



Livi Bank

Unaudited Regulatory Disclosure Statement

**For the year ended
31 December 2020**

LIVI BANK LIMITED

Table of Contents

	Page
1 Basis of preparation and consolidation	1
2 Key prudential ratios (KM1)	2
3 Overview of risk management and RWA	3
a. Overview of risk management (OVA)	3
b. Overview of risk-weighted amounts ("RWA") (OV1)	3
4 Linkages between financial statements and regulatory exposures	5
a. Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1)	5
b. Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)	6
c. Explanations of differences between accounting and regulatory exposure amounts (LIA)	6
d. Prudential valuation adjustments (PV1)	6
5 Composition of regulatory capital	7
a. Composition of regulatory capital (CC1)	7
b. Reconciliation of regulatory capital to balance sheet (CC2)	15
c. Main features of regulatory capital instruments (CCA)	16
6 Macroprudential supervisory measures	18
Geographical distribution of credit exposures used in countercyclical capital buffer (CCyB1)	18
7 Leverage Ratio	19
a. Summary comparison of accounting assets against leverage ratio exposure measure (LR1)	19
b. Leverage ratio (LR2)	20
8 Liquidity Risk Management (LIQA)	21
9 Credit risk for non-securitization exposures	23
a. General information about credit risk (CRA)	23
b. Credit quality of exposures (CR1)	23

LIVI BANK LIMITED

	Page
c. Changes in defaulted loans and debt securities (CR2)	24
d. Additional disclosure related to credit quality of exposures (CRB)	24
e. Qualitative disclosures related to credit risk mitigation (CRC)	25
f. Overview of recognized credit risk mitigation (CR3)	26
g. Qualitative disclosures on use of ECAI ratings under STC approach (CRD)	26
h. Credit risk exposures and effects of recognized credit risk mitigation – for STC approach (CR4)	27
i. Credit risk exposures by asset classes and by risk weights – for STC approach (CR5)	28
10 Counterparty Credit Risk	29
Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs) (CCRA)	29
11 Market risk	29
a. Qualitative disclosures related to market risk (MRA)	29
b. Market risk under STM approach (MR1)	30
12 Interest rate exposures in banking book	31
13 Securitization exposures – Qualitative disclosures related to securitization exposure (SECA)	31
14 Remuneration (REMA/REM1/REM2/REM3)	32
15 International claims	37
16 Loans and advances to customers and banks	37
17 Repossessed assets	37
18 Mainland activities	38
19 Off-balance sheet exposures – Contingent liabilities and commitments	39
20 Foreign exchange risk	40

LIVI BANK LIMITED

Unaudited Regulatory Disclosure Statement

These Unaudited Regulatory Disclosure Statement should be read in conjunction with the 2020 Audited Financial Statements (“financial statements”). The financial statements and this Regulatory Disclosure Statement taken together comply with the Banking (Disclosure) Rules under section 60A of the Hong Kong Banking Ordinance.

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

Prior period disclosures as required by the Banking (Disclosure) Rules are available on our website: www.livibank.com.

1 Basis of preparation and consolidation

The capital ratios were calculated in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance. In calculating the risk weighted amounts, the Bank adopted the Standardized (Credit Risk) Approach and the Standardized (Market Risk) Approach for credit risk and market risk respectively. For operational risk, the capital requirement is calculated using the alternative approach communicated to HKMA pursuant to section 340 of the BCR.

At 31 December 2020, the Bank does not have any subsidiaries.

LIVI BANK LIMITED

2 Key prudential ratios (KM1)

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

	(a) At 31 December 2020 HK\$'000	(b) At 30 September 2020 HK\$'000	(c) At 30 June 2020 HK\$'000	(d) At 31 March 2020* HK\$'000	(e) At 31 December 2019* HK\$'000
Regulatory capital (amount)					
1	Common Equity Tier 1 (CET1)	1,658,779	1,795,049	1,926,861	–
2	Tier 1	1,658,779	1,795,049	1,926,861	–
3	Total capital	1,658,779	1,795,049	1,926,861	–
RWA (amount)					
4	Total RWA ²	1,185,981	1,532,150	1,024,434	–
Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%) ¹	139.9%	117.2%	188.1%	–
6	Tier 1 ratio (%) ¹	139.9%	117.2%	188.1%	–
7	Total capital ratio (%) ¹	139.9%	117.2%	188.1%	–
Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	–
9	Countercyclical capital buffer requirement (%)	1.0%	1.0%	1.0%	–
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	0.0%	0.0%	0.0%	–
11	Total AI-specific CET1 buffer requirements (%)	3.5%	3.5%	3.5%	–
12	CET1 available after meeting the AI's minimum capital requirements (%)	131.9%	109.2%	180.1%	–
Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	2,140,400	2,056,222	2,234,992	–
14	LR (%)	77.5%	87.3%	86.2%	–
Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)					
Applicable to category 1 institution only:					
15	Total high quality liquid assets (HQLA)	NA	NA	NA	NA
16	Total net cash outflows	NA	NA	NA	NA
17	LCR (%)	NA	NA	NA	NA
Applicable to category 2 institution only:					
17a	LMR (%) ^{3#}	464.3%	1,664.7%	1,890.2%	–
Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)					
Applicable to category 1 institution only:					
18	Total available stable funding	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA
20	NSFR (%)	NA	NA	NA	NA
Applicable to category 2A institution only:					
20a	CFR (%)	NA	NA	NA	NA

¹ Increase in CET1%, Tier 1% and Total Capital % as of 31 December 2020 was mainly due to the decrease in RWAs from interbank placements.

² Please refer to note 3 for the key drivers of total RWA changes.

³ Decrease in LMR was mainly due to the decrease in liquefiable assets driven by less placements with banks and the increase in customers deposits.

* No comparative information available prior to 30 June 2020.

The LMR disclosed above represents the arithmetic mean of the average value of the LMR for each calendar month within the quarter.

