

Scotiabank (Hong Kong) Limited

**Regulatory Disclosures
for the year ended October 31, 2020
(unaudited)**

Table OVA: Overview of risk management

The primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with strategies and risk appetite of Scotiabank (Hong Kong) Limited ("SBHKL"), and that there is an appropriate balance between risk and reward in order to maximize shareholder value. The Company's Risk Management Framework (the Framework) articulates the foundation for achieving these goals. The Framework also describes how it interacts with the Parent Bank, The Bank of Nova Scotia's ("BNS") Enterprise-Wide Risk Management Framework.

Risk Management Framework

The risk management framework consists of five key elements:

- Risk Governance
- Risk Appetite
- Risk Management Tools
- Risk Identification and Assessment
- Risk Culture

This Framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the global and local markets in which the Company operates, including regulatory standards (i.e. specifically the Hong Kong's Monetary Authority (HKMA) Supervisory Policy Manual IC-1 Risk Management Framework) and industry best practices.

RISK GOVERNANCE

Effective risk management begins with effective risk governance.

The Company has a well-established risk governance structure to identify, measure, manage and control risks. The Company operates under the oversight of an active and engaged Board of Directors, who is supported by an experienced HK Management Committee (HKMC). Decision-making in SBHKL is highly centralized through various management committees.

The Company's risk management framework is predicated on the three-lines-of-defence model. Within this model,

- the First Line of Defence (typically comprised of the business lines such as GBM, Group Treasury etc. and corporate functions such as HR, IT etc.) incur and own the risks,
- the Second Line of Defence (typically comprised of control functions such as Global Risk Management – Asia, HK Compliance, HK AML/ATF and HK Finance) provides independent oversight and objective challenge to the First Line of Defence, as well as monitoring and control of risk, and
- the Third Line of Defence (Internal Audit) provides independent assurance to management and the Board on the effectiveness of the Company's risk management practices.

In this risk governance structure, employees in every area of SBHKL are responsible for risk management.

The Board of Directors - The Board of Directors provides oversight, either directly or through its committees, to satisfy that decision making is aligned with SBHKL's strategies and risk appetite. The Board receives regular updates on the key risks of the Company – including a quarterly comprehensive summary of the Company's risk profile and performance of the portfolio against defined limits – and approves key risk policies, frameworks and limits.

HK Management - The Managing Director (MD) of the Company is responsible for risk management, under the oversight of the Board. The MD is supported by the HKMC which comprises of senior business/product leaders (collectively "HK Management") who assist them to discharge their risk management responsibilities.

Risk Management – GRM Asia, part of Global Risk Management (GRM), comprises of Trade Floor Risk Management (TFRM) Asia, Enterprise Risk Asia and Credit Risk Asia functions that report to the Chief Risk Officer (CRO) Asia. The department is responsible for the design and application of the SBHKL's risk management framework and is independent of SBHKL. Various GRM teams; Trade Floor Risk Management, Risk Analytics & Cyber, Credit Risk, Operational Risk and Enterprise Risk, support and provide advice and counsel, as required, on all aspects of risk management to the GRM – Asia risk function housed geographically in Singapore and Hong Kong, in support of SBHKL. There also exists an Internal Control Asia Pacific (ICAP) function situated within Global Banking and Markets (GBM) to strengthen the first line of defence.

HK Compliance – HK Compliance manages compliance risk for SBHKL which includes regulatory compliance, conduct and privacy risks. A primary objective of HK Compliance is to take a holistic view of compliance risk to ensure consistency in the application of the Compliance Program, and assurance of outputs from its compliance risk management processes.

HK AML – HK AML Risk develops standards to be followed in effectively controlling money laundering, terrorist financing, and sanctions risks. HK AML Risk is responsible for maintaining the program current with SBHKL's needs, industry practice, AML/ATF & sanctions and regulatory, as well as providing risk-based independent oversight of SBHKL's compliance with these requirements and standards.

HK Internal Audit – Reporting independently to the Director, Audit Asia Pacific, HK Internal Audit provides country-wide independent, objective assurance over the design and operating effectiveness of SBHKL's internal controls, risk management and governance processes and to provide consulting services designed to improve SBHKL's operations.

HK Business Line and Corporate Functions - As the first line of defence in the Three Lines of Defence model, are accountable for effective management of the risks within their business lines and functions through identifying, assessing, mitigating, monitoring and reporting the risks. HK Business lines and corporate functions actively implement effective internal controls as well as governance activities to manage risk and maintain activities within risk appetite and policies. Further, HK business lines have processes to be able to effectively identify, monitor and report against allocated risk appetite limits.

RISK APPETITE

Effective risk management requires clear articulation of the Company individual risk appetite and how each the risk profile will be managed in relation to its respective risk appetite.

The Company's Risk Appetite Framework (RAF) articulates the amount and types of risk which are willing to take in order to meet its strategic objectives. The RAF consists of the identification of risk capacity, a risk appetite statement and respective risk appetite metrics. Together, the application of these components helps to ensure the Company stays within appropriate risk boundaries, finds an optimal balance between risk and return, and support a strong risk culture.

Risk Appetite Statement

The Company's Risk Appetite Statement (RAS) can be summarized as follows:

1. SBHKL favours businesses that generate sustainable, consistent and predictable earnings.
2. SBHKL expects to take certain risks in order to generate earnings, but a framework of controls and limits is in place to ensure risk-taking activities are in line with its strategic objectives, risk culture and risk appetite.
3. SBHKL limits its risk-taking activities to those that are well understood and where there is sufficient expertise, resources and infrastructure to effectively measure and manage the risk and balance with reward.
4. Capital considerations are part of material risk decisions.
5. SBHKL has low appetite for reputational, legal, regulatory or taxation risk and no appetite for breaches of the BNS Code of Conduct.
6. All employees of the SBHKL are responsible for understanding the limits and any other boundaries that apply to their activities.

Risk Appetite Metrics

Risk appetite metrics provide clear risk limits, which are critical in implementing effective risk management. Certain key

risk appetite metrics are supported by management level limit structures and controls.

