of cash inflows and cash outflows are to be calculated as the principle amounts in the calculation of the Liquidity Coverage Ratio (LCR) as required under the Banking (Liquidity) Rules.
- The weighted amounts of cash inflows and cash outflows are to be calculated as the amount after applying the inflow and outflow rates as required under the Banking (Liquidity) Rules.
- The adjusted value of total HQLA and the total net cash outflows have taken into account any applicable ceiling as required under the Banking (Liquidity) Rules.

The average LCR is calculated as the arithmetic mean of the LCR as at the end of each working day in the quarter on an unconsolidated basis. The average LCR for the third and fourth quarter of 2021 remained stable at 181.5% and 159.9% respectively.

The Group maintains HQLA which can be sold or pledged as collateral to provide liquidity even under periods of stress. The Group invests in good credit quality investments with deep and liquid market to ensure short term funding requirements are covered within prudent limits.

Level 1 assets comprise cash, balances with central bank and high quality central government and central bank securities, while Level 2 assets comprise corporate securities of investment grade. The majority of the HQLA is composed of Level 1 assets.

The net cash outflows are mainly from retail and corporate customer deposits which are the Group's primary source of funds, together with deposits and balances from banks. The Group ensures a sound and diversified range of funding sources, through monitoring the structure, the stability and the core level of the deposit portfolio.

Intra-group funding transactions are transacted at arm's length and treated in a manner in line with other third party transactions, with regular monitoring and appropriate control.

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7 Liquidity (continued)

7.3 LIQ2: Net Stable Funding Ratio - for category 1 institution

| 31 December 2021 | | (a) | (b) | (c) | (d) | (e) |
|--|--|---------------------------------------|----------------------------------|-------------------------|-------------------|-----------------|
| HK\$'000 | | Unweighted value by residual maturity | | | | Weighted amount |
| Basis of disclosure: consolidated / unconsolidated / Hong Kong office (delete as appropriate) | | 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: | 51,344,524 | - | - | 3,115,586 | 54,460,110 |
| 2 | <i>Regulatory capital</i> | 51,344,524 | - | - | 3,115,586 | 54,460,110 |
| 2a | <i>Minority interests not covered by row 2</i> | - | - | - | - | - |
| 3 | <i>Other capital instruments</i> | - | - | - | - | - |
| 4 | Retail deposits and small business funding: | - | 130,759,202 | 5,457,630 | 3,160,659 | 126,006,932 |
| 5 | <i>Stable deposits</i> | - | 4,993,479 | 28,992 | 15,058 | 4,786,405 |
| 6 | <i>Less stable deposits</i> | - | 125,765,723 | 5,428,638 | 3,145,601 | 121,220,527 |
| 7 | Wholesale funding: | - | 178,292,980 | 5,658,581 | 2,366,386 | 59,069,722 |
| 8 | <i>Operational deposits</i> | - | - | - | - | - |
| 9 | <i>Other wholesale funding</i> | - | 178,292,980 | 5,658,581 | 2,366,386 | 59,069,722 |
| 10 | Liabilities with matching interdependent assets | - | - | - | - | - |
| 11 | Other liabilities: | 3,999,566 | 509,010 | 32 | - | - |
| 12 | <i>Net derivative liabilities</i> | 264,877 | - | - | - | - |
| 13 | <i>All other funding and liabilities not included in the above categories</i> | 3,734,689 | 509,010 | 32 | - | - |
| 14 | Total ASF | - | - | - | - | 239,536,764 |
| B. Required stable funding ("RSF") item | | | | | | |
| 15 | Total HQLA for NSFR purposes | 72,817,147 | | | | 4,288,241 |
| 16 | Deposits held at other financial institutions for operational purposes | - | - | - | - | - |
| 17 | Performing loans and securities: | 25,538,866 | 130,439,486 | 36,794,843 | 110,795,783 | 166,738,341 |
| 18 | <i>Performing loans to financial institutions secured by Level 1 HQLA</i> | - | - | - | - | - |
| 19 | <i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i> | 187,048 | 92,583,086 | 11,996,534 | 15,953,703 | 36,026,481 |
| 20 | <i>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:</i> | 25,351,818 | 30,185,382 | 15,726,482 | 56,769,647 | 92,019,341 |
| 21 | <i>With a risk-weight of less than or equal to 35% under the STC approach</i> | - | 458,270 | 441,449 | 14,232,892 | 9,701,239 |

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7 Liquidity (continued)

7.3 LIQ2: Net Stable Funding Ratio - for category 1 institution (continued)

| 31 December 2021 | | (a) | (b) | (c) | (d) | (e) |
|--|---|---------------------------------------|----------------------------------|-------------------------|-------------------|-----------------|
| HK\$'000 | | Unweighted value by residual maturity | | | | Weighted amount |
| Basis of disclosure: consolidated / unconsolidated / Hong Kong office (delete as appropriate) | | No specified term to maturity | <6 months or repayable on demand | 6 months to < 12 months | 12 months or more | |
| 22 | Performing residential mortgages, of which: | - | 335,060 | 324,546 | 11,407,700 | 7,919,606 |
| 23 | With a risk-weight of less than or equal to 35% under the STC approach | - | 309,557 | 299,572 | 10,264,758 | 6,976,657 |
| 24 | Securities that are not in default and do not qualify as HQLA, including exchange-traded equities | - | 7,335,958 | 8,747,281 | 26,664,733 | 30,772,913 |
| 25 | Assets with matching interdependent liabilities | - | - | - | - | - |
| 26 | Other assets: | 8,251,222 | 2,547,092 | 134,500 | - | 8,518,816 |
| 27 | Physical traded commodities, including gold | 104,054 | | | | 88,446 |
| 28 | Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs | 29,439 | | | | 29,439 |
| 29 | Net derivative assets | - | | | | - |
| 30 | Total derivative liabilities before adjustments for deduction of variation margin posted | 406,569 | | | | 20,328 |
| 31 | All other assets not included in the above categories | 7,711,160 | 2,547,092 | 134,500 | - | 8,380,603 |
| 32 | Off-balance sheet items | | | | 1,108,730 | 1,108,730 |
| 33 | Total RSF | | | | | 180,654,128 |
| 34 | Net Stable Funding Ratio (%) | | | | | 132.6% |