LIVI BANK LIMITED

3 Overview of risk management and RWA

a. Overview of risk management (OVA)

Note 25 of the 2020 financial statements sets out a description of risk management objectives and policies and how the Board of Directors and senior management assess and manage risks, enabling users to gain a clear understanding of the risk appetite in relation to the main activities and all significant risks.

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

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

	(a)	(b)	(c)
	RWA		Minimum capital requirements
	At 31 December 2020	At 30 September 2020	At 31 December 2020
	HK\$'000	HK\$'000	HK\$'000
1 Credit risk for non-securitization exposures ¹	700,155	1,071,687	56,012
2 Of which STC approach	700,155	1,071,687	56,012
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	–	–	–
7 Of which SA-CCR	–	–	–
7a Of which CEM	–	–	–
8 Of which IMM(CCR) approach	–	–	–
9 Of which others	–	–	–
10 CVA risk	–	–	–
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	–	–	–

LIVI BANK LIMITED

3 Overview of risk management and RWA (continued)

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

	(a)	(b)	(c)
	RWA		Minimum capital requirements
	At 31 December 2020	At 30 September 2020	At 31 December 2020
	HK\$'000	HK\$'000	HK\$'000
20 Market risk	27,063	1,700	2,165
21 Of which STM approach	27,063	1,700	2,165
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	458,763	458,763	36,701
24a Sovereign concentration risk	–	–	–
25 Amounts below the thresholds for deduction (subject to 250% RW)	–	–	–
26 Capital floor adjustment	–	–	–
26a Deduction to RWA	–	–	–
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	–	–	–
27 Total	1,185,981	1,532,150	94,878

¹ Decrease in credit risk for non-securitization exposures as of December 2020 was mainly due to the decrease in interbank placements.

LIVI BANK LIMITED

4 Linkages between financial statements and regulatory exposures

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

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

At 31 December 2020	(a) & (b) <i>Carrying values as reported in published financial statements (a) & carrying values under scope of regulatory consolidation (b) HK\$'000</i>	(c) <i>subject to credit risk framework HK\$'000</i>	(d) <i>subject to counterparty credit risk framework HK\$'000</i>	(e) & (f) <i>Carrying values of items:</i>		(g) <i>not subject to capital requirements or subject to deduction from capital HK\$'000</i>
Assets				<i>subject to the securitization framework HK\$'000</i>	<i>subject to market risk framework HK\$'000</i>	
Cash and balances with banks	191,611	191,611	–	–	–	–
Placements with banks	556,856	556,856	–	–	–	–
Financial investments	1,223,334	1,223,334	–	–	–	–
Equipment, furniture and fixtures	67,719	67,719	–	–	–	–
Intangible assets	201,946	–	–	–	–	201,946
Right-of-use assets	69,788	69,788	–	–	–	–
Prepayments, accrued interest and other assets	31,091	31,091	–	–	–	–
Total assets	2,342,345	2,140,399	–	–	–	201,946
Liabilities						
Customer deposits	320,382	–	–	–	–	320,382
Lease liabilities	67,968	–	–	–	–	67,968
Other liabilities and provisions	93,270	–	–	–	–	93,270
Total Liabilities	481,620	–	–	–	–	481,620

LIVI BANK LIMITED

4 Linkages between financial statements and regulatory exposures (continued)

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

There is no difference between the carrying values in financial statements and the exposure amounts used for the calculation of regulatory capital in respect of the assets and liabilities based on the scope of regulatory consolidation.

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

There is no difference between accounting and regulatory exposure amounts.

d. Prudent valuation adjustments (PV1)

There is no prudential valuation adjustment as of 31 December 2020.

LIVI BANK LIMITED

5 Composition of regulatory capital

a. Composition of regulatory capital (CC1)

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

At 31 December 2020		(a)	(b)
		HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 5b (CC2)
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,500,000	(3)
2	Retained earnings	(639,345)	(4)
3	Disclosed reserves	70	(5)
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 deductions	1,860,725	
CET1 capital: regulatory deductions			
7	Valuation adjustments	–	
8	Goodwill (net of associated deferred tax liabilities)	–	(1)
9	Other intangible assets (net of associated deferred tax liabilities)	201,946	(2)
10	Deferred tax assets (net of associated deferred tax liabilities)	–	
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)	–	
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)	–	

LIVI BANK LIMITED

5 Composition of regulatory capital (continued)

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

	(a)	(b)
At 31 December 2020	HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 5b (CC2)
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)	–	
20 Mortgage servicing rights (net of associated deferred tax liabilities)	–	Not applicable
21 Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	–	Not applicable
22 Amount exceeding the 15% threshold	–	Not applicable
23 of which: significant investments in the ordinary share of financial sector entities	–	Not applicable
24 of which: mortgage servicing rights	–	Not applicable
25 of which: deferred tax assets arising from temporary differences	–	Not applicable
26 National specific regulatory adjustments applied to CET1 capital	–	
26a Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	–	
26b Regulatory reserve for general banking risks	–	
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	201,946	
29 CET1 capital	1,658,779	
AT1 capital: instruments		
30 Qualifying AT1 capital instruments plus any related share premium	–	
31 of which: classified as equity under applicable accounting standards	–	
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>	–	

LIVI BANK LIMITED

5 Composition of regulatory capital (continued)

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

	(a)	(b)
At 31 December 2020	HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 5b (CC2)
36 AT1 capital before regulatory deductions	–	
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	–	
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	–	
45 Tier 1 capital (T1 = CET1 + AT1)	1,658,779	
Tier 2 capital: instruments and provisions		
46 Qualifying Tier 2 capital instruments plus any related share premium	–	
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	–	
51 Tier 2 capital before regulatory deductions	–	
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)	–	

LIVI BANK LIMITED

5 Composition of regulatory capital (continued)

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

	(a)	(b)
	HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 5b (CC2)
At 31 December 2020		
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	–	
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	–	
57 Total regulatory adjustments to Tier 2 capital	–	
58 Tier 2 capital (T2)	–	
59 Total regulatory capital (TC = T1 + T2)	1,658,779	
60 Total RWA	1,185,981	
Capital ratios (as a percentage of RWA)		
61 CET1 capital ratio	139.9%	
62 Tier 1 capital ratio	139.9%	
63 Total capital ratio	139.9%	
64 Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	3.5%	
65 of which: capital conservation buffer requirement	2.5%	
66 of which: bank specific countercyclical capital buffer requirement	1.0%	
67 of which: G-SIB or D-SIB buffer requirement	–	
68 CET1 (as a percentage of RWA) available after meeting minimum capital requirements	131.9%	
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