Other components of the Company's key risk appetite measures include:

- Set risk capacity and appetite in relation to regulatory constraints
- Use stress testing to provide forward-looking metrics
- Minimize earnings volatility
- Limit exposure to operational events that can have an impact on earnings, including regulatory fines
- Ensure reputational risk is top of mind and strategy is being executed within operating parameters

RISK MANAGEMENT TOOLS

Effective risk management includes tools that are guided by the Company's Risk Appetite Framework and integrated with its strategies and business planning processes.

The Company's risk management framework is supported by a variety of risk management tools that are used together to manage its enterprise risks. Risk management tools are regularly reviewed and updated to ensure consistency with its risk-taking activities, and relevance to its business and financial strategies.

Policies & Limits

Policies and Frameworks

The Company develops and implements its key risk policies in consultation with the Board of Directors. Such policies and frameworks are also subject to the requirements and guidelines of the Hong Kong Monetary Authority. In addition to local policies, SBHKL also adopts the BNS's key risk policies. Policy and framework development and implementation reflect best governance practices which the Company strives to adhere to at all times.

The Company's policies and frameworks apply to specific types of risk or to the activities that are used to measure and control risk exposure. They are based on recommendations from risk management, and other control and corporate functions including internal audit, business lines; and HK Management. Industry best practices and regulatory requirements are also factored into these policies and frameworks, guided by its risk appetite, and its limits and controls are set within the parameters which it can operate. Key risk policies and frameworks are supported by manuals, procedures and guidelines.

Limits

Limits govern and control risk-taking activities within the appetite and tolerances established by the Board and HK Management. Limits also establish accountability for key tasks in the risk-taking process and establish the level or conditions under which transactions may be approved or executed.

Risk Measurement

Models

The use of quantitative risk methodologies and models is balanced by a strong governance framework and includes the application of sound and experienced judgment. The development, independent review, and approval of models are subject to formalized policies such as BNS Model Risk Management Policy, as adopted by SBHKL; and oversight of BNS committees such as BNS Model Review Committee (for market risk, counterparty credit risk, and liquidity risk models). The Company uses models for a range of purposes including:

- Valuing transactions,
- Measuring risk exposures,
- Determining credit risk ratings and parameters.

Monitoring and Reporting

The Company continuously monitors their risk exposures to ensure business activities are operating within approved limits or guidelines, their respective business strategies and risk appetite. Breaches, if any, of these limits or guidelines are reported to the Board depending on the limit or guideline.

Risk reporting aggregate measures of risk across products and businesses, and are used to ensure compliance with risk policies, limits, and guidelines. They also provide a clear statement of the amounts, types, and sensitivities of the various risks in the portfolio. Management and the Board use this information to understand its risk profiles and the performance of the portfolios. A comprehensive summary of the Company's risk profile and performance of the portfolio is presented quarterly to the Board.

Forward-Looking Exercises

Stress Testing

Stress testing programs allow the Company to estimate the potential impact on its income and capital as a result of significant changes in market conditions, credit environment, liquidity demands, or other risk factors. Each program is developed with input from a broad base of stakeholders, and results are integrated into management decision making processes for capital, funding, market risk limits, and credit risk appetite. The stress testing programs, reviewed annually, are designed to capture a number of stress scenarios with differing severities and time horizons.

RISK IDENTIFICATION AND ASSESSMENT

Effective risk management requires a comprehensive process to identify risks and assess their materiality.

Assessment of Risks

On an annual basis, the Company undergoes a risk assessment that identifies the material risks for the Internal Capital Adequacy Assessment Process (ICAAP) and the determination of internal capital. This process evaluates the risks and determines the pervasiveness of the risk across multiple business lines, significance of the risk to a specific business line, likelihood and potential impact of the risk and whether the risk may cause unexpected losses in income and therefore would be mitigated by internal capital. The process also reviews other evolving and emerging risks and includes qualitative considerations such as strategic, economic and environmental risk factors. The identified risks are ascribed a rating of how probable and impactful they may be and are used as an important input in the ICAAP process and the determination of internal capital.

Principal Risk Types

The Company's principal risk types are reviewed regularly to ensure they adequately reflect its risk profile. The principal risks can be categorized into two main categories:

Financial Risks:

Credit, Market, Liquidity

These are risks that are directly associated with the Company's primary businesses and revenue generating activities. The Company understands these risks well and takes them in order to generate sustainable, consistent and predictable earnings. Financial risks are generally quantifiable and are relatively predictable. The Company has higher risk appetites for financial risks which are considered to be a fundamental part of doing business; but only when they are well understood, within established limits, and meet the desired risk and return profile.

Non-Financial Risks (i.e. Core Risks):

Operational, IT & Cybersecurity, Data, Compliance, ML & TF, Environmental, Reputational, Strategic

These are risks that are not directly associated with the Company's primary businesses and revenue-generating activities, but nevertheless are inherent in the Company's businesses and can have significant negative strategic, business, financial

and/or reputational consequences if not managed properly. In comparison to financial risks, core risks are less predictable and more difficult to define and measure. The Company has low risk appetite for core risks and mitigates these risks through robust internal controls and processes.

RISK CULTURE

Effective risk management requires a strong, robust, and pervasive risk management culture where every SBHKL's employee is a risk manager and is responsible for managing risks.

The Company's risk culture is influenced by numerous factors including the interdependent relationship amongst its risk governance structure, risk appetite, strategy, organizational culture, and risk management tools.

A strong risk culture promotes behaviours that align to SBHKL's values, supports sound risk taking and enables employees to identify risk taking activities that are beyond the established risk appetite.

SBHKL's risk culture program is based on four indicators of a strong risk culture:

1. **Tone from the Top** – Leading by example including clear and consistent communication on risk behavior expectations, the importance of SBHKL's values, and fostering an environment where everyone has ownership and responsibility for "doing the right thing".
2. **Accountability** – All SBHKL's employees are accountable for risk management. There is an environment of open communication where employees feel safe to speak-up and raise concerns without fear of retaliation and consequences for not adhering to the desired behaviours.
3. **Risk Management** – Risk taking activities are consistent with SBHKL's strategies and risk appetite. Risk appetite considerations are embedded in key decision making processes.
4. **People Management** – Performance and compensation structures encourage desired behaviours and reinforce the Company's values and risk culture.