CMB WING LUNG BANK LIMITED

7 Liquidity (continued)

7.3 LIQ2: Net Stable Funding Ratio - for category 1 institution (continued)

| 30 September 2021 | | (a) | (b) | (c) | (d) | (e) |
|--|--|---------------------------------------|----------------------------------|-------------------------|-------------------|-----------------|
| HK\$'000 | | Unweighted value by residual maturity | | | | Weighted amount |
| Basis of disclosure: consolidated / unconsolidated / Hong Kong office (delete as appropriate) | | 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: | 51,419,931 | - | - | 3,112,040 | 54,531,971 |
| 2 | <i>Regulatory capital</i> | 51,419,931 | - | - | 3,112,040 | 54,531,971 |
| 2a | <i>Minority interests not covered by row 2</i> | - | - | - | - | - |
| 3 | <i>Other capital instruments</i> | - | - | - | - | - |
| 4 | Retail deposits and small business funding: | - | 130,984,481 | 5,985,104 | 2,715,000 | 126,246,106 |
| 5 | <i>Stable deposits</i> | - | 5,128,053 | 41,535 | 13,946 | 4,925,055 |
| 6 | <i>Less stable deposits</i> | - | 125,856,428 | 5,943,569 | 2,701,054 | 121,321,051 |
| 7 | Wholesale funding: | - | 153,495,889 | 12,932,045 | 1,640,050 | 54,833,622 |
| 8 | <i>Operational deposits</i> | - | - | - | - | - |
| 9 | <i>Other wholesale funding</i> | - | 153,495,889 | 12,932,045 | 1,640,050 | 54,833,622 |
| 10 | Liabilities with matching interdependent assets | - | - | - | - | - |
| 11 | Other liabilities: | 5,525,588 | 1,802,728 | 4,215 | - | - |
| 12 | <i>Net derivative liabilities</i> | 155,335 | - | - | - | - |
| 13 | <i>All other funding and liabilities not included in the above categories</i> | 5,370,253 | 1,802,728 | 4,215 | - | - |
| 14 | Total ASF | - | - | - | - | 235,611,699 |
| B. Required stable funding ("RSF") item | | | | | | |
| 15 | Total HQLA for NSFR purposes | - | - | - | 68,862,430 | 4,063,450 |
| 16 | Deposits held at other financial institutions for operational purposes | - | - | - | - | - |
| 17 | Performing loans and securities: | 20,993,121 | 116,006,605 | 45,642,165 | 107,619,480 | 161,281,485 |
| 18 | <i>Performing loans to financial institutions secured by Level 1 HQLA</i> | - | - | - | - | - |
| 19 | <i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i> | 100,738 | 81,959,457 | 16,203,980 | 17,671,663 | 38,168,309 |
| 20 | <i>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:</i> | 20,892,383 | 27,072,604 | 20,053,617 | 56,325,410 | 88,433,627 |
| 21 | <i>With a risk-weight of less than or equal to 35% under the STC approach</i> | - | 472,752 | 447,578 | 14,549,357 | 9,917,247 |
| 22 | <i>Performing residential mortgages, of which:</i> | - | 341,203 | 328,583 | 11,607,315 | 8,055,847 |

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7 Liquidity (continued)

7.3 LIQ2: Net Stable Funding Ratio - for category 1 institution (continued)

| 30 September 2021 | | (a) | (b) | (c) | (d) | (e) |
|--|--|---------------------------------------|----------------------------------|-------------------------|-------------------|-----------------|
| HK\$'000 | | Unweighted value by residual maturity | | | | Weighted amount |
| Basis of disclosure: consolidated / unconsolidated / Hong Kong office (delete as appropriate) | | No specified term to maturity | <6 months or repayable on demand | 6 months to < 12 months | 12 months or more | |
| 23 | <i>With a risk-weight of less than or equal to 35% under the STC approach</i> | - | 315,380 | 303,539 | 10,452,085 | 7,103,315 |
| 24 | <i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i> | - | 6,633,341 | 9,055,985 | 22,015,092 | 26,623,702 |
| 25 | Assets with matching interdependent liabilities | - | - | - | - | - |
| 26 | Other assets: | 9,327,026 | 1,410,536 | 175,157 | - | 9,568,941 |
| 27 | <i>Physical traded commodities, including gold</i> | 95,870 | | | | 81,490 |
| 28 | <i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i> | 89,643 | | | | 89,643 |
| 29 | <i>Net derivative assets</i> | - | | | | - |
| 30 | <i>Total derivative liabilities before adjustments for deduction of variation margin posted</i> | 269,369 | | | | 13,468 |
| 31 | <i>All other assets not included in the above categories</i> | 8,872,144 | 1,410,536 | 175,157 | - | 9,384,340 |
| 32 | Off-balance sheet items | | | | 888,408 | 888,408 |
| 33 | Total RSF | | | | | 175,802,284 |
| 34 | Net Stable Funding Ratio (%) | | | | | 134.0% |

Note:

The Group's NSFR were 134.0% and 132.6% as at 30 September and 31 December 2021, respectively. The Group has continuously maintained a healthy NSFR ratio during the second half of 2021. No material change was found in the diversity and stability of funds over the period.

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8 Credit risk for non-securitization exposures

8.1 CRA: General information about credit risk

The Group takes on exposure to credit risk, which is the risk that an obligor (including guarantor) or a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit exposures arise principally from loans and advances, debt securities, derivative financial instruments, treasury bills, and other on-balance sheet exposures to counterparties in the Group's asset portfolio. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for at the end of the reporting period.

The Group has established credit policies that govern credit extension criteria, credit approval, review and monitoring processes, the internal credit rating system and impairment assessment processes. The Group's credit policies which are centralised in Credit Execution Department and Risk Management Department have to be approved by the Management Committee and Board of Directors. The Group's credit risk control is centralised in Credit Execution Department which reports to the Credit Committee, Executive Credit Committee and Management Committee regularly. The Board of Directors has ultimate responsibility for the effectiveness of credit risk management processes.

The Group manages and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries and countries.

To avoid concentration risk, credit exposures to individual customers, counterparties and industry sectors are carefully managed and monitored by the use of limits. The Management Committee is responsible for the portfolio management of risk concentrations. Approval authorities are delegated to the Group's Executive Credit Committee, Credit Committee and other lending officers. The Executive Credit Committee is also responsible for the review and approval of the largest credit exposure. Actual credit exposures, including on- and off-balance sheet exposures, limits and asset quality are regularly monitored and controlled by the Credit Execution Department by keeping a central liability record for each group of related counterparties and are subject to checks by the internal audit function.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

In assessing credit risk of loans and advances to customers and to banks and other counterparties, effective systems are adopted for measurement and monitoring of the credit risk as part of the credit assessment process. The Group's credit grading system, which in general, takes into account the underlying credit-worthiness of the counterparties, including the financial strengths of the guarantors (as the case may be), collateral pledged and the risk of specific transactions, allows differentiation and management of credit risk for asset portfolios of respective business units.

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8 Credit risk for non-securitization exposures (continued)

8.1 CRA: General information about credit risk (continued)

For debt securities, external ratings from recognised external credit assessment institutions are used for assessing and managing credit risk exposures. The investments in these securities allow the Group to achieve an appropriate level of returns commensurate with the risks and to maintain a readily available source of funding at the same time.

The Group has issued credit related commitments including guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to a customer as required. These instruments represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. These instruments carry similar level of the same credit risk as loans.