LIVI BANK LIMITED

5 Composition of regulatory capital (continued)

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

	(a)	(b)
At 31 December 2020	HK\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation in note 5b (CC2)
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	–	
73		
Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	
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)	–	
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	–	
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		
Current cap on CET1 capital instruments subject to phase-out arrangements	Not applicable	Not applicable
81		
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	Not applicable	Not applicable
82		
Current cap on AT1 capital instruments subject to phase-out arrangements	–	
83		
Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	–	
84		
Current cap on Tier 2 capital instruments subject to phase-out arrangements	–	
85		
Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	–	

LIVI BANK LIMITED

5 Composition of regulatory capital (continued)

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

Notes to the Template:

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

Description	At 31 December 2020	
	Hong Kong basis HK\$'000	Basel III basis HK\$'000
9 Other intangible assets (net of associated deferred tax liabilities)	201,946	201,946

Explanation

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

10 Deferred tax assets (net of associated deferred tax liabilities)	–	–
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Explanation

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

LIVI BANK LIMITED

5 Composition of regulatory capital (continued)

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

Description	At 31 December 2020	
	Hong Kong basis HK\$'000	Basel III basis HK\$'000
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)	–	–

Explanation

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)	–	–
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Explanation

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.

LIVI BANK LIMITED

5 Composition of regulatory capital (continued)

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

Description	At 31 December 2020	
	Hong Kong basis HK\$'000	Basel III basis 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)	–	–

Explanation

The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant 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.

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

The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant 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.

LIVI BANK LIMITED

5 Composition of regulatory capital (continued)

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

Remarks:

The amount of the 10% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.

Abbreviations:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

Note:

Cross-references 1 to 5 are referenced to Reconciliation of regulatory capital to balance sheet (CC2).

b. Reconciliation of regulatory capital to balance sheet (CC2)

	(a) Balance sheet as in published financial statements (At 31 December 2020) HK\$'000	(b) Under regulatory scope of consolidation (At 31 December 2020) HK\$'000	(c) Cross reference to note – 5a (CC1)
Cash and balances with banks	191,611	191,611	–
Placements with banks	556,856	556,856	–
Financial investments	1,223,334	1,223,334	–
Equipment, furniture and fixtures	67,719	67,719	–
Intangible assets	201,946	201,946	–
of which: goodwill	–	–	(1)
of which: other intangible assets	201,946	201,946	(2)
Right-of-use assets	69,788	69,788	–
Prepayments, accrued interest and other assets	31,091	31,091	–
Total assets	2,342,345	2,342,345	–

LIVI BANK LIMITED

5 Composition of regulatory capital (continued)

b. Reconciliation of regulatory capital to balance sheet (CC2) (continued)

	(a) Balance sheet as in published financial statements (At 31 December 2020) HK\$'000	(b) Under regulatory scope of consolidation (At 31 December 2020) HK\$'000	(c) Cross reference to note – 5a (CC1)
Liabilities			
Customer deposits	320,382	320,382	–
Lease liabilities	67,968	67,968	–
Other liabilities and provisions	93,270	93,270	
Total liabilities	481,620	481,620	
Equity			
Share capital	2,500,000	2,500,000	–
of which: amount eligible for CET1	2,500,000	2,500,000	(3)
Reserves	(639,275)	(639,275)	–
of which: Accumulated losses	(639,345)	(639,345)	(4)
of which: FVOCI reserve	70	70	(5)
Total equity	1,860,725	1,860,725	
Total liabilities and equity	2,342,345	2,342,345	

c. Main features of regulatory capital instruments (CCA)

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

LIVI BANK LIMITED

5 Composition of regulatory capital (continued)

c. Main features of regulatory capital instruments (CCA) (continued)

Ordinary Shares

1	Issuer	Livi Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong Law
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules ¹	N/A
5	Post-transitional Basel III rules ²	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HKD2,500 Million
9	Par value of instrument	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	21 March 2019 (300,000,000) 24 May 2019 (2,200,000,000)
12	Perpetual or dated	Perpetual
13	Original maturity date	Undated
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative 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	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Footnote:

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

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

LIVI BANK LIMITED

6 Macprudential supervisory measures

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

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

At 31 December 2020

	(a)	(c)	(d)	(e)
Jurisdiction (J)	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio of AI	CCyB ratio of AI	CCyB amount of AI HK\$'000
1 Hong Kong	1.00%	168,448		
2 Sum ¹		168,448		
3 Total ²		168,448	1.00%	1,684

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

² The total RWAs used in the computation of the CCyB ratio in row (3) represents the total RWAs for the private sector credit exposures in all jurisdictions to which the bank is exposed, including jurisdictions with no countercyclical buffer rate or with a countercyclical buffer rate set at zero.

LIVI BANK LIMITED

7 Leverage Ratio

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

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

At 31 December 2020	(a) Value under the LR framework HK\$'000
1 Total assets as per published financial statements	2,342,345
2 Adjustment for investments in banking, financial, insurance or commercial entities that are for accounting purposes but outside the scope of regulatory consolidation	–
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	–
4 Adjustments for derivative contracts	–
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)	–
6a Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	(276)
7 Other adjustments	(201,669)
8 Leverage ratio exposure measure	2,140,400

Other adjustments mainly represent the intangible assets deducted in determining Tier 1 capital. These are excluded for deriving the leverage ratio exposure in accordance with the ‘Leverage Ratio Framework’ issued by the HKMA.

