

Capital Disclosures Template – Explanatory Note

1. To facilitate international comparison, an authorized institution (“AI”), in making disclosures based on this template, must reproduce all rows (i.e. from number 1 to number 85) except for the subdivisions of rows under row numbers 26, 41 and 56 (e.g. 26a, 26b, 26c etc) where the AI may select or insert rows to include items that are applicable to it. Where the item described in any particular row is not applicable to an AI (e.g. because the AI does not have the item or the item is not applicable to Hong Kong), the AI must still retain the row and include an indication that the item is not applicable in its disclosures.
2. Certain emphases are incorporated in the presentation of the template to better explain its structure:
 - (i) Rows with item titles in italics are rows that will be deleted after all the ineligible capital instruments have been fully phased out (i.e. from 1 January 2022 onwards¹).
 - (ii) Shaded rows with borders indicate as follows:
 - A row shaded dark grey introduces a new section which provides details of a certain component of regulatory capital.
 - A row shaded light grey, with no thick border, represents the sum of cells in the relevant section above it.
 - A row shaded light grey, with a thick border, indicates a key component of regulatory capital and the regulatory capital ratios.
 - A row shaded yellow represents an item that is not applicable to Hong Kong.
3. The table below provides a detailed explanation of the item in each row of the template. Where appropriate, references to relevant sections of the Banking (Capital) Rules (“BCR”) are also included for ease of reference.

¹ According to paragraph 94(g) of the Basel III text, recognition of capital instruments that no longer qualify as non-common equity Tier 1 capital or Tier 2 capital will be capped at 90% of the notional amount of such instruments outstanding on 1 January 2013, with the cap reducing by 10% in each subsequent year (i.e. until 1 January 2022).

Row number	Explanatory note
1	Instruments issued by an AI that meet all the qualifying criteria for Common Equity Tier 1 (“CET1”) capital as set out in Schedule 4A of the BCR. This should be equal to the sum of ordinary shares (and any related share premium) and other capital instruments (in the case of non-joint stock companies) which meet the qualifying criteria. This item should be net of treasury stock and other investments in own shares to the extent that such investments are already derecognized on the balance sheet under the relevant accounting standards. Other paid-in capital elements must be excluded. All minority interests must be excluded.
2	Retained earnings, prior to all regulatory deductions, in accordance with section 38(1)(c) of the BCR. This row should include an AI’s unaudited profit or loss for the current financial year and profit or loss of the immediately preceding financial year pending audit completion. Dividends are to be removed in accordance with the applicable accounting standards, i.e. they should be removed from this row when they are removed from the balance sheet of the AI.
3	Disclosed reserves (including accumulated other comprehensive income), prior to all regulatory deductions.
4	Directly issued capital instruments subject to phase out from CET1. This row is only applicable to non-joint stock companies which are not relevant in the case of Hong Kong.
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties. Only the amount that is eligible for inclusion in the CET1 capital of the consolidation group should be reported here, as determined by the application of Schedule 4D of the BCR.
6	Sum of rows 1 to 5.
7	Prudential valuation adjustments according to the requirements of section 43(1)(g) of the BCR and paragraph 4.5 of the Supervisory Policy Manual module on “Financial Instrument Fair Value Practices” (CA-S-10).
8	Goodwill net of deferred tax liabilities, as referred to in section 43(1)(a) of the BCR.
9	Other intangible assets, including mortgage servicing rights (“MSRs”), if any (net of related deferred tax liabilities), as referred to in section 43(1)(b) of the BCR.
10	Deferred tax assets (“DTAs”) (net of related deferred tax liabilities), as set out in section 43(1)(d) of the BCR.