Commitments to extend credit represent unused portions of authorised facility limits in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

8.2 CR1: Credit quality of exposures

| | | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
|------------------------------|-----------------------------|---------------------------|-------------------------|--------------------------|--|---|--|--------------------|
| | | Gross carrying amounts of | | Allowances / impairments | Of which ECL accounting provisions for credit losses on STC approach exposures | | Of which ECL accounting provisions for credit losses on IRB approach exposures | Net values (a+b-c) |
| | | Defaulted Exposures | Non-defaulted exposures | | Allocated in regulatory category of specific provisions | Allocated in regulatory category of collective provisions | | |
| 31 December 2021 HK\$'000 | | | | | | | | |
| 1 | Loans * | 221,687 | 273,715,147 | 1,247,332 | 658,285 | 589,047 | - | 272,689,502 |
| 2 | Debt securities | 748,895 | 102,614,447 | 861,026 | 748,895 | 112,131 | - | 102,502,316 |
| 3 | Off-balance sheet exposures | - | 22,392,986 | 51,507 | 1,535 | 49,972 | - | 22,341,479 |
| 4 | Total | 970,582 | 398,722,580 | 2,159,865 | 1,408,715 | 751,150 | - | 397,533,297 |

*include advances to customers, trade bills, balances and placements with and loans and advances to banks.

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8 Credit risk for non-securitization exposures (continued)

8.3 CR2: Changes in defaulted loans and debt securities

| 31 December 2021 | | (a) |
|------------------|--|--------------------|
| | | Amount HK\$'000 |
| 1 | Defaulted loans and debt securities at end of the previous reporting period (30 June 2021) | 1,020,502 |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 3,447 |
| 3 | Returned to non-defaulted status | (60,759) |
| 4 | Amounts written off | (2,073) |
| 5 | Other changes | 9,465 |
| 6 | Defaulted loans and debt securities at end of the current reporting period (31 December 2021) | 970,582 |

8.4 CRB: Additional disclosure related to credit quality of exposures

The Group undertakes ongoing credit analysis and monitoring of its credit portfolio, and requires the review of individual financial assets that are above preset thresholds at least annually or more regularly when individual circumstances require. Expected credit loss (“ECL”) impairment model under HKFRS 9 requires an entity to account for ECL and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition. The Group’s internal credit rating system assists management to capture the varying level, nature and drivers of credit risk of all in-scope financial assets in order to reasonably ensure that the corresponding ECL are appropriately measured. ECL is updated on a timely basis to reflect changes in credit risk quality for all in-scope financial assets. The model used in the ECL computation process is validated at least on an annual basis.

At initial recognition, impairment allowance is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) (“12-month ECL”). In the event of a significant increase in credit risk, impairment allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument (“life-time ECL”). The application of ECL model will result in three stages of financial assets, namely Stage 1, Stage 2 and Stage 3. Detailed definition of the three stages of financial assets, application of the ECL model and the approach for determining impairment allowances is set out in Notes 1.7 and 4.1(c) of the Group’s 2021 Annual Report.

Rescheduled assets refer to those that have been restructured or renegotiated because of a deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and include assets for which the revised repayment terms, either of interest or of loan repayment period, are ‘non-commercial’ to the Group.

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8 Credit risk for non-securitization exposures (continued)

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

- Breakdown of Credit Risk Exposures by Industry

The following table illustrates the breakdown of credit risk exposures by industry.

| 31 December 2021 | | (a) |
|------------------|-----------------------------------|-----------------------------------|
| | | Gross carrying amount HK\$'000 |
| 1 | Property development | 6,398,699 |
| 2 | Property investment | 6,621,018 |
| 3 | Financial concerns | 179,670,235 |
| 4 | Stockbrokers | 2,275,311 |
| 5 | Wholesale and retail trade | 2,422,962 |
| 6 | Manufacturing | 1,906,593 |
| 7 | Transport and transport equipment | 1,211,373 |
| 8 | Recreational activities | 352 |
| 9 | Information technology | 3,154,482 |
| 10 | Others | 41,205,212 |
| 11 | Individuals | 51,155,467 |
| 12 | Trade finance | 1,744,555 |
| 13 | Loans for use outside Hong Kong | 91,514,191 |
| 14 | Trade bills | 10,412,712 |
| 15 | Total | 399,693,162 |

- Breakdown of Credit Risk Exposures by Geographical Areas

The following table illustrates the breakdown of credit risk exposures by geographical areas.

| 31 December 2021 | | (a) |
|------------------|----------------------------|-----------------------------------|
| | | Gross carrying amount HK\$'000 |
| 1 | Hong Kong | 206,180,586 |
| 2 | People's Republic of China | 163,916,130 |
| 3 | Macau | 3,175,429 |
| 4 | United States of America | 8,845,782 |
| 5 | Others | 17,575,235 |
| 6 | Total | 399,693,162 |

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8 Credit risk for non-securitization exposures (continued)

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

- Breakdown of Credit Risk Exposures by Residual Maturity

The following table illustrates the breakdown of credit risk exposures by residual maturity.

| 31 December 2021 | | (a) |
|------------------|------------------------------|-----------------------------------|
| | | Gross carrying amount HK\$'000 |
| 1 | Less than or equal to 1 year | 248,976,822 |
| 2 | 1 to 5 years | 113,990,576 |
| 3 | More than 5 years | 36,725,764 |
| 4 | Total | 399,693,162 |

- Impaired Exposures of Credit Risk Exposures by industry

| 31 December 2021 HK\$'000 | | (a) | (b) | (c) |
|------------------------------|-----------------------------------|--------------------|--------------------|----------------------------|
| | | Impaired exposures | Allowances | Write-offs during the year |
| 1 | Property development | - | - | - |
| 2 | Property investment | - | - | - |
| 3 | Financial concerns | - | - | - |
| 4 | Stockbrokers | - | - | - |
| 5 | Wholesale and retail trade | 2,002 | (2,002) | - |
| 6 | Manufacturing | 39,088 | (37,885) | - |
| 7 | Transport and transport equipment | - | - | - |
| 8 | Recreational activities | - | - | - |
| 9 | Information technology | - | - | - |
| 10 | Others | 769,830 | (750,728) | 1,258 |
| 11 | Individuals | 27,748 | (7,365) | 3,730 |
| 12 | Trade finance | 134,012 | (127,339) | - |
| 13 | Loans for use outside Hong Kong | 1,081,716 | (469,008) | 8,815 |
| 14 | Trade bills | 14,388 | (14,388) | - |
| 15 | Total | 2,068,784 | (1,408,715) | 13,803 |

- Impaired Exposures of Credit Risk Exposures by geographical areas

| 31 December 2021 HK\$'000 | | (a) | (b) | (c) |
|------------------------------|----------------------------|--------------------|--------------------|----------------------------|
| | | Impaired exposures | Allowances | Write-offs during the year |
| 1 | Hong Kong | 659,809 | (436,047) | 4,988 |
| 2 | People's Republic of China | 1,330,388 | (906,287) | 8,815 |
| 3 | Macau | - | - | - |
| 4 | United States of America | - | - | - |
| 5 | Others | 78,587 | (66,381) | - |
| 6 | Total | 2,068,784 | (1,408,715) | 13,803 |

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8 Credit risk for non-securitization exposures (continued)

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

- Aging Analysis of Accounting Past Due Exposures

The following table illustrates the aging analysis of accounting past due exposures.