LIVI BANK LIMITED

7 Leverage Ratio (continued)

b. Leverage ratio (LR2)

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

	(a)	(b)
	At	At
	31 December	30 September
	2020	2020
	HK\$'000	HK\$'000
On-balance sheet exposures		
1 On-balance sheet items (excluding derivative contracts and SFTs, but including collateral)	2,342,345	2,272,256
2 Less: Asset amounts deducted in determining Basel III Tier 1 capital	(201,669)	(214,891)
3 Total on-balance sheet exposures (excluding derivative and SFTs)¹	2,140,676	2,057,365
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)	–	–
5 Add-on amounts for PFE associated with all derivative contracts	–	–
6 Gross-up for derivatives collateral provided 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	–	–
8 Less: Exempted CCP leg of client-cleared trade exposures	–	–
9 Adjusted effective notional amount of written credit derivative	–	–
10 Less: Adjusted effective notional offsets and add-on deductions for written credit derivative	–	–
11 Total exposures arising from derivative contracts	–	–
Exposures arising from SFTs		
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	–	–
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	–	–
Other off-balance sheet exposures		
17 Off-balance sheet exposure at gross notional amount	–	–
18 Less: Adjustments for conversion to credit equivalent amounts	–	–
19 Off-balance sheet items	–	–
Capital and total exposures		
20 Tier 1 capital²	1,658,779	1,795,049
20a Total exposures before adjustments for specific and collective provisions	2,140,676	2,057,365
20b Adjustments for specific and collective provisions	(276)	(1,143)
21 Total exposures after adjustments for specific and collective provisions	2,140,400	2,056,222
Leverage ratio		
22 Leverage ratio	77.5%	87.3%

¹ Increase in on-balance sheet exposures (excluding derivative and SFTs) was in line with the growth in customer deposits.

² Decrease in Tier 1 capital was mainly due to operating loss incurred during the reporting period.

8 Liquidity Risk Management (LIQA)

Liquidity risk is defined as the risk that the Bank does not have available sufficient financial resources, in the short, medium or long term, to meet its obligations, or can only access those resources at excessive cost.

The Bank's liquidity risk management framework is governed by the Board-approved policies and its liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. The Bank builds and maintains deposits, and obtains funding from the interbank market when needed to diversify the funding source. Whenever necessary, the Bank could improve the liquidity position by taking mitigation actions including, but not limited to, obtaining funding through repurchase agreements. The Bank has also formulated a contingency funding plan, which includes the triggers and activation arrangement, that is tested regularly.

In accordance with the Bank's corporate governance principles, the Board and the Board Risk Committee, senior management and functional departments or units perform their duties and responsibilities to manage the Bank's liquidity risk. The Board, with the assistance from the Board Risk Committee, assumes the ultimate responsibility of liquidity risk management. The Asset & Liability Committee is a dedicated senior management sub-committee for discussing liquidity risk-related issues. Risk Management Department is the unit responsible for managing liquidity risk, assisting senior management in performing their day-to-day duties, as well as independently monitoring the liquidity risk profile and compliance of internal policies and limits. Regular risk reports are submitted to the senior management, the Board Risk Committee and the Board.

The Bank has established indicators and limits to identify, measure, monitor and control liquidity risk. These limits are subject to appropriate internal approval and are monitored regularly.

LIVI BANK LIMITED

8 Liquidity Risk Management (LIQA) (continued)

The following table provides the details of livi's maturity profile covering on-and off-balance sheet items, broken down into maturity buckets and the resultant liquidity gaps.

(Balance in HKD '000)	2020				Balancing Amount	Total
	Within 1 month	1 - 3 months	3 months - 1 year	1 - 5 years		
On-balance sheet assets						
Balances and placements with banks	368,636	210,043	170,074	–	–	748,753
Financial investments	499,988	214,652	508,837	–	–	1,223,477
Other assets	20,574	–	–	–	349,541	370,115
Total on-balance sheet assets	889,198	424,695	678,911	–	349,541	2,342,345
On -balance sheet liabilities						
Customer deposits	320,382	–	–	–	–	320,382
Other liabilities and provisions	58,665	30,513	10,351	54,877	6,832	161,238
Capital & Reserves	–	–	–	–	1,860,725	1,860,725
Total on-balance sheet liabilities	379,047	30,513	10,351	54,877	1,867,557	2,342,345
Off-balance sheet claims						
Irrevocable loan commitments or facilities received	–	–	–	–	–	–
Off-balance sheet obligations						
Irrevocable loan commitments or facilities granted	–	–	–	–	–	–
Other off-balance sheet obligations	–	–	–	–	–	–
Total off-balance sheet claims and obligations	–	–	–	–	–	–
Funding Gaps						
Contractual Maturity Mismatch	510,151	394,182	668,560	(54,877)		
Cumulative Contractual Maturity Mismatch	510,151	904,333	1,572,893	1,518,016		

Note: There is no comparative information available prior to 31 December 2020.

LIVI BANK LIMITED

9 Credit risk for non-securitization exposures

a. General information about credit risk (CRA)

Our approach to credit risk can be found in the Risk management approach section in note 25 of the 2020 financial statements.

b. Credit quality of exposures (CR1)

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

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	
	Gross carrying amounts of			Of which ECL accounting provisions for credit losses on STC approach exposures	Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions	Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values (a+b-c)
At 31 December 2020	Defaulted Exposures HK\$'000	Non-defaulted Exposures HK\$'000	Allowances/ Impairments HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1 Loans	–	–	–	–	–	–	–	–
2 Debt securities	–	1,223,477	223	–	223	–	–	1,223,254
3 Off-balance sheet exposures	–	–	–	–	–	–	–	–
4 Total	–	1,223,477	223	–	223	–	–	1,223,254

LIVI BANK LIMITED

9 Credit risk for non-securitization exposures (continued)

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

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

	(a) HK\$'000
1 Defaulted loans and debt securities at end of the previous reporting period (30 June 2020)	–
2 Loans and debt securities that have defaulted since the last reporting period	–
3 Returned to non-defaulted status	–
4 Amounts written off	–
5 Other changes	–
6 Defaulted loans and debt securities at end of the current reporting period (31 December 2020)	<u>–</u>

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

The Bank defines “past due” as payment that has not been made by its due date, and “impaired asset” as asset classified as stage 2 and stage 3 under the expected credit loss (“ECL”) accounting model.