Row number	Explanatory note
11	Cumulative cash-flow hedge reserves that relate to the hedging of financial instruments that are not fair valued on the balance sheet (including projected cash flows) described in section 38(2)(a) of the BCR.
12	Excess of total EL amount over total eligible provisions under the internal ratings-based (“IRB”) approach as described in section 43(1)(i) of the BCR.
13	Gain-on-sale arising from securitization transactions in which the AI is the originating institution as referred to in section 43(1)(e) of the BCR.
14	Gains and losses due to changes in own credit risk on fair valued liabilities, as described in section 38(2)(b) of the BCR, and debit valuation adjustments in respect of derivative contracts as referred to in section 43(1)(h) of the BCR.
15	Defined-benefit pension fund net assets (net of deferred tax liabilities), to which the AI cannot demonstrate unrestricted and unfettered access to the satisfaction of the Monetary Authority, the amount to be deducted as referred to in section 43(1)(c) of the BCR.
16	Investments in own CET1 capital instruments, as referred to in section 43(1)(l) of the BCR.
17	Reciprocal cross-holdings in CET1 capital instruments, as referred to in section 43(1)(m) of the BCR.
18	Amount of insignificant capital investments in CET1 capital instruments issued by financial sector entities outside the scope of regulatory consolidation that is in excess of the 10% threshold according to Schedule 4F of the BCR after taking into account any amount of loans, facilities or other credit exposures that is required (i) by section 46(2) of the BCR to be aggregated with this item for the purpose of determining the excess amount, and (ii) by section 43(1)(o) of the BCR to be deducted from CET1 capital.
19	Amount of significant capital investments in CET1 capital instruments issued by financial sector entities outside the scope of regulatory consolidation that is in excess of the 10% threshold according to Schedule 4G of the BCR, after taking into account any amount of loans, facilities or other credit exposures that is required (i) by section 46(2) of the BCR to be aggregated with this item for the purpose of determining the excess amount, and (ii) by section 43(1)(p) of the BCR to be deducted from CET1 capital.

Row number	Explanatory note
20	This row is not applicable in the case of Hong Kong given that any amount of MSRs on an AI's balance sheet will be included in row 9 (other intangible assets) and fully deducted in accordance with section 43(1)(b) of the BCR.
21	This row is not applicable in the case of Hong Kong given that DTAs, net of deferred tax liabilities, will be included in row 10 and fully deducted from CET1 capital in accordance with section 43(1)(d) of the BCR.
22	This row is irrelevant as the "15% threshold" is not applicable to Hong Kong since MSRs and DTAs are required to be fully deducted under the BCR.
23	This row is irrelevant as the "15% threshold" is not applicable to Hong Kong since MSRs and DTAs are required to be fully deducted under the BCR.
24	This row is irrelevant as the "15% threshold" is not applicable to Hong Kong since MSRs and DTAs are required to be fully deducted under the BCR.
25	This row is irrelevant as the "15% threshold" is not applicable to Hong Kong since MSRs and DTAs are required to be fully deducted under the BCR.
26	Specific regulatory adjustments that the Monetary Authority requires AIs to apply to CET1 capital in addition to the adjustments required under Basel III, to be calculated as the sum of rows 26a to 26f and any other new rows inserted between rows 26 and 27, if applicable.
26a	Cumulative fair value gains arising from revaluation of land and buildings (covering both own-use and investment properties) as set out in section 38(2)(c) and (d) of the BCR.
26b	Regulatory reserve for general banking risks as referred to in section 38(2)(e) of the BCR.
26c	Any securitization exposures specified in a notice given by the Monetary Authority pursuant to section 43(1)(f) of the BCR.
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings as referred to in section 43(1)(j) of the BCR.
26e	Capital shortfall of regulated non-bank subsidiaries as specified in section 43(1)(k) of the BCR.
26f	Amount of the sum of any capital investment in commercial connected entities that is in excess of 15% of the capital base of the

Row number	Explanatory note
	AI (as reported in its capital adequacy return as at the immediately preceding calendar quarter end date according to section 43(1)(n) of the BCR), taking into account any amount of loans, facilities or other credit exposures that is required by section 46(1) of the BCR to be aggregated with this item for the purpose of determining the excess amount subject to deduction.
27	Regulatory deductions applied to CET1 capital due to insufficient Additional Tier 1 (“AT1”) capital being available to cover deductions, as required under section 43(1)(r) of the BCR. If the amount reported in row 43 exceeds the amount reported in row 36, the excess is to be reported here.
28	Total regulatory deductions to CET1 capital, to be calculated as the sum of rows 7 to 19 plus rows 26 and 27.
29	CET1 capital, to be calculated as row 6 minus row 28.
30	Instruments issued by an AI that meet all the qualifying criteria for AT1 capital as set out in Schedule 4B of the BCR, and any related share premium as referred to in section 39(1)(b) of the BCR. All instruments issued by subsidiaries of the consolidation group should be excluded from this row. This row may however include AT1 capital instruments issued by an SPV of the institution only if it meets the requirements set out in section 39(3) and Schedule 4B of the BCR.
31	The amount of instruments in row 30 classified as equity under applicable accounting standards.
32	The amount of instruments in row 30 classified as liabilities under applicable accounting standards.
33	Capital instruments subject to phase out from AT1 capital in accordance with the requirements of Schedule 4H of the BCR.
34	Applicable amount of capital instruments issued by consolidated bank subsidiaries and held by third parties allowed to be recognized in consolidated AT1 capital in accordance with Schedule 4D of the BCR.
35	The amount reported in row 34 that relates to instruments subject to phase out from AT1 capital in accordance with Schedule 4H of the BCR.
36	The sum of rows 30, 33 and 34.
37	Investments in own AT1 capital instruments, as referred to in section 47(1)(a) of the BCR.