| 31 December 2021 | | (a) | (b) | (c) | (d) |
|------------------|---|------------------------|-----------------|-------------------------|----------------|
| HK\$'000 | | Gross Carrying Amounts | | | |
| Overdue for | | Loans | Debt Securities | Off Balance Sheet Items | Total |
| 1 | Six months or less, but over three months | 2,695 | - | - | 2,695 |
| 2 | One year or less, but over six months | 26,070 | - | - | 26,070 |
| 3 | Over one year | 192,922 | 748,895 | - | 941,817 |
| 4 | Total | 221,687 | 748,895 | - | 970,582 |

- Breakdown of Restructured Exposures

The following table illustrates the breakdown of restructured exposures.

| 31 December 2021 | | (a) | (b) | (c) |
|------------------|------------------------|------------------------|--------------|------------|
| HK\$'000 | | Gross Carrying Amounts | | |
| | | Impaired | Not Impaired | Total |
| 1 | Restructured exposures | 103 | 769 | 872 |
| 2 | Total | 103 | 769 | 872 |

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8 Credit risk for non-securitization exposures (continued)

8.5 CRC: Qualitative disclosures related to credit risk mitigation

The Group seeks to obtain collateral to mitigate credit risk to an acceptable level. All credit decisions, whether or not secured by collateral, are based on counterparties' repayment capacity. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal types of collateral in credit risk mitigation include:

- Mortgages over residential properties and other properties;
- Charges over business assets such as cash deposits, premises, machineries, inventory and accounts receivable; and
- Charges over financial instruments such as equities, debt securities and life insurance policies.

The Group has established policies to govern the determination of eligibility of assets taken as collateral for credit risk mitigation. In order for an asset to be considered as effective risk mitigation, the market value of the asset should be readily determinable or can be reasonably established. The asset is marketable and there exists a readily available secondary market for disposal of the asset. In addition, the Group is able to secure control over the asset if necessary. The collateral is revalued periodically ranging from daily to annually, depending on the type of collateral. As for those past due exposures, the main types of collateral held are cash deposits and properties.

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of the assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

The principal derivatives used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. Most of the Group's derivative positions have been entered into to meet customer demand and to hedge these and other trading positions. The Management Committee places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions. Given the purpose for entering into such derivative transaction, collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

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8 Credit risk for non-securitization exposures (continued)

8.6 CR3: Overview of recognized credit risk mitigation (continued)

| 31 December 2021 | | HK\$'000 | | | | |
|------------------|--------------------|--------------------------------------|-------------------------|--|--|---|
| | | (a) | (b) | (c) | (d) | (e) |
| | | Exposures unsecured: carrying amount | Exposures to be secured | Exposures secured by recognised collateral | Exposures secured by recognised guarantees | Exposures secured by recognised credit derivative contracts |
| 1 | Loans | 260,205,171 | 12,484,331 | 4,421,622 | 8,062,709 | - |
| 2 | Debt securities | 102,502,316 | - | - | - | - |
| 3 | Total | 362,707,487 | 12,484,331 | 4,421,622 | 8,062,709 | - |
| 4 | of which defaulted | 30,686 | 6,579 | - | 6,579 | - |

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8 Credit risk for non-securitization exposures (continued)

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

The Group adopts the Standardised approach, which mainly features the risk-weighting of credit risk exposures according to credit ratings provided by External Credit Assessment Institutions (“ECAIs”) recognised by the HKMA, in assessing the capital adequacy of credit risk exposures. There has been no change on the ECAIs during the reporting period.

Credit ratings from Fitch Ratings, Moody’s Investors Service and Standard and Poor’s Ratings Services are used in the Group for risk-weighting credit risk exposures under the following exposure classes:

- Sovereign;
- Public sector entity;
- Bank;
- Securities firm; and
- Corporate.

In accordance with the requirements prescribed in Part 4 of the Banking (Capital) Rules in respect of the application of ECAI ratings, for an exposure falling under any of the exposure classes listed above that consists of a debt obligation issued or undertaken by the obligor which has one or more than one ECAI issue specific rating, the Group would apply the issue specific rating(s) directly in risk-weighting the exposure; while for an exposure listed above which does not have an ECAI issue specific rating and the obligor of which has an ECAI issuer rating, the Group would use the ECAI issuer rating in risk-weighting the exposure under any of the following circumstances:

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

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8 Credit risk for non-securitization exposures (continued)

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

| | | (a) | (b) | (c) | (d) | (e) | (f) |
|----|--|--------------------------------------|--------------------------|--|--------------------------|----------------------------|--------------|
| | 31 December 2021 HK\$'000 | Exposures pre-CCF and pre-CRM | | Exposures post-CCF and post-CRM | | RWA and RWA density | |
| | Exposure classes | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWA | RWA density |
| 1 | Sovereign exposures | 32,359,475 | - | 32,359,475 | - | 1,045,843 | 3.2% |
| 2 | PSE exposures | 50,066 | 50,000 | 562,905 | 179,168 | 148,415 | 20.0% |
| 2a | Of which: domestic PSEs | 50,066 | 50,000 | 562,905 | 179,168 | 148,415 | 20.0% |
| 2b | Of which: foreign PSEs | - | - | - | - | - | - |
| 3 | Multilateral development bank exposures | - | - | - | - | - | - |
| 4 | Bank exposures | 131,900,256 | - | 139,199,461 | 1,004,814 | 56,453,052 | 40.3% |
| 5 | Securities firm exposures | 2,086,590 | 110,000 | 2,269,097 | 1,500 | 1,135,298 | 50.0% |
| 6 | Corporate exposures | 147,505,752 | 29,925,468 | 136,445,529 | 5,781,900 | 136,777,031 | 96.2% |
| 7 | CIS exposures | - | - | - | - | - | - |
| 8 | Cash items | 734,132 | - | 5,235,586 | 107,447 | 816,036 | 15.3% |
| 9 | Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis | - | - | - | - | - | - |
| 10 | Regulatory retail exposures | 20,072,722 | 11,893,341 | 20,056,319 | 2,052,654 | 16,581,730 | 75.0% |
| 11 | Residential mortgage loans | 16,609,267 | 305,508 | 16,098,927 | - | 6,197,588 | 38.5% |
| 12 | Other exposures which are not past due exposures | 29,002,047 | 3,428,095 | 28,093,008 | 693,966 | 28,786,974 | 100.0% |
| 13 | Past due exposures | 36,684 | - | 36,684 | - | 37,923 | 103.4% |
| 14 | Significant exposures to commercial entities | - | - | - | - | - | - |
| 15 | Total | 380,356,991 | 45,712,412 | 380,356,991 | 9,821,449 | 247,979,890 | 63.6% |

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8 Credit risk for non-securitization exposures (continued)