The term “restructured exposure” is defined as action whereby the Bank, owing to the deterioration of financial position of the customer or inability to repay due to any other reason, revises or reschedules the repayment terms and adjusts the clauses of loan agreement after thorough evaluation to control and mitigate the credit risks.

A description of the methods adopted for determining accounting provisions for credit losses can be found in notes 2.3 of the 2020 financial statements.

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

I. Exposures by geographical location (CRB1)

	<i>Gross carrying amount HK\$'000</i>
At 31 December 2020	
1 Hong Kong	<u>1,223,477</u>

LIVI BANK LIMITED

9 Credit risk for non-securitization exposures (continued)

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

II. Exposures by Industry (CRB2)

At 31 December 2020	<i>Gross carrying amount</i> HK\$'000
1 Financial concerns	1,223,477

III. Exposures by residual maturity (CRB3)

At 31 December 2020	<i>Repayable on demand to 1 year</i> HK\$'000	<i>Due between 1 year to 5 years</i> HK\$'000	<i>Due after 5 years</i> HK\$'000	<i>Total</i> HK\$'000
1 Loans	—	—	—	—
2 Debt securities	1,223,477	—	—	—
3 Off-balance sheet exposures	—	—	—	—
4 Total	1,223,477	—	—	—

IV. Aging analysis of accounting past due exposures and breakdown of restructured exposures (CRB4)

The Bank has no past-due exposures and restructured exposures as of 31 December 2020.

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

The Bank has in place policies and procedures with respect to counterparty credit risk management and netting should only be applied where there is a legal right to do so. Recognised netting can only be done pursuant to a valid bilateral netting agreement in accordance with the Banking (Capital) Rules. The Bank adopts the netting approach which is consistent with the Banking (Capital) Rules for capital adequacy purposes.

The Bank has no credit risk mitigation including collateral as of 31 December 2020.

LIVI BANK LIMITED

9 Credit risk for non-securitization exposures (continued)

f. Overview of recognized credit risk mitigation (CR3)

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

	(a)	(b1)	(b)	(d)	(f)
	Exposures unsecured: carrying amount HK\$'000	Exposures to be secured HK\$'000	Exposures secured by recognized collateral HK\$'000	Exposures secured by recognized guarantees HK\$'000	Exposures secured by recognized credit derivative contracts HK\$'000
At 31 December 2020					
1 Loans	–	–	–	–	–
2 Debt securities	1,223,254	–	–	–	–
3 Total	1,223,254	–	–	–	–
4 – Of which defaulted	–	–	–	–	–

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

The ECAIs recognised by the Bank include Moody's and Fitch.

The Bank adopts STC approach based on external credit rating to determine the risk weight of the exposures listed below:

- Exposures to Sovereign
- Exposures to Banks

The Bank performs the ECAI issuer ratings mapping to its exposures in banking book in accordance with the Banking (Capital) Rules.

LIVI BANK LIMITED

9 Credit risk for non-securitization exposures (continued)

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

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

At 31 December 2020	(a)	(b)	(c)	(d)	(e)	(f)
	<i>Exposures pre-CCF and pre-CRM</i>		<i>Exposures post-CCF and post-CRM</i>		<i>RWA and RWA density</i>	
	<i>On-balance sheet amount</i>	<i>Off-balance sheet amount</i>	<i>On-balance sheet amount</i>	<i>Off-balance sheet amount</i>	<i>RWA</i>	<i>RWA density</i>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	%
<i>Exposure classes</i>						
1 Sovereign exposures	654,042	–	654,042	–	–	–
2 PSE exposures	–	–	–	–	–	–
2a – Of which: domestic PSEs	–	–	–	–	–	–
2b – Of which: foreign PSEs	–	–	–	–	–	–
3 Multilateral development bank exposures	–	–	–	–	–	–
4 Bank exposures	1,318,186	–	1,318,186	–	531,707	40%
5 Securities firm exposures	–	–	–	–	–	–
6 Corporate exposures	–	–	–	–	–	–
7 CIS exposures	–	–	–	–	–	–
8 Cash items	–	–	–	–	–	–
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	–	–	–	–	–	–
11 Residential mortgage loans	–	–	–	–	–	–
12 Other exposures which are not past due exposures	168,448	–	168,448	–	168,448	100%
13 Past due exposures	–	–	–	–	–	–
14 Significant exposures to commercial entities	–	–	–	–	–	–
15 Total	2,140,676	–	2,140,676	–	700,155	33%

LIVI BANK LIMITED

9 Credit risk for non-securitization exposures (continued)

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

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

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j) Total credit risk exposures amount (post CCF and post CRM)
At 31 December 2020											
Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	HK\$'000
Exposure class	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1 Sovereign exposures	654,042	–	–	–	–	–	–	–	–	–	654,042
2 PSE exposures	–	–	–	–	–	–	–	–	–	–	–
2a – Of which: domestic PSEs	–	–	–	–	–	–	–	–	–	–	–
2b – Of which: foreign PSEs	–	–	–	–	–	–	–	–	–	–	–
3 Multilateral development bank exposures	–	–	–	–	–	–	–	–	–	–	–
4 Bank exposures	–	–	424,623	–	893,563	–	–	–	–	–	1,318,186
5 Securities firm exposures	–	–	–	–	–	–	–	–	–	–	–
6 Corporate exposures	–	–	–	–	–	–	–	–	–	–	–
7 CIS exposures	–	–	–	–	–	–	–	–	–	–	–
8 Cash items	–	–	–	–	–	–	–	–	–	–	–
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	–	–	–	–	–	–	–	–	–	–	–
11 Residential mortgage loans	–	–	–	–	–	–	–	–	–	–	–
12 Other exposures which are not past due exposures	–	–	–	–	–	–	168,448	–	–	–	168,448
13 Past due exposures	–	–	–	–	–	–	–	–	–	–	–
14 Significant exposures to commercial entities	–	–	–	–	–	–	–	–	–	–	–
15 Total	654,042	–	424,623	–	893,563	–	168,448	–	–	–	2,140,676

LIVI BANK LIMITED

10 Counterparty Credit Risk

As of 31 December 2020, the Bank does not have counterparty default risk exposure and credit-related derivative contracts.