Row number	Explanatory note
38	Reciprocal cross-holdings in AT1 capital instruments, as referred to in section 47(1)(b) of the BCR.
39	Amount of insignificant capital investments in AT1 capital instruments issued by financial sector entities outside the scope of regulatory consolidation that is in excess of the 10% threshold according to Schedule 4F of the BCR, and is required to be deducted from AT1 capital in accordance with section 47(1)(c) of the BCR.
40	Amount of significant capital investments in AT1 capital instruments issued by financial sector entities outside the scope of regulatory consolidation that is required to be deducted from AT1 capital in accordance with section 47(1)(d) of the BCR.
41	Specific regulatory deductions that the Monetary Authority requires AIs to apply to AT1 capital in addition to the adjustments required under Basel III, to be calculated as the sum of any other new rows inserted between rows 41 and 42, if applicable.
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital being available to cover deductions. If the amount reported in row 57 exceeds the amount reported in row 51, the excess is to be reported here.
43	The sum of rows 37 to 40 (or 41 if applicable) and 42.
44	AT1 capital, to be calculated as row 36 minus row 43. If the amount reported in row 43 exceeds the amount reported in row 36, include the excess amount in row 27 and report zero here.
45	Tier 1 capital, to be calculated as row 29 plus row 44.
46	Instruments issued by an AI that meet all the qualifying criteria for Tier 2 capital as set out in Schedule 4C of the BCR and any related share premium as referred to in section 40(1)(b) of the BCR. All instruments issued by subsidiaries of the consolidation group should be excluded from this row. This row may however include Tier 2 capital instruments issued by an SPV of the institution only if it meets the requirements set out in section 40(3) and Schedule 4C of the BCR.
47	Capital instruments subject to phase out from Tier 2 capital in accordance with the requirements of Schedule 4H of BCR.
48	Applicable amount of capital instruments issued by consolidated bank subsidiaries and held by third parties allowed to be recognized in consolidated Tier 2 capital in accordance with Schedule 4D of BCR.

Row number	Explanatory note
49	The amount reported in row 48 that relates to capital instruments subject to phase out from Tier 2 capital in accordance with the requirements of Schedule 4H of BCR.
50	The aggregate amount of the institution's regulatory reserve for general banking risks and collective provisions related to the basic ("BSC") approach and/or the standardized (credit risk) approach ("STC approach") and the standardized (securitization) approach ("STC(S) approach"), surplus provisions for exposures calculated by using the IRB approach, and the portion of the institution's total regulatory reserve for general banking risks and collective provisions that is apportioned to the internal ratings-based (securitization) approach ("IRB(S) approach"), allowed to be included in Tier 2 capital, calculated in accordance with section 42 of the BCR.
51	The sum of rows 46 to 48 and 50.
52	Investments in own Tier 2 capital instruments, as referred to in section 48(1)(a) of the BCR.
53	Reciprocal cross-holdings in Tier 2 capital instruments, as referred to in section 48(1)(b) of the BCR.
54	Amount of insignificant capital investments in Tier 2 capital instruments issued by financial sector entities outside the scope of regulatory consolidation that is in excess of the 10% threshold according to Schedule 4F of the BCR, and is required to be deducted from Tier 2 capital in accordance with section 48(1)(c) of the BCR.
55	Amount of significant capital investments in Tier 2 capital instruments issued by financial sector entities outside the scope of regulatory consolidation that is required to be deducted from Tier 2 capital in accordance with section 48(1)(d) of the BCR.
56	Specific regulatory adjustments that the Monetary Authority requires AIs to apply to Tier 2 capital in addition to the minimum adjustments required under Basel III, to be calculated as the sum of any new rows inserted between rows 56 and 57, if applicable.
56a	The portion (i.e. 45%) of the property revaluation reserve that is permitted to be included / added back as Tier 2 capital under section 40(1)(d) of the BCR. This item has the effect of reducing the total regulatory deductions to Tier 2 capital and must be reported as a negative figure.
57	The sum of rows 52 to 56.