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

| 31 December 2021 HK\$'000 | | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (ha) | (i) | (j) |
|------------------------------|--|---------------------|------------|-------------------|-------------------|-------------------|-------------------|--------------------|----------------|----------|----------|--|
| Exposure class | Risk Weight | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Others | Total credit risk exposures amount (post CCF and post CRM) |
| | 1 | Sovereign exposures | 27,130,258 | - | 5,229,217 | - | - | - | - | - | - | - |
| 2 | PSE exposures | - | - | 742,073 | - | - | - | - | - | - | - | 742,073 |
| 2a | Of which: domestic PSEs | - | - | 742,073 | - | - | - | - | - | - | - | 742,073 |
| 2b | Of which: foreign PSEs | - | - | - | - | - | - | - | - | - | - | - |
| 3 | Multilateral development bank exposures | - | - | - | - | - | - | - | - | - | - | - |
| 4 | Bank exposures | - | - | 53,366,687 | - | 82,115,746 | - | 4,721,842 | - | - | - | 140,204,275 |
| 5 | Securities firm exposures | - | - | - | - | 2,270,597 | - | - | - | - | - | 2,270,597 |
| 6 | Corporate exposures | - | - | 1,347,396 | - | 9,187,013 | - | 131,250,969 | 442,051 | - | - | 142,227,429 |
| 7 | CIS exposures | - | - | - | - | - | - | - | - | - | - | - |
| 8 | Cash items | 1,676,079 | - | 3,563,648 | - | - | - | 103,306 | - | - | - | 5,343,033 |
| 9 | Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis | - | - | - | - | - | - | - | - | - | - | - |
| 10 | Regulatory retail exposures | - | - | - | - | - | 22,108,973 | - | - | - | - | 22,108,973 |
| 11 | Residential mortgage loans | - | - | - | 14,944,146 | - | 750,580 | 404,201 | - | - | - | 16,098,927 |
| 12 | Other exposures which are not past due exposures | - | - | - | - | - | - | 28,786,974 | - | - | - | 28,786,974 |
| 13 | Past due exposures | - | - | - | - | - | - | 34,206 | 2,478 | - | - | 36,684 |
| 14 | Significant exposures to commercial entities | - | - | - | - | - | - | - | - | - | - | - |
| 15 | Total | 28,806,337 | - | 64,249,021 | 14,944,146 | 93,573,356 | 22,859,553 | 165,301,498 | 444,529 | - | - | 390,178,440 |

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9 Counterparty Credit risk

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

Counterparty credit risk (“CCR”) is the risk of a counterparty defaulting before the final settlement of the transaction, which generally represents uncertain exposures that can vary over time with the movement of underlying market factors such as those in over-the-counter (“OTC”) derivatives.

To mitigate the credit risk arise from counterparty, credit risk mitigation may be considered to include obtaining guarantee from a third party with stronger financial standing, or other measures such as rights of set-off, option-to-terminate and material-change triggers etc to be incorporated in the master or bilateral agreements.

The Group currently uses the current exposure method for purpose of providing capital for counterparty exposures in accordance with the Banking (Capital) Rules. Internally, the Group measures counterparty credit exposure using the marked-to-market exposure with appropriate add-on for future potential exposures.

The Group has internal limit for counterparty exposure with respect to OTC derivative contracts. When the limit is reached, the Group will take appropriate actions including reduction of the position.

Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. It is further classified into “general wrong-way risk” and “specific wrong-way risk”.

- “General wrong-way risk” arises when the probability of default of counterparties is positively correlated with general market risk factors.
- “Specific wrong-way risk” arises when the exposure to a counterparty is positively correlated with the probability of default of the counterparty due to the nature of the transaction with the counterparty.

The Group has established policies to govern the wrong-way risk. Any wrong-way risk will be assessed before considering to grant a credit line, assessment and mitigation are documented in the credit application.

A credit rating downgrade clause in International Swaps and Derivatives Association (“ISDA”) Master Agreement or a credit rating downgrade threshold clause in a Credit Support Annexes (“CSA”) is designed to trigger an action if the credit rating of the affected party falls below a specified level. These actions may include the requirement to pay or increase collateral, the termination of transactions by the non-affected party or the assignment of transactions by the affected party.

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9 Counterparty Credit risk (continued)

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

All Credit Support Annexes (“CSA”) will be centralised dealing in Global Financial Markets Department, and the Group is using mark-to-market (“MTM”) approach for collateral management. As such, the impact of downgrade of the Group to the collateral will be minimal.

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

| | | (a) | (b) | (c) | (d) | (e) | (f) |
|------------------------------|-----------------------------------|-----------------------|---------|---------------|---|---------------------------------|-----------|
| 31 December 2021 HK\$'000 | | Replacement cost (RC) | PFE | Effective EPE | Alpha (α) used for computing default risk exposure | Default risk exposure after CRM | RWA |
| 1 | SA-CCR (for derivative contracts) | 252,434 | 721,654 | | 1.4 | 1,363,723 | 615,730 |
| 1a | CEM (for derivative contracts) | - | - | | - | - | - |
| 2 | IMM (CCR) approach | | | - | - | - | - |
| 3 | Simple Approach (for SFTs) | | | | | 905,383 | 835,164 |
| 4 | Comprehensive Approach (for SFTs) | | | | | - | - |
| 5 | VaR (for SFTs) | | | | | - | - |
| 6 | Total | | | | | | 1,450,894 |

9.3 CCR2: CVA capital charge

| 31 December 2021 HK\$'000 | | (a) | (b) |
|--|--|--------------|---------|
| | | EAD post CRM | RWA |
| Netting sets for which CVA capital charge is calculated by the advanced CVA method | | - | - |
| 1 | (i) VaR (after application of multiplication factor if applicable) | | - |
| 2 | (ii) Stressed VaR (after application of multiplication factor if applicable) | | - |
| 3 | Netting sets for which CVA capital charge is calculated by the standardized CVA method | 1,304,621 | 195,913 |
| 4 | Total | 1,304,621 | 195,913 |

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9 Counterparty Credit risk (continued)

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

| 31 December 2021 HK\$'000 | | (a) | (b) | (c) | (ca) | (d) | (e) | (f) | (g) | (ga) | (h) | (i) |
|------------------------------|--|-----|-----|----------------|------|------------------|----------------|----------------|------|------|--------|---------------------------------------|
| Exposure class | | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Others | Total default risk exposure after CRM |
| 1 | Sovereign exposures | - | - | - | - | - | - | - | - | - | - | - |
| 2 | PSE exposures | - | - | - | - | - | - | - | - | - | - | - |
| 2a | Of which: domestic PSEs | - | - | - | - | - | - | - | - | - | - | - |
| 2b | Of which: foreign PSEs | - | - | - | - | - | - | - | - | - | - | - |
| 3 | Multilateral development bank exposures | - | - | - | - | - | - | - | - | - | - | - |
| 4 | Bank exposures | - | - | 289,804 | - | 1,028,981 | - | - | - | - | - | 1,318,785 |
| 5 | Securities firm exposures | - | - | - | - | - | - | - | - | - | - | - |
| 6 | Corporate exposures | - | - | - | - | - | - | 662,800 | - | - | - | 662,800 |
| 7 | CIS exposures | - | - | - | - | - | - | - | - | - | - | - |
| 8 | Regulatory retail exposures | - | - | - | - | - | 287,521 | - | - | - | - | 287,521 |
| 9 | Residential mortgage loans | - | - | - | - | - | - | - | - | - | - | - |
| 10 | Other exposures which are not past due exposures | - | - | - | - | - | - | - | - | - | - | - |
| 11 | Significant exposures to commercial entities | - | - | - | - | - | - | - | - | - | - | - |
| 12 | Total | - | - | 289,804 | - | 1,028,981 | 287,521 | 662,800 | - | - | - | 2,269,106 |