Other elements that influence and support the SBHKL's risk culture:

- **BNS Code of Conduct**: describes standards of conduct to which all directors, officers, and employees must adhere and attest to on an annual basis
- **Values**: Integrity – Act With Honour; Respect – Value Every Voice; Accountability – Make It Happen; Passion – Be Your Best
- **Communication**: SBHKL actively communicates risk appetite, and how it relates to its employees, to promote a sound risk culture
- **Compensation**: programs are structured to discourage behaviors that are not aligned with the Company's values or BNS Code of Conduct, and ensure that such behaviors will not be rewarded
- **Training**: risk culture is continually reinforced by providing effective and informative mandatory and non-mandatory training modules for all employees on a variety of risk management topics
- **Decision-making on risk issues is highly centralized**: the flow of information and transactions to senior and executive committees keeps Management well informed of the risks faced by SBHKL, and ensures that transactions and risks are aligned with its risk appetite
- **Executive Mandates**: all Executives across the Company have risk management responsibilities within their mandates

In addition, the Company is expected to adopt a holistic and effective framework for fostering a sound risk culture, in accordance with the HKMA's Bank Culture Reform Notice.

Template KM1: Key prudential ratios

The table below provides an overview of key prudential ratios:

		(a)	(b)	(c)	(d)	(e)
HKD'000		31-Oct-20	31-Jul-20	30-Apr-20	31-Jan-20	31-Oct-19
	Regulatory capital (amount)					
1	Common Equity Tier 1 (CET1)	2,875,814	2,880,063	5,479,218	5,464,148	5,424,231
2	Tier 1	2,875,814	2,880,063	5,479,218	5,464,148	5,424,231
3	Total capital	2,875,838	2,880,228	5,481,786	5,465,702	5,425,944
	RWA (amount)					
4	Total RWA	877,990	1,473,895	8,873,311	10,666,917	12,458,633
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	327.55%	195.40%	61.75%	51.23%	43.54%
6	Tier 1 ratio (%)	327.55%	195.40%	61.75%	51.23%	43.54%
7	Total capital ratio (%)	327.55%	195.42%	61.78%	51.24%	43.55%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical capital buffer requirement (%)	1.00%	0.99%	0.90%	1.67%	1.75%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	NA	NA	NA	NA	NA
11	Total AI-specific CET1 buffer requirements (%)	3.50%	3.49%	3.40%	4.17%	4.25%
12	CET1 available after meeting the AI's minimum capital requirements (%)	319.54%	187.42%	53.85%	42.56%	34.79%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	2,888,372	3,377,509	12,701,840	14,970,968	16,961,042
14	LR (%)	99.57%	85.27%	43.14%	36.50%	31.98%

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	NA
16	Total net cash outflows	NA	NA	NA	NA	NA
17	LCR (%)	NA	NA	NA	NA	NA
	Applicable to category 2 institution only:					
17a	LMR (%)	236.92%	150.53%	85.27%	52.24%	61.97%
Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)						
	Applicable to category 1 institution only:					
18	Total available stable funding	NA	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA	NA
20	NSFR (%)	NA	NA	NA	NA	NA
	Applicable to category 2A institution only:					
20a	CFR (%)	527766.44%	1044.63%	99.56%	97.80%	105.32%

Template OV1: Overview of Risk Weighted Assets

The table below provides an overview of capital requirements in terms of a detailed breakdowns of RWAs for various risks:

		(a)	(b)	(c)
		RWA		Minimum capital requirements
	HKD'000	31-Oct-20	31-Jul-20	31-Oct-20
1	Credit risk for non-securitization exposures	584,852	1,148,957	46,788
2	Of which STC approach	584,852	1,148,957	46,788
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*	-	-	-
13	CIS exposures – MBA*	-	-	-
14	CIS exposures – FBA*	-	-	-
14a	CIS exposures – combination of approaches*	-	-	-
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which SEC-IRBA	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-
20	Market risk	-	-	-
21	Of which STM approach	-	-	-
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)*	-	-	-
24	Operational risk	293,138	324,938	23,451
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	877,990	1,473,895	70,239

Point to note:

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

Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

The table below provides 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.

HKD'000	(a) & (b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements / Carrying values under scope of regulatory consolidation	Carrying values of items:				
		subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Assets						
Cash and balances with banks	2,879,436	2,879,436	-	-	-	-
Loans and advances	-	-	-	-	-	-
Trade bills	-	-	-	-	-	-
Investment securities measured at fair value through other comprehensive income	-	-	-	-	-	-
Deferred tax assets	4	-	-	-	-	4
Other assets	551	551	-	-	-	-
Total assets	2,879,991	2,879,987	-	-	-	4
Liabilities						
Deposits and balances from banks	-	-	-	-	-	-
Current tax liabilities	281	-	-	-	-	281
Other liabilities	3,892	-	-	-	-	3,892
Total liabilities	4,173	-	-	-	-	4,173

Carrying values as reported in published financial statements and scope of regulatory consolidation are exactly the same, as the Company does not have any subsidiary.

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

The table below provides information on the main sources of differences 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 reporting.

	(a)	(b)	(c)	(d)	(e)
	Total	Items subject to:			
		credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	2,879,987	2,879,987	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-
3	Total net amount under regulatory scope of consolidation	2,879,987	2,879,987	-	-
4	Off-balance sheet amounts	18,425	8,409	-	-
5	Difference due to consideration of provisions	-	24		
N	Exposure amounts considered for regulatory purposes	2,898,412	2,888,420	-	-

Table LIA: Explanation of differences between accounting and regulatory exposure amounts

The difference between accounting values and amounts considered for regulatory purposes is attributable to the difference in the reporting treatment for expected credit loss provision for accounting and regulatory reporting purposes. The on-balance sheet exposure represents the carrying value after netting stage 1 expected credit loss provision, whereas for regulatory reporting, the exposure amount reported represents the carrying value before deduction of stage 1 expected credit loss provision. For regulatory reporting purpose, the off-balance sheet exposures are derived by applying the CCF to the notional amount of the contracts. The notional amount of the contracts is the amount of an off-balance sheet item adopted for financial reporting.