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

The Bank's objective to counterparty credit risk management is to ensure credit risk is properly managed and controlled within the general credit risk management framework. The Bank has in place relevant policy that covers the identification, measurement, control and monitoring of counterparty credit risk.

The Bank establishes credit limit through credit approval procedures to control the pre-settlement credit risk arising from derivative transactions and settlement risk arising from settlement transactions. The Bank monitors counterparty credit risk exposure by using the current exposure and the potential exposure value of the transactions.

The bank has no CRM concerning counterparty credit risk as of 31 December 2020.

The Bank generally avoid entering transactions involving general/specific wrong-way risk.

11 Market risk

a. Qualitative disclosures related to market risk (MRA)

Market risk is the risk of loss in the Bank's on- and off- balance sheet positions resulting from adverse movements in market prices and rates. The Bank manages market risk according to the Bank's risk appetite and pre-defined strategy, supported by a well-established risk management regime and related measures. The Bank does not have trading book business as of 31 December 2020.

In accordance with the Bank's corporate governance principles, the Board and the Board Risk Committee, senior management and functional units perform their duties and responsibilities to manage the Bank's market risk. The Board, with the assistance from the Board Risk Committee, assumes the ultimate responsibility of market risk management. The Asset & Liability Committee is a dedicated senior management sub-committee for discussing market risk-related issues. Risk Management Department is responsible for managing market risk, assisting senior management in performing their day-to-day duties, as well as independently monitoring the market risk profile and compliance of internal policies and limits. Regular risk reports are submitted to the senior management, the Board Risk Committee and the Board.

The Bank has established indicators and limits to identify, measure, monitor and control market risk. These limits are subject to appropriate internal approval and are monitored regularly. The Bank uses the standardized (market risk) approach to calculate the market risk capital charge for all exposures.

LIVI BANK LIMITED

11 Market risk (continued)

b. Market risk under STM approach (MR1)

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

At 31 December 2020		(a) RWA HK\$'000
Outright product exposures		
1	Interest rate exposures (general and specific risk)	–
2	Equity exposures (general and specific risk)	–
3	Foreign exchange (including gold) exposures ¹	27,063
4	Commodity exposures	–
Option exposures		
5	Simplified approach	–
6	Delta-plus approach	–
7	Other approach	–
8	Securitization exposures	–
9	Total	27,063

¹ Foreign exchange exposures was mainly due to the increase in CNY position for settlement of accrued expenses.

LIVI BANK LIMITED

12 Interest rate exposures in banking book

Since the Bank's public launch in August 2020, it is still accumulating data to perform behavioural modelling on its cash flows. Therefore, it was not practicable for the Bank to adopt "Table IRRBBA: Interest rate risk in banking book – risk management objectives and policies" and "Template IRRBB1: Quantitative information on interest rate risk in banking book". "Table IRRBB: Interest rate exposures in banking book", is disclosed as below, being the closest available alternative to Table IRRBBA and Template IRRBB1, to make the relevant disclosure for the Bank's interest rate risk.

Interest rate risk means the risk to a bank's earnings and economic value arising from movements in interest rates and term structures of the bank's asset and liability position. The major types of interest rate risk exposed to the Bank are:

- Gap risk: changes in the interest rates on instruments of different maturities; and
- Basis risk: imperfect correlation between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics.

In accordance with the Bank's corporate governance principles, the Board and the Board Risk Committee, senior management and functional units perform their duties and responsibilities to manage the Bank's interest rate risk. The Board, with the assistance from the Board Risk Committee, assumes the ultimate responsibility of interest rate risk management. The Asset & Liability Committee is a dedicated senior management sub-committee for discussing interest rate risk-related issues. Risk Management Department is the responsible unit in managing interest rate risk, assisting senior management in performing their day-to-day duties, as well as independently monitoring the interest rate risk profile and compliance of internal policies and limits.

The Bank sets up indicators and limits to identify, measure, monitor and control interest rate risk. These limits are subject to appropriate internal approval and are monitored regularly. For the measurement of the interest rate risk exposures, deposits without a fixed maturity are assumed to be repriced on the next day.

Change in Net Interest Income and Economic Value of Equity assess the impact of interest rate movement on the Bank's net interest income and capital base respectively.

As at 31 December 2020, the Bank did not have significant positions in foreign currencies from an interest rate risk perspective. If there was a 200-basis-point parallel rate shock up / down of the HKD yield curve, with other variables held constant, the impact on the Bank's earnings over the next 12 months and the impact on the economic value would be HK\$25m / (HK\$25m) and (HK\$7m) / HK\$7m respectively.

13 Securitization exposures – Qualitative disclosures related to securitization exposure (SECA)

The Bank does not have any secured liabilities and assets used as security as of 31 December 2020.

LIVI BANK LIMITED

14 Remuneration (REMA/REM1/REM2/REM3)

Nomination & Remuneration Committee

The Bank has established its Nomination & Remuneration Committee with written terms of reference in compliance with the requirements of the Supervisory Policy Manual Module CG-5 on “Guideline on a Sound Remuneration System” (the “Guideline”) issued by the Hong Kong Monetary Authority (the “HKMA”). The members of the Committee shall be appointed by the Board of Directors. There are five members in the Remuneration Committee and three of them are Independent Non-executive Directors and two are Directors.

The Nomination & Remuneration Committee oversees & maneuvers the Bank’s reward system, reviews and makes recommendations to the Board of Directors (the “Board”) of the Bank on the overall remuneration policy, specific remuneration packages and compensation arrangement relating to the appointment and termination of the Directors, Chief Executive, senior management and key personnel, and for the formulation of the remuneration policy applicable to all employees of the Bank.

Design and Structure of the remuneration process

The Board has delegated responsibility to the Nomination & Remuneration to oversee the formulation, maintenance and implementation of the Remuneration Policy.