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9 Counterparty Credit risk (continued)

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

| | (a) | (b) | (c) | (d) | (e) | (f) |
|------------------------------|--|----------------|---------------------------------|--------------|--|---------------------------------|
| | Derivative contracts | | | | SFTs | |
| 30 December 2021 HK\$'000 | Fair value of recognized collateral received | | Fair value of posted collateral | | Fair value of recognized collateral received | Fair value of posted collateral |
| | Segregated | Unsegregated | Segregated | Unsegregated | | |
| Cash - domestic currency | - | - | - | - | - | - |
| Cash - other currencies | - | 332,562 | 29,439 | 3,275 | - | - |
| Domestic sovereign debt | - | - | - | - | - | - |
| Other sovereign debt | - | - | - | - | - | - |
| Government agency debt | - | - | - | - | - | - |
| Corporate bonds | - | - | - | - | - | - |
| Equity securities | - | - | - | - | - | - |
| Other collateral | - | - | - | - | - | - |
| ... | - | - | - | - | - | - |
| Total | - | 332,562 | 29,439 | 3,275 | - | - |

9.6 CCR6: Credit-related derivatives contracts

| 31 December 2021 HK\$'000 | (a) | (b) |
|---|-------------------|-----------------|
| | Protection bought | Protection sold |
| Notional amounts | | |
| Single-name credit default swaps | - | - |
| Index credit default swaps | - | - |
| Total return swaps | - | - |
| Credit-related options | - | - |
| Other credit-related derivative contracts | - | - |
| Total notional amounts | - | - |
| Fair values | | |
| Positive fair value (asset) | - | - |
| Negative fair value (liability) | - | - |

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9 Counterparty Credit risk (continued)

9.7 CCR8: Exposures to CCPs

| 31 December 2021 HK\$'000 | | (a) | (b) |
|------------------------------|---|--------------------|------------|
| | | Exposure after CRM | RWA |
| 1 | Exposures of the AI as clearing member or clearing client¹ to qualifying CCPs (total) | | 114 |
| 2 | Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which: | 5,711 | 114 |
| 3 | (i) OTC derivative transactions | 5,711 | 114 |
| 4 | (ii) Exchange-traded derivative contracts | - | - |
| 5 | (iii) Securities financing transactions | - | - |
| 6 | (iv) Netting sets subject to valid cross-product netting agreements | - | - |
| 7 | Segregated initial margin | 29,439 | |
| 8 | Unsegregated initial margin | - | - |
| 9 | Funded default fund contributions | - | - |
| 10 | Unfunded default fund contributions | - | - |
| 11 | Exposures of the AI as clearing member or clearing 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 | - | - |

¹ "Clearing client" here may mean a direct client, or an indirect client within a multi-level client structure, as applicable. These terms have the meaning given by the BCR.

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10 Market risk

10.1 MRA: Qualitative disclosures related to market risk

The Group has established risk governance management framework to oversee and monitor market risk. This framework is built around a structure that enables the Board to discharge the responsibility for on-going market risk management to the Risk Committee (“RC”), the Management Committee (“MC”), the Risk Management Committee (“RMC”) and the Asset and Liability Management Committee (“ALCO”). The ALCO deals with all market risk limits issues of the Group and decides the corresponding strategy while RMC is responsible for conducting a regular review of market risk faced by the Group, stress testing and deciding the Market Risk Appetite of the Group. Risk appetite has been defined in accordance with the Group’s business strategies and objectives to govern the trading book activities; and under the approved risk appetite, risk limits and management action triggers are set with reference to the nature, volume of transaction and risk appetite of the Group. Market Risk Appetite is approved by the Board and the market risk limits are approved by the MC.

The Group has implemented Enterprise Risk Management framework for identifying and managing potential risks of the Group. Under such framework, three lines of defence are adopted for market risk management. The first line of defence comprises risk owners at business units. They are primarily responsible for the day-to-day market risk management. The second line of defence refers to the Market Risk Management Department (“MRD”) and the third line of defence refers to the Audit Department.

MRD coordinates market risk management related matters of the Group and formulates market risk management policies. MRD also carries out the daily monitoring of the market risk/trading book position and reports to the Risk Management Department and Group’s Chief Risk Officer who is responsible for overseeing the Group’s risk management issues which include, but are not limited to, the risk management infrastructure, strategies, appetites, culture and resources.

Market risk management policies have been set up to identify, measure, monitor, control, and report on the market risk, where appropriate, to allocate adequate capital to cover those risks. Market risk management policies and limits are regularly reviewed and monitored to align with market changes, statutory requirements, and best practices in risk management processes.

Different systems are employed to facilitate the calculation, measurement, analysis and reporting of market risk and risk reports are prepared for different level of governance on a regular basis. Through different policies, sensitivity analysis, stress testing and limit structures, market risk analysis is conducted on different dimensions, including but not limited to risk factors, concentration, currencies and duration in the form of potential loss and impact to capital adequacy.

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10 Market risk (continued)

10.2 MR1: Market risk under STM approach

| 31 December 2021 HK\$'000 | | (a) |
|------------------------------|--|------------------|
| | | RWA |
| | Outright product exposures | |
| 1 | Interest rate risk (general and specific risk) | 918,925 |
| 2 | Equity exposures (general and specific risk) | - |
| 3 | Foreign exchange (including gold) exposures | 3,907,125 |
| 4 | Commodity exposures | - |
| | Option exposures | |
| 5 | Simplified approach | - |
| 6 | Delta-plus approach | 2,025 |
| 7 | Other approach | - |
| 8 | Securitization exposures | - |
| 9 | Total | 4,828,075 |

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11 Interest rate risk in banking book

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

Qualitative Disclosures of Interest Rate Risk in Banking Book (IRRBB)

This section contains qualitative disclosures providing a description of the risk management objective and policies concerning IRRBB.

a) Definition of IRRBB for the purpose of risk control and measurement.

The Group defines IRRBB as risk to loss to the exposure of the Group's financial condition to adverse movements in interest rates that affect the banking book positions.

Excessive interest rate risk can pose a significant threat to the Group's earnings and capital base. Changes in interest rate can affect both the underlying economic value of the Group's assets, liabilities and off -balance sheet instruments and its net interest income.

IRRBB comprises:

GAP risk arises from changes in the interest rates on instruments of different maturities. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve or differentially by period.

Basis risk arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics.

Option risk arises from interest rate option derivatives or from optional elements embedded in the Group's assets, liabilities and OBS portfolios, where the Group or the customer can make elections such as prepayment of a loan or early redemption of a deposit that alter the timing and amount of their cash flows.

b) The Group's IRRBB management and mitigation strategies

IRRBB is centrally coordinated in Asset and Liability Management Committee. Market Risk Management Department and Financial Management Department are responsible for the interest rate monitoring and reporting. The Board of directors has the ultimate jurisdictions for conducting interest rate risk control practices, oversees and ensures that the risk is in line with the risk appetite set out by the Board. The Board of directors has delegated its responsibility for IRRBB management to Management Committee (MC). MC ensures that the IRRBB is within the range set by the Board, providing the

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11 Interest rate risk in banking book (continued)

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

recommendation on IRRBB management to the Board. ALCO is a standing committee established under the MC to assist the MC in Asset and Liability management of the Group and the IRRBB is included in its working areas.