System and controls to ensure that the valuation estimates are prudent and reliable

Fair value estimates are generally subjective in nature, and are made at a specific point in time based on the characteristics of the financial instruments and relevant market information. The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 - Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2 - Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

The Company has controls and processes in place to ensure that the valuation of financial instruments is appropriately determined. GRM is responsible for the design and application of the Company's risk management framework. Where possible, valuations are based on quoted prices or observable inputs obtained from active markets. GRM oversees a monthly Independent Price Verification (IPV) process in order to assess the reliability and accuracy of prices and inputs used in the determination of fair value. The valuation policies relating to the IP process require that all pricing or rate sources used be external to the Company. On a periodic basis, an independent assessment of pricing or rate sources is also performed by GRM to determine market presence or market representative levels. Where quoted prices are not readily available, such as for transactions in inactive or illiquid markets, internal models that maximize the use of observable inputs are used to estimate fair value.

Template PV1: Prudent valuation adjustments

No prudent valuation adjustment as at October 31, 2020.

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

Template CC1: Composition of regulatory capital

The below table provides a breakdown of the constituent elements of total capital:

	(a)	(b)
	Amount	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
HKD'000		
CET1 capital: instruments and reserves		
1 Directly issued qualifying CET1 capital instruments plus any related share premium	2,796,181	[7]
2 Retained earnings	79,637	[8]
3 Disclosed reserves	-	[9]
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	2,875,818	
CET1 capital: regulatory deductions		
7 Valuation adjustments	-	
8 Goodwill (net of associated deferred tax liabilities)	-	
9 Other intangible assets (net of associated deferred tax liabilities)	-	
10 Deferred tax assets (net of associated deferred tax liabilities)	4	[5]
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)	-	
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	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	-	
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	4	
29	CET1 capital	2,875,814	
	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>	-	
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)	2,875,814	
	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	24	[1+2+3+4+6]
51	Tier 2 capital before regulatory deductions	24	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	

56	National specific regulatory adjustments applied to Tier 2 capital	-	
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	-	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	24	
59	Total regulatory capital (TC = T1 + T2)	2,875,838	
60	Total RWA	877,990	
Capital ratios (as a percentage of RWA)			
61	CET1 capital ratio	327.55%	
62	Tier 1 capital ratio	327.55%	
63	Total capital ratio	327.55%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	3.50%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: bank specific countercyclical capital buffer requirement	1.00%	
67	of which: higher loss absorbency requirement	0.00%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	319.54%	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	-	
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)	24	
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	24	
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)	-	

Notes to the Template

Description		Hong Kong basis	Basel III basis
10	Deferred tax assets (net of associated deferred tax liabilities)	4	4
	<p><u>Explanation</u></p> <p>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.</p>		

Template CC2: Reconciliation of regulatory capital to balance sheet

The below table shows the link between the balance sheet in published financial statements and the numbers that are used in the composition of regulatory capital disclosure template set out in Template CC1.

	(a)	(b)	(c)
	Balance sheet as in published financial statements and under regulatory scope of consolidation		Reference
HKD'000	31-Oct-20		
Assets			
Cash and cash equivalents		2,879,436	
of which: collective provision eligible for Tier 2 capital		(24)	[1]
Loans and advances		-	
of which: collective provision eligible for Tier 2 capital		-	[2]
Trade bills		-	
of which: collective provision eligible for Tier 2 capital		-	[3]
Investment securities measured at fair value through other comprehensive income		-	
of which: collective provision eligible for Tier 2 capital		-	[4]
Deferred tax assets		4	
of which: arising from collective provision		4	[5]
Other assets		551	
Total assets		2,879,991	
Liabilities			
Deposits and balances with banks		-	
Current taxation		281	
Other liabilities		3,892	
of which: collective provision eligible for Tier 2 capital		-	[6]
Total liabilities		4,173	
Equity			
Share capital		2,796,181	[7]
Reserves		79,637	
of which: retained profits		79,637	[8]
of which: revaluation of investment securities eligible for CET1 capital		-	[9]
Total equity		2,875,818	
Total liabilities and equity		2,879,991	

Note: Carrying values as reported in published financial statements and regulatory scope of consolidation are exactly the same, as the Company does not have any subsidiary.

Template CCA: Main features of regulatory capital instruments

The below table provides a description on the main features of the CET1. Additional Tier 1 and Tier 2 capital instruments, as applicable, that are included in regulatory capital.

		(a)
		Quantitative / qualitative information
1	Issuer	SCOTIABANK (HONG KONG) LIMITED
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	HONG KONG
<i>Regulatory treatment</i>		
4	Transitional Basel III rules[1]	NA
5	Post-transitional Basel III rules[2]	Common Equity Tier 1
6	Eligible at solo / group / solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD2,796MM
9	Par value of instrument	NA
10	Accounting classification	Shareholders' equity
11	Original date of issuance	Since incorporation
12	Perpetual or dated	Perpetual
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
<i>Coupons / dividends</i>		
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	NA
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	Non-cumulative or cumulative	Non-cumulative

23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

[1] Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the BCR.

[2] Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the BCR.

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

The below table provides an overview of the geographical distribution of private sector credit exposures relevant for the calculation of CCyB ratio:

		(a)	(c)	(d)	(e)
	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect (%)	RWA used in computation of CCyB ratio (HKD'000)	AI-specific CCyB ratio (%)	CCyB amount (HKD'000)
1	Hong Kong SAR	1.00%	8,960		
	Sum		8,960		
	Total (include jurisdictions with zero JCCyB ratio)		8,960	1.00%	90

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

The below table reconciles the total assets in the published financial statements (if any) to the LR exposure measure.

	Item	Value under the LR framework HKD'000
1	Total consolidated assets as per published financial statements	2,879,991
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated 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)	8,409
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	-
7	Other adjustments	(28)
8	Leverage ratio exposure measure	2,888,372

Template LR2: Leverage ratio ("LR")

The below table provides a detailed breakdown of the components of the LR denominator:

		(a)	(b)
		HKD'000	
		31-Oct-20	31-Jul-20
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	2,879,991	3,171,522
2	Less: Asset amounts deducted in determining Tier 1 capital	(4)	(27)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	2,879,987	3,171,495
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 contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
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	18,425	560,927
18	Less: Adjustments for conversion to credit equivalent amounts	(10,016)	(354,748)
19	Off-balance sheet items	8,409	206,179
Capital and total exposures			
20	Tier 1 capital	2,875,814	2,880,063
20a	Total exposures before adjustments for specific and collective provisions	2,888,396	3,377,674
20b	Adjustments for specific and collective provisions	(24)	(165)
21	Total exposures after adjustments for specific and collective provisions	2,888,372	3,377,509
Leverage ratio			
22	Leverage ratio	99.57%	85.27%

Table LIQA – Liquidity risk management

Liquidity risk is defined as the risk of being unable to meet financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to counterparties, and lending and pledging commitments.