Row number	Explanatory note
58	Tier 2 capital, to be calculated as row 51 minus row 57. If the amount reported in row 57 exceeds the amount reported in row 51, include the excess amount in row 42 and report zero here.
59	Total capital, to be calculated as row 45 plus row 58.
60	Total risk weighted assets of the reporting group.
61	CET1 capital ratio (as a percentage of risk weighted assets), to be calculated as row 29 divided by row 60 (expressed as a percentage).
62	Tier 1 capital ratio (as a percentage of risk weighted assets), to be calculated as row 45 divided by row 60 (expressed as a percentage).
63	Total capital ratio (as a percentage of risk weighted assets), to be calculated as row 59 divided by row 60 (expressed as a percentage).
64	Institution-specific buffer requirement (minimum CET1 requirement, plus capital conservation buffer, plus countercyclical buffer requirements, plus any G-SIB or D-SIB requirements, all expressed as a percentage of risk weighted assets), to be calculated as 4.5% minimum CET1 requirement, plus 2.5% capital conservation buffer requirement, plus the institution-specific countercyclical buffer requirement (calculated in accordance with the applicable countercyclical buffer requirements in force in the jurisdictions in which the AI has exposures) and the institution specific G-SIB or D-SIB requirements. The CET1 requirement reported in this row does not take into account any “Pillar 2 add-on” which may form part of an AI’s minimum CET1 requirement in Hong Kong.
65	The amount in row 64 (expressed as a percentage of risk weighted assets) that relates to the capital conservation buffer (i.e. AIs will report 2.5% here).
66	The amount in row 64 (expressed as a percentage of risk weighted assets) that relates to the institution-specific countercyclical buffer requirement.
67	The amount in row 64 (expressed as a percentage of risk weighted assets) that relates to any G-SIB or D-SIB requirements applicable to the AI.
68	CET1 capital which is in excess of the sum of (i) the 4.5% minimum CET1 requirement under section 3B of the BCR; and (ii) any other CET1 capital required to meet the minimum Tier 1 and Total capital requirements under sections 43(1)(r) and 47(1)(g) of the BCR.

Row number	Explanatory note
69	This row is not applicable in the case of Hong Kong where the CET1 capital ratio is as defined under Basel III.
70	This row is not applicable in the case of Hong Kong where the Tier 1 capital ratio is as defined under Basel III.
71	This row is not applicable in the case of Hong Kong where the Total capital ratio is as defined under Basel III.
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities outside the regulatory scope of consolidation, to the extent that such holdings are not reported in row 18, row 39 and row 54.
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the regulatory scope of consolidation, to the extent that such holdings are not reported in row 19.
74	This row is not applicable in the case of Hong Kong. Please refer to row 20.
75	This row is not applicable in the case of Hong Kong. Please refer to row 21.
76	Amount of an AI's regulatory reserve for general banking risks and collective impairment allowances related to the BSC approach and/or the STC approach and the STC(S) approach eligible for inclusion in Tier 2 capital, calculated in accordance with section 42(1) or 42(2) of the BCR, where applicable, prior to the application of the cap.
77	Cap for inclusion of regulatory reserve for general banking risks and collective impairment allowances related to the BSC approach and/or the STC approach and the STC(S) approach in Tier 2 capital, calculated in accordance with section 42(1) or 42(2) of the BCR, where applicable.

Row number	Explanatory note
78	The sum of surplus provisions for exposures calculated by using the IRB approach and the portion of an AI's total regulatory reserve for general banking risks and collective provisions that is apportioned to the IRB(S) approach in Tier 2 capital, calculated in accordance with section 42(2), (3) and (4) of the BCR, prior to the application of the cap.
79	Cap for inclusion of surplus provisions for exposures calculated by using the IRB approach and the portion of an AI's total regulatory reserve for general banking risks and collective provisions that is apportioned to the IRB(S) approach in Tier 2 capital, calculated in accordance with section 42(2), (3) and (4) of the BCR.
80	This row is only applicable to non-joint stock companies which are not relevant in the case of Hong Kong.
81	This row is only applicable to non-joint stock companies which are not relevant in the case of Hong Kong.
82	Current cap on AT1 capital instruments subject to phase-out arrangements, calculated according to Schedule 4H of the BCR.
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities).
84	Current cap on Tier 2 capital instruments subject to phase-out arrangements, calculated according to Schedule 4H of the BCR.
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities).

4. Given that certain capital elements under the BCR carry a more conservative definition relative to those under the Basel III framework, an AI is required to separately disclose the impact of each of these different definitions in the “Notes to the template” to facilitate comparison by market participants of its capital position with banks in other jurisdictions. In this regard, an AI should make disclosures in accordance with those notes. Where appropriate, an AI should include additional description to substantiate the difference in cases where the standard description does not adequately explain the specific circumstances of the AI.