As the Board assumes ultimate responsibility for IRRBB, the Board has defined the Group's overall risk appetite for IRRBB. Appropriate limits have been set to measure this risk for earnings and Economic Value of Equity (EVE). Compliance with this limit is measured and reported to ALCO and the Board.

ALCO's functions include: reviewing and discussing the IRRBB framework to identify, measure, evaluate, control and monitor IRRBB in the Group's balance sheet, access and manage the risk on Bank-wide assets and liabilities whenever new interest rate environment arises. Measurement outcomes including outcome analysis of EVE and net interest income (NII) would also be reported to ALCO periodically.

Hedging – The Group primarily maintains its risk position within the desired level through adjustments to balance composition and does not intent as a matter of normal hedge the interest rate risk. However, if or when a hedge is concluded to be executed the proper documentation is maintained and accounting is done as per relevant HKFRS standards.

Conduct of Stress Testing – The Group currently conducts stress tests for net income variation, by assessing the impact of parallel/down interest rate shocks on the Group's earnings in NII. In addition, EVE stress tests under 6 standard scenarios as required by the HKMA have been adopted by the Group.

Model Validation – The Group has set up the model validation framework which covers the IRRBB models. The model validation would be carried out when an internal model is initially developed or when a significant change is made in the model. All new model and any revisions to existing models will be presented to ALCO for approval.

The Group has implemented Enterprise Risk Management framework for identifying and managing potential risks of the Group. Under such framework, three lines of defence are adopted for interest rate risk management. The first line of defence comprises risk owners at business units. They are primarily responsible for the day-to-day interest risk management.

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11 Interest rate risk in banking book (continued)

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

The second line of defence refers to the Market Risk Management Department (“MRD”) and the third line of defence refers to the Audit Department.

Risk measure scenarios: The Group has adopted the HKMA regulatory scenarios on the Δ EVE and Δ NII risk measures. Beyond the regulatory scenarios, the Group will also review periodically and consider if additional internal interest rate shock scenarios is necessary to apply reflecting the changes in macroeconomic conditions and specific interest rate environments.

c) The periodicity of the calculation of the Group’s IRRBB measures

The Group would undertake its IRRBB measurement on a monthly basis to measure interest rate sensitivity in banking book on both interest earning and economic value basis. This would include the stress tests of earning and economic value for multiple stress interest rate scenarios.

Earning Approach: This is defined by calculating the impact of changes in interest rate on the Group’s earnings over the next 12 month. Under this approach, the impact on earnings is measured by the changes in the NII by assuming a constant balance sheet implying that the repricing or maturing cash flow should be replaced by new cash flow with the same amount, repricing period and spread component.

Economic Value approach (EVE): EVE sensitivity is computed with the assumption of a run-off balance sheet implying that the existing interest sensitive positions in the Banking book are amortized based on the repricing cash flows and are not replaced by any new business. EVE measures the changes in present value of the cash flow generated from assets and liabilities which depicts the changes in economic equity resulting from an interest rate shock.

d) Interest rate shock and stress scenarios

The Group has adopted the six standard interest rate shock scenarios which are prescribed in the Basel guideline. They are namely parallel up, parallel down, short rate up, short rate down, flattener and steepener. All scenarios are subject to the -2% floor.

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11 Interest rate risk in banking book (continued)

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

| <i>HKD scenario</i> ¹ | Description |
|----------------------------------|--|
| Parallel up | rate for all tenors move by +200 bps |
| Parallel down | rate for all tenors move by - 200 bps |
| Steeper | short rate moves by -162 bps, long rate moves by +90 bps |
| Flatter | short rate moves by +200 bps, long rate moves by -60 bps |
| Short rate up | short rate moves by +250 bps, long rate moves by +1 bps |
| Short rate down | Short rate moves by -250 bps, long rate moves by -1 bps |

¹ The six scenarios for other currencies have a similar shape but different magnitudes, the parallel shocks are 200 basis points for USD, 250 basis points for CNH/CNY and 300 basis points for AUD. The short rate stands for overnight tenors and long rate refers to a 20 year tenor of the yield curve. The rate moves at different tenors are calculated according to the formula provided by HKMA.

While 6 scenarios are applied for Δ EVE calculations, only the parallel up/down are used to compute the Δ NII in the income approach.

e) Modeling assumptions

The assumption used in the Group's internal measurement systems aligns with the assumption prescribed for the disclosure in template IRRBB1.

f) IRRBB hedging

The Group does not fully hedge the interest rate risk but targets to maintain its IRRBB position at a desired level, within the risk appetite, through strategic planning of balance sheet composition including an appropriate tenor and repricing mix of fixed and floating rate products.

g) Key modeling assumption

The modeling assumptions considered for the computation of Δ EVE and Δ NII:

- For Δ EVE commercial margins and other spread components have been included in the cash flow. The spread components are slotted according to their payment schedule until contractual maturity and risk free rate is used in discounting.
- There is no behavioral model for non-maturity deposits (NMDs) and these products are assumed to be repriced and matured in the next business date bucket. (The average and longest maturity is 0.0028 year).
- A conditional prepayment rate (CPR) has been computed for the retail loan portfolio based on historical data by using logistic regression model.
- The early withdrawal rate (TDRR) is estimated by the historical average early withdrawal rate.

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11 Interest rate risk in banking book (continued)

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

- The Group has significant currency exposure in HKD, USD, CNH and CNY. The Group also includes minor currency exposures in the terms of basis currency (HKD) by using the conversion rate as on the reporting date. Accordingly, significant interest rate correlations between different currencies are not applicable.

11.2 IRRBB1: Quantitative information on interest rate risk in banking book

Quantitative Disclosures of IRRBB

Among the six scenarios, the max of Δ EVE loss is under the parallel up scenario. Compare with last year end, the increase of Δ EVE loss was due to the increasing of CNY Bond position in the 1.5 to 7 years. The increasing in CNY Bond position cause the Δ EVE loss increased by HK\$1,754 million under parallel up scenario.

The change of Δ NII between 31 December 2020 to 31 December 2021 is due to the increasing of negative CNH gap position within 1 year.

| HK\$ Million | | (a) | (b) | (c) | (d) |
|--------------|-----------------------|-------------------------|------------------|-------------------------|------------------|
| | | Δ EVE | | Δ NII | |
| | Period | 31 December 2021 | 31 December 2020 | 31 December 2021 | 31 December 2020 |
| 1 | Parallel up | 4,411 | 2,311 | 415 | 9 |
| 2 | Parallel down | 205 | 116 | -415 | -7 |
| 3 | Steeper | 292 | 411 | | |
| 4 | Flattener | 697 | 388 | | |
| 5 | Short rate up | 2,189 | 1,035 | | |
| 6 | Short rate down | 184 | 66 | | |
| 7 | Maximum | 4,411 | 2,311 | 415 | 9 |
| | Period | 31 December 2021 | | 31 December 2020 | |
| 8 | Tier 1 capital | 46,727 | | 40,859 | |

CMB WING LUNG BANK LIMITED

12 Remuneration

12.1 REMA: Remuneration policy

The Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee (“Remuneration Committee”) is established with specific terms of reference and chaired by an independent non-executive director with majority of its members (over 50%) are independent non-executive directors. The Remuneration Committee is delegated by the Board with the authority and duties to study, review and approve the Bank’s remuneration policy and to monitor its implementation in the Bank (including its subsidiaries and overseas branches). The Remuneration Committee is also responsible for reviewing and approving the remuneration of the Bank’s Senior Management and Key Personnel.