Effective liquidity risk management is essential to maintain the confidence of counterparties, manage the company's cost of funds and to support core business activities, even under adverse circumstances.

Liquidity risk is managed within the framework of policies and limits that are approved by the Board of Directors. The Board receives reports on risk exposures against approved limits. The Asset-Liability Committee (ALCO) provides senior management oversight of liquidity risk.

The key elements of the liquidity risk framework are:

- Measurement and modeling – the company's liquidity model measures and forecasts cash inflows and outflows, including off-balance sheet cash flows on a daily basis. Risk is managed by a set of key limits over the maximum net cash outflow by currency over specified short-term horizons (cash gaps), a minimum level of core liquidity, and liquidity stress tests.
- Reporting – support the ALCO with analysis, risk measurement, stress testing, monitoring and reporting for their oversight of all significant liquidity risks.
- Stress testing – the company performs liquidity stress testing on a monthly basis, to evaluate the effect of industry-wide, company-specific and the combined disruptions on the company's liquidity position. A separate Intraday liquidity stress test is also performed at each financial quarter to evaluate impact from counterparties payment and settlement under stress event. Liquidity stress testing has many purposes including:

- Helping the company to understand the potential behavior of various on-balance sheet and off-balance sheet positions in circumstances of stress; and
- Based on this knowledge, facilitating the development of risk mitigation and contingency plans.

The company's liquidity stress tests consider the effect of changes in funding assumptions, and the market value of liquid assets. The company performs industry standard stress tests, the results of which are submitted to ALCO and reviewed by senior management in consideration of making liquidity management decisions.

The liquidity risk mitigation technique includes the below tools:

- Contingency planning – the company maintains a liquidity contingency plan that specifies an approach for analyzing and responding to actual and potential liquidity events. The plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication, and identifies potential counter measures to be considered at various stages of an event.
- Funding diversification – the company actively manages the diversification of its funding liabilities by term and maintains funding lines with BNS branches and group companies.
- Core liquidity – the company maintains a pool of highly liquid, unencumbered assets that can be readily sold or pledged to secure borrowings under stressed market conditions or due to company-specific events.

a. **Sources of funding**

The sources of funding are from the following:

	31-Oct-20	31-Oct-19
	HKD'000	HKD'000
Group Companies	-	10,667
as % of total liabilities	-	99.57%

b. **Liquidity Risk Mismatch**

The following analysis shows the on and off-balance sheet items, broken down into maturity buckets:

	31-Oct-20				
	Total	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years
HKD'000					
Assets:					
Cash and balances with banks	2,879,436	2,879,436	-	-	-
Loan and advances	-	-	-	-	-
Trade Bills	-	-	-	-	-
Investment securities measured at fair value through other comprehensive income	-	-	-	-	-
Deferred tax assets	4	-	-	-	4
Other assets	551	-	551	-	-
Total assets	2,879,991	2,879,436	551	-	4
Total off-balance sheet assets	-	-	-	-	-
Liabilities:					
Deposits and balances from banks	-	-	-	-	-
Current taxation	281	-	-	281	-
Other liabilities	3,892	-	2,477	1,415	-
Total liabilities	4,173	-	2,477	1,696	-
Total off-balance sheet liabilities	18,325	15,746	2,579	-	-
Contractual maturity mismatch		2,863,690	(4,505)	(1,696)	4
Cumulative contractual maturity mismatch		2,863,690	2,859,185	2,857,489	2,857,493

31-Oct-19					
	Total	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years
HKD'000					
Assets:					
Cash and balances with banks	1,000,737	1,000,737	-	-	-
Loan and advances	13,046,228	4,300,000	2,037,847	2,734,548	3,973,833
Trade Bills	333,460	178,577	154,883		
Investment securities measured at fair value through other comprehensive income	1,727,347	361,532	931,768	434,047	-
Current tax assets	-	-	-	-	-
Deferred tax assets	311	-	-	-	311
Other assets	29,321	17,377	11,226	718	-
	<u>16,137,404</u>	<u>5,858,223</u>	<u>3,135,724</u>	<u>3,169,313</u>	<u>3,974,144</u>
Total assets					
	<u>3,999,997</u>	<u>3,999,997</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total off-balance sheet assets					
Liabilities:					
Deposits and balances from banks	10,666,754	540,207	2,654,981	7,471,566	-
Current taxation	21,871	21,871	-	-	-
Other liabilities	24,232	7,557	11,800	4,875	-
	<u>10,712,857</u>	<u>569,635</u>	<u>2,666,781</u>	<u>7,476,441</u>	<u>-</u>
Total liabilities					
	<u>1,021,731</u>	<u>775,111</u>	<u>32,516</u>	<u>214,104</u>	<u>-</u>
Total off-balance sheet liabilities					
	<u>1,021,731</u>	<u>775,111</u>	<u>32,516</u>	<u>214,104</u>	<u>-</u>
Contractual maturity mismatch		8,513,474	436,427	(4,521,232)	3,974,144
Cumulative contractual maturity mismatch		8,513,474	8,949,901	4,428,669	8,402,813

Table CRA – General Information about credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Company. Credit risk arises in the Company's direct lending operations, and in its funding, and investment where counterparties have repayment or other obligations to the Company. Credit Risk includes settlement risk, suitability risk and wrong way risk.

The Company adopts BNS Credit Risk Policy and credit risk management program that detail, among other things, the credit risk rating systems and associated parameter estimates, the delegation of authority for granting credit, the calculation of the allowance for credit losses, and the authorization of write-offs.

The Company's overarching risk management framework is predicated on the Three-Lines-of-Defence model as follows:

- Business lines represent the first line of defence by being accountable for risk. Business lines own the risks arising from their activities and are responsible for managing these risks while achieving their financial objectives.
- A strong, centralized and independent risk unit (including BNS GRM) is the second line of defence, and complements risk management in the business lines.
- Independent and objective audit functions (both internal and external) are the third line of defence.