The Nomination and Remuneration Committee reviews and recommends the remuneration packages of key senior management personnel of the Bank in accordance with the authorities and responsibilities as stipulated in its terms of reference to the Board of the Bank for approval.

Remuneration review is submitted to the Board of the Bank by the Nomination & Remuneration Committee for approval each year.

The Nomination & Remuneration Committee of the Bank also works closely with the Audit Committee, Board Risk Committee and other dedicated committees and departments to (i) review if there are any material non-compliance issues in relation to internal policy and statutory requirements and make adjustments to payments of remuneration whenever necessary, and (ii) decide upon the appraisal system which fairly measures the performance of each key personnel, and make changes to the system when necessary to meet the changing needs of the Bank.

Regular compliance monitoring is imposed to review the management and operation of the remuneration system.

LIVI BANK LIMITED

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

Employees Performance Management and Entitlement of Variable Remuneration

The Bank uses a comprehensive performance measurement framework that incorporates both financial and non-financial performance in determining the size and allocation of variable remuneration. The financial metrics link the variable remuneration to the profits, revenue and other performance measures of the Bank as a whole, and the contribution of business units or departments and an individual employee to the Bank as well. The applicable and material risks associated with the activities of employees, the cost and quantity of capital required to support the risks taken, and the cost and quantity of liquidity risk in the conduct of business are also taken into consideration. The non-financial metrics capture the performance on qualitative aspects such as the compliance with risk management policies, adherence to legal, regulatory and ethical standards; customer satisfaction; and effectiveness and efficiency of supporting operations. Given the importance in both financial achievements and non-financial factors, poor performance will result in reduction of or elimination to the variable remuneration. Adverse performance in non-financial factors will override outstanding financial achievement, and thus, the employee's performance can be assessed comprehensively.

The remuneration of the employees within the risk control function, including those performing risk management, accounts, audit, compliance and credit management functions, etc, is determined by the performance of individual employees and is independent of the business they oversee. The performance factors of the appraisees in carrying out their core job responsibilities under their respective job functions are assessed in the performance appraisals. Appropriate remuneration will be recommended based on the results of the appraisals annually.

Deferral Arrangements

The remuneration package consists of fixed and variable remuneration which are offered in cash. Fixed remuneration refers to basic salary and other fixed income while variable remuneration refers to discretionary bonus. The remuneration packages are determined by taking into consideration the evaluation of the job's responsibilities and contribution, the market pay levels for benchmark positions, and employee's performance. The level of remuneration and the proportion of variable remuneration to fixed remuneration of senior management and key personnel are linked to their level of responsibility undertaken and contribution to business performance and enhancements of efficiency and effectiveness of operations.

When the amount of variable remuneration payout exceeds a predetermined percentage or amount of the annual fixed remuneration of the employee, a deferment period of 3 years will be imposed in order to align the incentive awards to be granted to an individual employee with the long-term value creation and the time horizons of risk. The deferred remuneration will be vested gradually over the 3-year deferment period and no faster than on a pro-rata basis. To conform to the spirit of the Guideline and not to undermine the risk management advantage by applying deferment of variable remuneration, if there is any deferred remuneration, hedging exposures in respect of the unvested portion of deferred remuneration by any trading, investment or other financial activities will be restricted.

LIVI BANK LIMITED

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

Deferral Arrangements (continued)

Subject to the decision of the Nomination & Remuneration Committee in accordance with the internal guidelines, the deferred remuneration will be forfeited and/or clawed back when it is later established that the data on which the performance measurement for a particular year was based is subsequently proven to have been manifestly misstated; or it is later established that the employee concerned has committed fraud or other malfeasance, or violated any legislation, code or internal control policies of the Bank; or there has been a significant downward restatement of the financial performance of the Bank; or the employment of the employee is terminated.

The award of variable remuneration to the senior management, key personnel and risk taking employees is subject to the aforesaid deferral mechanism which will be reviewed by the Nomination & Remuneration Committee at least annually and subject to change when necessary.

Ongoing monitoring of The Remuneration System

The Bank adopted the Remuneration Policy in compliance with the Guideline and requirements of the Supervisory Policy Manual Module CG-5 on “Guideline on a Sound Remuneration System” (the “Guideline”) issued by the Hong Kong Monetary Authority (the “HKMA”).

The Remuneration Policy and related practices of the Bank was initiated by the Human Resources Department and reviewed by the Management Committee. After the proposed Remuneration Policy is endorsed by the Management Committee, it will be submitted to the Nomination and Remuneration Committee for review and approved by the Board. The Human Resources Department also reviews and keeps abreast of the legal and regulatory requirements from time to time, and liaises with risk control units including risk management, financial management and compliance functions to strike a balance among sufficient staff motivation, sound remuneration packages and prudent risk management. Any findings and recommendations to be incorporated into the Remuneration Policy will be put forth to the Nomination & Remuneration Committee for consideration. Having discussed and reviewed by the Nomination & Remuneration Committee, the revisions to the Remuneration Policy will be recommended to the Board for approval.

The Bank’s Remuneration Policy encourages employee behavior that supports the Bank’s risk tolerance, risk management framework and long-term financial soundness. The policy is established and implemented in line with the objectives, business strategies and long-term goals of the Bank and formulated in a way that will not encourage excessive risks taking by employees but allows the Bank to attract and retain employees with relevant skills, knowledge and expertise to discharge their specific functions. The Bank has considered the risks, including market, credit, liquidity and operational risks, when implementing the remuneration measures, which are closely monitored by various management committees and working groups.

LIVI BANK LIMITED

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

Analysis of remuneration split between fixed and variable remuneration

	<i>Senior Management¹</i> <i>HK\$'000</i>	<i>Key Personnel¹</i> <i>HK\$'000</i>
Fixed remuneration		
– Cash-based	9,057	26,592
– Shares and shared-linked instruments	–	–
– Others	–	–
Variable remuneration		
– Cash-based	2,495	7,997
– Shares and Shared – linked instruments	–	–
– Others	–	–
Total remuneration	<u>11,552</u>	<u>34,589</u>
Number of staff at 31 December 2020	3	21

Analysis of deferred remuneration

There is no deferred remuneration for the year 2020.