Senior Management are Management Committee members including Chairman, Chief Executive Officer, General Managers and Deputy General Managers, who are responsible for oversight of the firm-wide strategy or activities or those of the material business lines.

Key Personnel are employees whose duties or activities in the course of their employment involve the assumption of material risk or the taking on of material exposures on behalf of the Bank, including Chief Business Officer, Chief Financial Officer, Chief Information Officer, Chief Risk Officer*, Assistant General Managers, Director of Operations Management, and business Department/Subsidiary Heads (including Acting Department/ Subsidiary Heads) directly report to Chief Executive Officer, General Managers, Deputy General Managers or Chief Business Officer.

* Chief Risk Officer’s role is performed by General Manager.

Design & Structure of Remuneration Process

The remuneration policy of the Bank is designed to encourage employee behavior that supports the Bank’s overall business goals and objectives, long-terms financial soundness and risk management framework. It aims to create long-term value for the Bank and to align the remuneration of employees with the Bank’s profitability, time horizon of risks and capital adequacy.

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12 Remuneration (continued)

12.1 REMA: Remuneration policy (continued)

The risk control functions of the Bank conduct regular review (at least annually), independent of the Bank's Management, on the adequacy and effectiveness of the Bank's remuneration policy and its implementation to ensure that it is consistent with regulatory requirements and promotes effective risk management. The remuneration policy is then reviewed and approved in the Remuneration Committee meeting held once a year. Risk control personnel are compensated in a manner that is independent of the business areas they oversee, aligned with their performance objectives and commensurate with their respective roles in the Bank.

Remuneration Structure

The remuneration of employees is composed of an appropriate mix of fixed and variable remuneration. Fixed remuneration includes salaries, allowances, year-end payments and pension contributions. Variable remuneration refers to cash bonus payments and is awarded based on the performance of the Bank, units and individual employees. The fixed remuneration is set at a level which is sufficient to attract and retain employees with relevant skills, knowledge and expertise to discharge their functions while the award of variable remuneration does not induce excessive risk taking. The size and allocation of variable remuneration take into account of the full range of current and potential risks associated with the relevant employees' activities. The proportion of variable remuneration to total remuneration generally increases in line with the seniority, roles, responsibilities and activities of employees within the Bank.

Performance Measurement

Pre-determined performance criteria including both financial and non-financial factors are used to assess the performance of individual employees and support the award of variable remuneration. Financial factors include quantitative measures such as profit, revenue, turnover or volume. Non-financial factors include criteria such as adherence to risk management policies, compliance with legal/ regulatory/ ethical standards, result of internal audit reviews, adherence to corporate values and customer satisfaction. The non-financial factors constitute a significant part of employees' overall performance measurement. In general, both quantitative measures and qualitative assessments play vital roles in determining risk adjustments and assessments for all types of risks.

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12 Remuneration (continued)

12.1 REMA: Remuneration policy (continued)

Deferral Arrangement

A proportion of the employees' variable remuneration is required to be deferred and be realized over a timeframe if the payout amount reaches a certain prescribed threshold so as to allow their performance and the associated risks to be observed and validated over a sufficient period of time.

The award of deferred variable remuneration is subject to a 3-year vesting period and pre-defined vesting conditions. The payment of deferred variable remuneration will be made gradually over the vesting period and no faster than on a pro-rata basis.

In circumstances where it is later established that any performance measurement on the part of the relevant employees was based on data which is later proven to have been manifestly misstated, or there has been fraud or other malfeasance, or violations of regulations or the Bank's policies, or misconduct that leads to significant deterioration of the Bank's financial performance or economic capital, the unvested portion of deferred variable remuneration of the relevant employees will be forfeited or claw-back.

Remuneration Instrument

The remuneration (including fixed and variable portions) is paid in cash.

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12 Remuneration (continued)

12.2 REM1: Remuneration awarded during financial year

| 31 December 2021 | | | (a) | (b) |
|--|---------------------------|--|-------------------------------|---------------------------|
| Remuneration amount and quantitative information | | | Senior management HK\$'000 | Key personnel HK\$'000 |
| 1 | Fixed remuneration | Number of employees | 7 | 28 |
| 2 | | Total fixed remuneration | 24,264 | 36,457 |
| 3 | | Of which: cash-based | 24,264 | 36,457 |
| 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 | 6 | 18 |
| 10 | | Total variable remuneration | 18,046 | 17,922 |
| 11 | | Of which: cash-based | 18,046 | 17,922 |
| 12 | | Of which: deferred | 8,858 | 5,417 |
| 13 | | Of which: shares or other share-linked instruments | - | - |
| 14 | | Of which: deferred | - | - |
| 15 | | Of which: other forms | - | - |
| 16 | | Of which: deferred | - | - |
| 17 | Total remuneration | | 42,310 | 54,379 |

12.3 REM2: Special payments

| 31 December 2021 | | (a) | (b) | (c) | (d) | (e) | (f) |
|------------------|-------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|--------------------------|
| Special payments | | Guaranteed bonuses | | Sign-on awards | | Severance payments | |
| | | Number of employees | Total amount HK\$'000 | Number of employees | Total amount HK\$'000 | Number of employees | Total amount HK\$'000 |
| 1 | Senior management | - | - | - | - | - | - |
| 2 | Key personnel | - | - | - | - | - | - |

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12 Remuneration (continued)

12.4 REM3: Deferred remuneration

| 31 December 2021 | | (a) | (b) | (c) | (d) | (e) |
|------------------------------------|-------------------------|---|---|---|---|--|
| Deferred and retained remuneration | | Total amount of outstanding deferred remuneration HK\$'000 | Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment HK\$'000 | Total amount of amendment during the year due to ex post explicit adjustments (Resignation) HK\$'000 | Total amount of amendment during the year due to ex post implicit adjustments HK\$'000 | Total amount of deferred remuneration paid out in the financial year HK\$'000 |
| 1 | Senior management | | | | | |
| 2 | Cash | 12,880 | 12,880 | - | - | 6,876 |
| 3 | Shares | - | - | - | - | - |
| 4 | Cash-linked instruments | - | - | - | - | - |
| 5 | Other | - | - | - | - | - |
| 6 | Key personnel | | | | | |
| 7 | Cash | 10,418 | 10,418 | - | - | 4,220 |
| 8 | Shares | - | - | - | - | - |
| 9 | Cash-linked instruments | - | - | - | - | - |
| 10 | Other | - | - | - | - | - |
| 11 | Total | 23,298 | 23,298 | - | - | 11,096 |