The Company is firmly committed to the management and diversification of risk, productivity and customer service. SBHKL recognises that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volume of financial products, facilitated by rapid advances in technology and communications.

The Board of Directors reviews and approves SBHKL's Credit Risk Appetite and Credit Policy Handbook annually. Senior management will ensure that, in all material respects, such policies conform to the credit risk policies and credit risk management strategies of BNS and the applicable laws, regulatory requirements, accounting standards and sound practices in the jurisdictions where SBHKL operates and are consistent with SBHKL's Risk Appetite Framework. Each customer will have authorized credit limits that encompass defined credit risks. Such credit limits are monitored and reviewed annually, or more frequently as circumstances warrant.

A comprehensive and reliable reporting process is in place to ensure the effective monitoring of credit risk. Detailed positions and exposures of the Company's activities by industry, counterparty, product and country are reported regularly to senior management. The Company's Board of Directors receives similar information at the regular Board meetings. The Back Office provides the reporting required for both internal and statutory purposes and monitor compliance with regulatory requirements as well as policy and limits. Exception reporting as to breaches of limits and their terms and conditions, is provided to senior management and to the relevant department of BNS GRM and Board of Directors as appropriate.

Template CR1: Credit quality of exposures

The table below provides an overview of the credit quality of on- and off-balance sheet exposures as at October 31, 2020:

		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Gross carrying amounts of		Allowances / impairments	Of which ECL accounting provisions for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values (a+b-c)
HKD'000		Defaulted exposures	Non- defaulted exposures		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
1	Loans	-	-	-	-	-	-	-
2	Debt securities	-	-	-	-	-	-	-
3	Off-balance sheet exposures	-	18,425	-	-	-	-	18,425
4	Total	-	18,425	-	-	-	-	18,425

Template CR2: Changes in defaulted loans and debt securities

The table below provides 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 as at October 31, 2020:

HKD'000		(a)
		Amount
1	Defaulted loans and debt securities at end of the previous reporting period	-
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	-

Table CRB: Additional disclosure related to credit quality of exposures – Qualitative disclosures

The Company considers a financial instrument to be impaired as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- significant financial difficulty of the borrower;
- default or delinquency in interest or principal payments;
- high probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Company considers that an Entity is considered Default / Credit-Impaired when either of the criteria below is met:

- The Entity is "unlikely to pay" its credit obligations in full, without recourse to actions such as realizing security (this excludes securities borrowing and lending as well as other facilities that are regularly marked to market and subject to margin calls); or
- The Entity is more than 90 days past due on any material credit obligation.

Restructured exposures include exposures where the Company has renegotiated the original terms of an exposure by granting a concession to the borrower (concessions). These concessions include interest rate adjustments, deferral or extension of principal or interest payments and forgiveness of a portion of principal or interest. Once the terms of the exposure have been renegotiated and agreed upon with the borrower the exposure is considered a restructured exposure.

To determine the amount of impairment, the Company will look at the amount and timing of expected cash flows (or recoveries), and calculates the Principal Provision and Time Value Provision required until the loan is fully repaid. Provisions are made up of the following two components:

- The Principal Provision is based on analysis of the borrower's ability to repay the outstanding financial asset or the Company's ability to realize on security supporting the financial asset. It reflects how much the Company expects to lose on the financial asset given expected payments and the selling or legal costs associated with the recovery.
- The Time Value Provision is required under accounting rules and measures the discount value of future recovery payment(s), i.e. the difference between the amounts we expect to recover at some future date versus the value of this same amount at today's date.

There was no exposure which was past due for more than 90 days but was impaired.

There was no impaired, accounting past due and restructured exposures as at October 31, 2020.

Template CRB: Additional disclosure related to credit quality of exposures

The table below illustrates the breakdown of credit risk exposures by geographical areas, industry and residual maturity as at October 31, 2020:

(1) Breakdown of credit risk exposures by geographical areas

HKD'000	Amount
Hong Kong	18,425
Asia Pacific excluding Hong Kong	-
Total	18,425

(2) Breakdown of credit risk exposures by industry

HKD'000	Amount
Government	-
Property investment	-
Telecommunications	-
Electricity & gas	-
Manufacturing	-
Others	18,425
Total	18,425

(3) Breakdown of credit risk exposures by residual maturity

HKD'000	Amount
Up to 3 months	18,425
Over 3 months - 1 year	-
Over 1 year - 5 years	-
Total	18,425

Table CRC: Qualitative disclosures related to credit risk mitigation

The Company has established policies on managing and recognizing credit risk mitigation for all types of credit exposure under the standardized (credit risk) approach. The Company applies prudent assessments of eligibility and quality of collateral. The Company also applies safe custodian of collateral, regular revaluation and close monitoring.

On-balance sheet and off-balance sheet recognized netting is not adopted by the Company.

Regulatory capital calculation only recognized collateral and recognized guarantees, as laid down under the Banking (Capital) Rules, are considered as recognized credit risk mitigations and the company adheres to the criteria as stipulated in the Banking (Capital) Rules when assessing the eligibility.

Recognized collateral includes both financial and physical collateral. Financial collateral includes cash deposit and shares, whilst physical includes commercial real estate, vehicles and equipment. The exposure amount after mitigation is determined by applying the standard supervisory haircut laid down in the Banking (Capital) Rules as an adjustment discount to the current collateral value. A recognized guarantor is any sovereign entity, a public sector entity, a corporate or a bank with a lower risk weight than the borrower.

Collateral values are accurately identified at the outset and throughout the tenure of an obligation by using standard evaluation methodologies. Collateral value is conservatively estimated, and valuation estimates are conducted at a frequency that is appropriate to the frequency by which the market value fluctuates, using the collateral type and the entity risk profile. In addition, when it is not cost effective to monitor highly volatile collateral, appropriate discounts are applied to compensate. The frequency of collateral valuations is also increased when early warning signals of an entity's deteriorating financial condition are identified.

The major type of credit risk mitigation used by the Company is corporate guarantee (e.g. lending to a financing subsidiary with full guarantee from its parent company with sound financial strength). Given the guarantors are engaged in diversified industry/sector/business, credit risk concentrations under this form of credit risk mitigation is considered minimal.