LIVI BANK LIMITED

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

Analysis of guaranteed bonuses, sign-on awards and severance payments during the year

	2020	
	Senior Management ¹	Key Personnel ¹
	HK\$'000	HK\$'000
Guaranteed bonuses awarded	—	—
Sign-on awards made	—	827
Severance payments awarded and made	—	—
	<u> </u>	<u> </u>
Number of beneficiaries of guaranteed bonuses awarded	—	—
Number of beneficiaries of sign-on awards made	—	5
Number of beneficiaries of severance payments awarded and made	—	—
	<u> </u>	<u> </u>

¹ As defined in the CG-5 Guideline on a Sound Remuneration System issued by the HKMA, senior management are those who are responsible for oversight of either the Bank's company-wide strategy or activities or those of the Bank's material business lines. Key Personnel are individual 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.

15 International claims

International claims are on-balance sheet exposures of counterparties based on the location of those counterparties after taking into account the transfer of risk.

Recognized risk transfer refers to the reduction of exposure to a particular country by an effective transfer of credit risk to a different country. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated.

LIVI BANK LIMITED

15 International claims (continued)

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

	<i>Banks</i>	<i>Officier Sector</i>	<i>Non-Bank Financial Institution</i>	<i>Non- financial private sector</i>	<i>Total</i>
At 31 December 2020	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Developed countries</i>					
<i>– of which Australia (includes Christmas Islands, Cocos Islands, Norfolk Islands, Heard and McDonald Islands, Territory of Ashmore and Cartier Islands and Territory of Coral Sea Islands)</i>					
	136,990	–	–	–	136,990
<i>Developing Asia and Pacific</i>					
<i>– of which China</i>					
	893,563	–	–	–	893,563

16 Loans and advances to customers and Banks

No loans and advances to customers and banks as of 31 December 2020. No rescheduled loans and advances to customers and banks as of 31 December 2020.

17 Repossessed assets

The Bank does not hold any repossessed assets as of 31 December 2020.

LIVI BANK LIMITED

18 Mainland activities

	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000
At 31 December 2020			
(i) Central government, central government-owned entities and their subsidiaries and joint ventures (“JVs”)	–	–	–
(ii) Local governments, local government-owned entities and their subsidiaries and JVs	–	–	–
(iii) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	–	–	–
(iv) Other entities of central government not reported in item (i) above	–	–	–
(v) Other entities of local governments not reported in item (ii) above	–	–	–
(vi) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	–	–	–
(vii) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	–	–	–
Total	–	–	–
Total assets after provision	2,342,345		
On-balance sheet exposures as percentage of total assets	0.0%		

LIVI BANK LIMITED

19 Off-balance sheet exposures

Contingent liabilities and commitments

	At 31 December 2020 HK\$'000
<u>Contractual or notional amounts</u>	
Direct credit substitutes	–
Transaction-related contingencies	–
Trade-related contingencies	–
Forward asset purchases	–
Forward forward deposits placed	–
Other commitments:	
which are not unconditionally cancellable:	
with original maturity of not more than one year	–
with original maturity of more than one year	–
which are unconditionally cancellable	–
	–
	–
Credit risk weighted amount	–

The Bank does not have off-balance sheet exposures as of 31 December 2020.

No comparative information available prior to 31 December 2020

LIVI BANK LIMITED

20 Foreign exchange risk

The currency risk arising from the Bank's operations for those individual currencies which each constitute more than 10% of the total net positions in all foreign currencies are as follows:

	<i>US Dollars</i>	<i>Chinese Renminbi</i>
At 31 December 2020	HK\$'000	HK\$'000
Spot assets	7,699	48,865
Spot liabilities	–	21,801
Forward purchases	–	–
Forward sales	–	–
	<hr/>	<hr/>
Net long non-structural position	<u>7,699</u>	<u>27,064</u>

There is no comparative information available prior to 31 December 2020.

The Bank does not have structural FX position as of 31 December 2020.

LIVI BANK LIMITED

Acronyms

AI	Authorised institution	SA-CCR	Standardised approach for counterparty credit risk
ALCO	Asset and Liability Committee	SEC-ERBA	Securitization external ratings-based approach
AT1	Additional tier 1	SEC-FBA	Securitization full back approach
Bank	Livi Bank Limited	SEC-IRBA	Securitization internal ratings-based approach
BCR	Banking (Capital) Rules	SEC-SA	Securitization standardised approach
BSC	Basic approach	SFT	Securities financing transaction
CCF	Credit conversion factor	STC	Standardised (credit risk) approach
CCP	Central counterparty	STM	Standardised (market risk) approach
CCR	Counterparty credit risk		
CCyB	Countercyclical capital buffer		
CEM	Current exposure method		
CET1	Common equity tier 1		
CIS	Collective investment scheme		
CRM	Credit risk mitigation		
CVA	Credit valuation adjustment		
D-SIB	Domestic systematically important authorised institution		
DTAs	Deferred tax assets		
ECAI	External Credit Assessment Institutions		
EL	Expected loss		
FBA	Fall-back approach		
G-SIB	Global systematically important authorised institution		
HKMA	Hong Kong Monetary Authority		
IMM	Internal models approach		
IMM (CCR)	Internal models (counterparty credit risk) approach		
IRB	Internal ratings-based approach		
JCCyB	Jurisdictional countercyclical capital buffer		
LAC	Loss-absorbing Capacity		
LCR	Liquidity Coverage Ratio		
LMR	Liquidity Maintenance Ratio		
LR	Leverage Ratio		
LTA	Look through approach		
MBA	Mandate-based approach		
MSRs	Mortgage servicing rights		
N/A	Not applicable		
PFE	Potential future exposure		
PRC	People's Republic of China		
PSE	Public sector entity		
RW	Risk-weight		
RWA	Risk-weighted asset/risk-weighted amount		
S	Securitization		

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