<u>Annex 1</u>

Guidance on calculation of capital adequacy ratios adjusted for unrealised losses on held-to-maturity debt securities

This annex provides guidance to authorized institutions (AIs) on the calculation of the capital adequacy ratios (CARs) adjusted for unrealised losses on their held-to-maturity (HTM) debt securities (adjusted CARs), if the AIs are required to disclose their adjusted CARs.

<u>Calculation of the adjusted Total Capital Ratio:</u>

CET1 Capital	(a)
Accumulated unrealised losses on HTM debt securities	(b)
Adjusted CET1 Capital	(c) = (a) – (b)
Non-CET1 Capital	(d)
Adjusted Total Capital	(e) = (c) + (d)
Total RWA	(f)
RWA of the HTM debt securities (with unrealised losses) measured at amortised cost (i.e. RWA of the HTM debt securities used in the computation of Total Capital Ratio before adjustment)	(g)
RWA of the HTM debt securities (with unrealised losses) measured at fair value (i.e. RWA of the HTM debt securities used in the computation of adjusted Total Capital Ratio)	(h)
Adjusted Total RWA	(i) = (f) – (g) + (h)
Adjusted Total Capital Ratio	(j) = [(e)/(i)] x 100%

<u>Notes:</u>

1. Common Equity Tier 1 (CET1) Capital, Total Capital, Total Capital Ratio and Total risk-weighted amount (RWA) have the same meanings as those defined in the Banking (Capital) Rules respectively.

2. The calculations of the adjusted CET1 Capital Ratio and adjusted Tier 1 Capital Ratio follow the same logic as that illustrated in the above table.

3. The “Accumulated unrealised losses on HTM debt securities” is equal to the carrying amount of the HTM debt securities minus the fair value of such securities, where the fair value is smaller than the carrying amount.

4. For the calculation of the “Accumulated unrealised losses on the HTM debt securities”, the effect of any hedging instruments (e.g. interest rate swaps) can be

recognised if it qualifies for hedge accounting under the applicable accounting standards. The recognition of the hedging effect should be applied consistently over time for the purpose of the calculation of the adjusted CARs.

5. Non-CET1 Capital is equal to Total Capital minus CET1 Capital.

6. The adjusted CARs should be calculated on a consolidated basis. If an AI is only required to calculate its CARs on a solo basis, then the AI should calculate the adjusted CARs on a solo basis.