Annex 1: Capital treatments for exposures covered by the Programmes after the transfer of the GI business

1. The STC approach

Programmes	Capital treatments	Return of Capital Adequacy Ratio (MA(BS)3)
1. Mortgage Insurance Programme 2. Reverse Mortgage Programme 3. Premium Loan Insurance Scheme 4. SME Financing Guarantee Scheme (other than the 80% Guarantee Scheme supported by the Government's commitment)	The portion of a loan granted by an AI insured or guaranteed by the HKMCI can be regarded as a credit exposure to the HKMCI ("deemed exposure") covered by the HKMC guarantee. The credit risk mitigation ("CRM") effect of the HKMC guarantee is taken into account in the calculation of the risk-weighted amount of the deemed exposure by substituting the risk-weight applicable to the HKMC for the risk-weight applicable to the HKMCI and in accordance with the provisions of the BCR relating to recognized guarantee. The portion of the loan that is not insured or guaranteed by the HKMCI should be assigned the risk-weight applicable to the exposure class to which the loan belongs.	In Part IIIb Division A: (i) the <u>whole</u> principal amount of the loan will be reported in the column "Principal Amount" under the exposure class to which the loan belongs (e.g. residential mortgage loan) (despite the fact that part of the loan is regarded as a credit exposure to the HKMCI (i.e. corporate exposure) for the purposes of the application of the BCR). In other words, there is no need to split the principal amount into two different exposure classes (e.g. Class VI (Corporate Exposures) for the deemed exposure and Class X (Residential Mortgage Loans) for the portion that is not covered by the HKMCI's mortgage insurance);

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		(ii) the CRM effect of the HKMC guarantee on the deemed exposure will be reflected in the Return by reporting the credit protection covered portion of the deemed exposure in the column "Principal Amount after CRM" under Class II item 4 (Domestic PSEs) and in the row for the risk-weight applicable to the HKMC; and (iii) the portion of the loan that is not covered by the HKMCI's insurance or guarantee, if any, will be reported in the column "Principal Amount after CRM" under the exposure class to which the loan belongs. (Note: Recognizing that the capital treatments, which are transitional in nature, will affect only about 3 position dates (end-June, end-September and end-December) and there is essentially no change in the credit risk to which AIs are exposed, the HKMA is inclined to keep the reporting arrangements unchanged in order to preserve comparability of data across different position dates and to avoid distortion of the risk

Programmes	Capital treatments	Return of Capital Adequacy Ratio (MA(BS)3)
		profile of an AI's credit portfolio due to significant changes in the amounts reported in certain exposure classes (e.g. Class VI (Corporate Exposures) and Class X (Residential Mortgage Loans))).
5. 80% Guarantee Scheme supported by the Government's commitment	The capital treatments and the conditions set out in the circular of 27 June 2012 continue to apply. However, the references to "HKMC" should be construed as references to "HKMCI" and, to reflect the current drafting of the Banking (Capital) Rules, the reference to "subsections 100(9)(c) to (f)" should be construed as a reference to subsections 100(9)(a) to (d) and the reference to "subsection 100(9)(f)" should be construed as a reference to subsection 100(9)(d).	No adjustment to the reporting arrangement is required.

2. The BSC approach

Programmes	Capital treatments	Return of Capital Adequacy Ratio (MA(BS)3)
1. Mortgage Insurance Programme	Same principle as that underlying the treatments set out above for the STC approach applies.	In Part IIIa Division A–

Programmes	Capital treatments	Return of Capital Adequacy Ratio (MA(BS)3)
2. Reverse Mortgage Programme 3. Premium Loan Insurance Scheme 4. SME Financing Guarantee Scheme (other than the 80% Guarantee Scheme supported by the Government's commitment)		(i) since the deemed exposure will be fully covered by the HKMC guarantee, the credit protection uncovered portion of the deemed exposure should be zero. The credit protection covered portion of the deemed exposure will be reported in the column "Principal Amount" under Class II item 13 (Exposures to PSEs of Tier 1 countries); and (ii) the portion of the loan that is not covered by the HKMCI's insurance or guarantee, if any, will be reported in the column "Principal Amount" under the exposure class to which the loan belongs.
5. 80% Guarantee Product supported by the Government's commitment	The capital treatments and the conditions set out in the circular of 27 June 2012 apply to AIs using the BSC approach as they apply to AIs using the STC approach. However, the references to "HKMC" should be construed as references to "HKMCI", the reference to "subsections 100(9)(c) to (f)" should be construed as a reference to subsections 134(6)(a) to (d) and the reference to "subsection 100(9)(f)" should be construed as a reference	No adjustment to the reporting arrangement is required.

Programmes	Capital treatments	Return of Capital Adequacy Ratio (MA(BS)3)
	to subsection 134(6)(d).	

3. **The IRB approach**

Programmes[1]	Capital treatments	Return of Capital Adequacy Ratio (MA(BS)3)
1. Mortgage Insurance Programme 2. Premium Loan Insurance Scheme 3. SME Financing Guarantee Scheme (other than the 80% Guarantee Scheme supported by the Government's commitment)	The same principle as that underlying the treatments set out above for the STC approach applies but in the context of the CRM treatment for recognized guarantees under Part 6 of the BCR.	As this is a transitional treatment and there is in essence no change in the credit risk profiles of AIs arising from their exposures covered by the Programmes, no adjustment to the existing reporting arrangement is proposed with a view to avoid undue reporting burdens on AIs.
4. 80% Guarantee Product supported by the Government's	The capital treatments and the conditions set out in the circular of 27 June 2012 apply to AIs using the IRB approach as they apply to AIs using the STC approach.	No adjustment to the reporting arrangement is required.

[1] As stated in the HKMA circular of 17 June 2011, AIs are not allowed to use the IRB approach for their RMLs exposures under the HKMC's Reverse Mortgage Programme.

Programmes[1]	**Capital treatments**	**Return of Capital Adequacy Ratio (MA(BS)3)**
commitment	However, the references to "HKMC" should be construed as references to "HKMCI"; the references to "section 100(9)" should be construed as references to section 216(3A) or 217(4), as the case requires; the reference to "subsections 100(9)(c) to (f)" should be construed as a reference to subsections 216(3A)(a) to (d) or 217(4)(a) to (d), as the case requires; and the reference to "subsection 100(9)(f)" should be construed as a reference to subsection 216(3A)(d) or 217(4)(d), as the case requires.	