Template CR3: Overview of recognized credit risk mitigation

The table below discloses the extent of credit risk exposures covered by different types of recognized CRM as at October 31, 2020:

		(a)	(b1)	(b)	(d)	(f)
HKD'000		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	-	-	-	-	-
2	Debt securities	-	-	-	-	-
3	Total	-	-	-	-	-
4	Of which defaulted	-	-	-	-	-

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

The Company uses the following external credit assessment institutions ("ECAIs") to calculate its capital adequacy requirements for all exposures under the standardized (credit risk) approach prescribed in the Banking (Capital) Rules:

- Fitch Ratings;
- Moody's Investors Service, Inc; and
- Standard & Poor's Ratings Services.

For exposures without an ECAI issue specific rating, the risk weight of the corresponding ECAI issuer rating will be applied to calculate its capital adequacy requirements according to the Banking (Capital) Rules.

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

The table below illustrates the effect of any recognized CRM (including recognized collateral under both comprehensive and simple approaches) on the calculation of capital requirements, and RWA density provides a synthetic metric on riskiness of each portfolio as at October 31, 2020:

		(a)	(b)	(c)	(d)	(e)	(f)
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	-	-	-	-	-	0%
2	PSE exposures	-	-	-	-	-	0%
2a	<i>Of which: domestic PSEs</i>	-	-	-	-	-	0%
2b	<i>Of which: foreign PSEs</i>	-	-	-	-	-	0%
3	Multilateral development bank exposures	-	-	-	-	-	0%
4	Bank exposures	2,879,460	-	2,879,460	-	575,892	20%
5	Securities firm exposures	-	-	-	-	-	0%
6	Corporate exposures	-	18,425	-	8,409	8,409	100%
7	CIS exposures	-	-	-	-	-	0%
8	Cash items	-	-	-	-	-	0%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	0%
10	Regulatory retail exposures	-	-	-	-	-	0%
11	Residential mortgage loans	-	-	-	-	-	0%
12	Other exposures which are not past due exposures	551	-	551	-	551	100%
13	Past due exposures	-	-	-	-	-	0%
14	Significant exposures to commercial entities	-	-	-	-	-	0%
15	Total	2,880,011	18,425	2,880,011	8,409	584,852	20%

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

The table below presents a breakdown of credit risk exposures by asset classes and by risk weights (corresponding to the classification of exposures according to the STC approach used) as at October 31, 2020:

HKD'000		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)
Exposure class	Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	2,879,460	-	-	-	-	-	-	-	2,879,460
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	8,409	-	-	-	8,409
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	-	-	-	-	-	-	551	-	-	-	551
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	Total	-	-	2,879,460	-	-	-	8,960	-	-	-	2,888,420

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

The Company uses sensitivity analysis to measure the potential effect of changes in interest rates on the annual income and economic value of shareholders' equity. Sensitivity analysis on economic value to interest rate changes is assessed through six prescribed standardised interest rate shock scenarios under different currencies stated in SPM IR-1 Interest Rate Risk in the Banking Book. Sensitivity analysis on annual income to interest rate changes is assessed through only the parallel shock up and down scenarios accordingly.

- Parallel shock up
- Parallel shock down
- Steepener shock
- Flatteners shock
- Short rate shock up
- Short rate shock down

The sensitivity analysis is performed on a monthly basis with quarterly results submitted to HKMA. SBHKL also set up internal interest rate risk limits on economic value and annual income, monitored on a monthly basis with appropriate controls and escalation procedures. Utilizations of limits will be reported to the Asset and Liability Management Committee ("ALCO"), as the mandate of ALCO is to provide oversight of the sources and uses of funding, liquidity risk, interest rate risk, and capital and for monitoring liquidity risk against limits, compliance with applicable policies and external regulations. The monthly movement as well as changes in market conditions will be discussed at ALCO in a timely and comprehensive manner.

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management and regulatory reporting purposes. The analysis is based on the following assumptions:

- (i) there is a parallel shift in the yield curve and in interest rate;
- (ii) there are no other changes to the portfolio;
- (iii) no loan repayment is assumed; and
- (iv) post-shock interest rate under prescribed scenarios is kept at -2% floor.

As regards to hedging practices, from the funding management perspective funding is run substantially on a matched basis and the current practices is to maintain substantially, fully matched positions, in terms of tenor, currency and base rate.

Internal audit has developed plans to provide an independent opinion on the design and operating effectiveness of the internal controls over IRRBB for SBHKL. The plan includes regular review and coverage through audit's continuous monitoring exercise. All audit issues and potential weaknesses will be discussed with senior management, as and when they are identified during the auditing work. Management would formally respond to audit issues and provide an action plan to remediate identified gaps.

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

To provide information on the changes in economic value of equity and net interest income under each of the prescribed interest rate shock scenarios in respect of its interest rate exposures arising from banking book positions.

(HKD'000)		(a)	(b)	(c)	(d)
		ΔEVE		ΔNII	
	Period	31-Oct-20	31-Oct-19	31-Oct-20	31-Oct-19
1	Parallel up	2,400	6,733	(55,188)	(105,028)
2	Parallel down	-	1	55,188	105,028
3	Steepener	-	1		
4	Flattener	2,377	5,924		
5	Short rate up	2,981	7,770		
6	Short rate down	-	1		
7	Maximum	2,981	7,770	55,188	105,028
	Period	31-Oct-20		31-Oct-19	
8	Tier 1 capital	2,875,814		5,424,231	

Table REMA: Remuneration Policy

The Company adopts the remuneration policy of its Parent Bank, the purpose of the policy is to provide the governance framework and guidelines for the compensation of employees of the Company and includes the overarching principles within which the Company's compensation programs are designed, reviewed and governed. The policy sets out a pay-for-performance philosophy that supports our strategic focus, encourages strong corporate performance and helps the Company create and sustain shareholder value over the long term.

Compensation Philosophy

Our compensation philosophy supports the Company's strategic focus and is based on the following objectives and principles.

- Reinforcing Accountability by clearly aligning compensation with individual and corporate performance
- Supporting our Strategy by assessing performance for compensation purposes against the same financial and non-financial metrics we use to drive performance for our shareholders
- Attracting and Retaining Talent by making sure compensation is competitive and appropriate for our strategy
- Emphasizing the Long Term by paying compensation out over time
- Ensuring Prudent Compensation Risk Management by balancing risk and reward in our compensation structure and ensuring our programs do not encourage excessive risk taking

Compensation Governance

The Board of Directors reviews the remuneration packages of employees on an annual basis. The Remuneration and Culture Committee is chaired by the independent non-executive director and established to assist the Board in discharging its responsibility for the design and operation of the Company's remuneration system and making recommendations in respect of remuneration policy and practices to the Board; and fulfilling its oversight responsibilities for setting standards of conduct and ethical behavior; and the oversight of conduct and conduct risk management.

Senior management comprises of the Company's directors and Alternate Chief Executive, while key personnel comprises of 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 Company.

Compensation Risk Management

- Risk is carefully managed so that all corporate targets and individual/department objectives can be accomplished within the Company's Risk Appetite Framework.
- How well an executive or employee adheres to our business values, codes of conduct, and risk and compliance-related policies is a key consideration for individual compensation awards.
- Excessive risk taking is discouraged for executives, as well as employees who can influence the Company's risk position, by delivering incentive compensation through a combination of annual, mid- and long-term incentives that reflect our risk appetite, with a substantial portion of the total being delivered in mid- and long-term compensation and capped where appropriate to avoid excessive risk taking. Additionally, our executive mandates and job descriptions include accountabilities pertaining to risk and compliance.
- All material incentive plans are reviewed from a design perspective on an annual basis to ensure that they reflect our risk appetite.
- We have policies and guidelines in place that help mitigate risk including the Bank's Clawback Policy, Anti-Hedging and Non-Assignability Provisions, Insider Trading Policies, and Executive Share Ownership Requirements.

Compensation Approach

Base Salary

- Base pay compensates employees for their day-to-day roles and responsibilities
- Each employee's base pay is reviewed annually and adjusted where appropriate
- Individual base pay adjustments are determined using several key factors, including:
 - the size of the role within the Company
 - an individual's sustained performance and contribution
 - an individual's relevant knowledge, skills and abilities
 - the local external market practice
 - the demand for specific skills in a given market
 - positioning within the salary range, where appropriate, and
 - the local base pay budget
- Our base salary reviews and recommendations are based on both internal and external market assessments and criteria

Incentive Compensation

- Incentive compensation is considered pay at risk and rewards employees for business results and individual performance relative to financial and non-financial measures that support our strategic plan and individual deliverables. Incentive compensation pools are determined using pre-established performance criteria that are aligned with our business objectives, and payouts take into consideration material risks required to achieve results.
- Annual incentive awards take into consideration an individual's incentive target and results from non-financial performance objectives (such as operational, customer, and people goals), as well as how those objectives were achieved, and are capped where appropriate to avoid excessive risk taking. Negative or below target

performance should generally lead to a considerable reduction in incentive pay. Additionally, incentive awards may be reduced due to employee misconduct.

- The amount of incentive compensation awarded in mid- and long-term compensation typically increase as the time horizon and magnitude of risk under the purview of an employee increases. Deferral periods for annual incentive deferrals or equity-based compensation awards will generally not be less than three years on a pro-rata basis, subject to tax effectiveness or other legal limitations.
- For executives and "covered individuals", incentive compensation can be forfeited or clawed back under certain conditions. In addition, the Committee monitors possible breaches in conduct among the list of covered individuals to ensure there is appropriate linkage between compensation and risk, including potential reductions in compensation when there is misalignment with the employee's conduct.
- Incentive compensation is in the form of cash and/or equity-based compensation awards.

Template REM1: Remuneration awarded during financial year

The table below provides quantitative information on remuneration for the financial year:

(HKD'000)			(a) & (b)
Remuneration amount and quantitative information			Senior management & key personnel
1	Fixed remuneration	Number of employees	6
2		Total fixed remuneration	6,972
3		Of which: cash-based	6,972
4		Of which: deferred	-
5		Of which: shares or other share-linked instruments	-
6		Of which: deferred	-
7		Of which: other forms	-
8		Of which: deferred	-
9	Variable remuneration	Number of employees	6
10		Total variable remuneration	1,948
11		Of which: cash-based	1,655
12		Of which: deferred	-
13		Of which: shares or other share-linked instruments	293
14		Of which: deferred	293
15		Of which: other forms	-
16		Of which: deferred	-
17	Total remuneration		8,920

In view of the small number of executives and sensitivity of the information, aggregate figures of senior management and key personnel are disclosed instead of separate figures.

Template REM2: Special payments

The table below provides quantitative information on special payment for the financial year:

(HKD'000)		(a)	(b)	(c)	(d)	(e)	(f)
		Guaranteed bonuses		Sign-on awards		Severance payments	
Special payments		Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
1	Senior management	-	-	-	-	-	-
2	Key personnel	-	-	-	-	-	-

Template REM3: Deferred remuneration

The table below provides quantitative information on deferred and retained remuneration:

(HKD'000)		(a)	(b)	(c)	(d)	(e)
Deferred and retained remuneration		Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Senior management & key personnel					
2	Cash	-	-	-	-	-
3	Shares	342	200	-	200	145
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
	Total	342	200	-	200	145

In view of the small number of executives and sensitivity of the information, aggregate figures of senior management and key personnel are disclosed instead of separate figures.

Template LIQ1 and LIQ2 - Liquidity Disclosures for Category 1 Institution

Not applicable as Scotiabank (Hong Kong) Limited is a Category 2 Institution.

Template CRE, CR6, CR7, CR8, CR9, CR10 – Credit Risk for Non-securitization Exposures Disclosures for IRB Approach

Not applicable as Scotiabank (Hong Kong) Limited adopts standardized approach.

Template CCRA, CCR1, CCR2, CCR3, CCR4, CCR5, CCR6, CCR7, CCR8 – Counterparty Credit Risk Disclosures

Not applicable as Scotiabank (Hong Kong) Limited did not have exposure that was subject to counterparty credit risk capital charge.

Template SECA, SEC1, SEC2, SEC3, SEC4 – Securitization Exposures Disclosures

Not applicable as Scotiabank (Hong Kong) Limited did not have securitization exposures.

Template MRA, MRB, MR1, MR2, MR3, MR4 – Market Risk Disclosures

Not applicable as Scotiabank (Hong Kong) Limited is exempted from maintaining capital against market risk by the HKMA under S.22(1) of the Banking (Capital) Rules.