Completion Instructions

Return of Capital Adequacy Ratio
Part I – Summary Certificate on Capital Adequacy Ratios
Form MA(BS)3(I)

Introduction

1. Form MA(BS)3(I) is divided into three divisions:

   (a) Divisions A and C – to be completed by all reporting institutions (reporting AIs);

   (b) Division B – to be completed by reporting AIs subject to the ***output floor*** requirement (except for the filtering question that all reporting AIs are required to answer).

2. Division A is for a reporting AI to provide summary information on its quarter-end Common Equity Tier 1 capital ratio, Tier 1 capital ratio and Total capital ratio and the relevant aggregate figures (mainly extracted from other parts of the Return) for computing the ratios. Division B collects information relating to the ***output floor*** by a reporting AI using a ***model-based approach*** to calculate its credit risk or market risk or both. Division C is for a reporting AI to report information relating to capital buffer requirements applicable to it.

3. This return and its completion instructions should be read in conjunction with the Banking (Capital) Rules (BCR) and the relevant supervisory policy/guidance on the capital adequacy framework.

Specific Instructions

Division A: Calculation of Capital Adequacy Ratios

4. The figures reported for items 1.1 to 1.3, 2.1 to 2.4[1], 2.6(i) and (ii), 2.8, 2.8a, 2.9 and 2.9a should be extracted from other parts of the Return. See **Annex I-A** for a mapping table on items in this Form and the corresponding items in other Forms.

5. For reporting AIs that are subject to the output floor requirement, the figure reported for item 2.10 should be equal to item 4 of Division B.

6. Item 2.12(i) must be completed by the reporting AI if ***regulatory reserve for general banking risks*** and ***collective provisions*** have been made for or apportioned to—

   (a) its non-securitization exposures that are risk-weighted by using the ***basic approach (BSC approach)*** or the ***standardized (credit risk) approach (STC approach)***; or

[1] Item 2.5 is intentionally omitted.

(b) its ***securitization exposures*** that are risk-weighted by using the ***securitization external ratings-based approach*** (***SEC-ERBA***), ***securitization standardized approach*** (***SEC-SA***) and ***securitization fall-back approach*** (***SEC-FBA***).

The AI must report in this item the amount of the above regulatory reserve for general banking risks and collective provisions that exceeds 1.25% of the credit RWA reported under items 2.1, 2.2 and 2.6(ii). To avoid doubts, risk-weighted amount for CCP, if any, is excluded for the calculation of this 1.25% cap.

7. Item 2.12(ii) refers to the portion of cumulative fair value gains arising from the revaluation of the AI's holdings of land and buildings (except land and buildings mortgaged to the reporting AI to secure a debt) which is not included in Tier 2 Capital. For this purpose, whether such amount should be net or gross of deferred tax liabilities will be based on the prevailing accounting standards applicable within a given jurisdiction.

Division B: Calculation of Output Floor

8. All reporting AIs should answer the filtering question at the top of Division B by inputting either "Yes" or "No" to indicate whether the institution is subject to the output floor requirement as at the reporting date.

9. Reporting AIs using any of the model-based approaches stipulated in section 355 of the BCR are subject to the calculation of the output floor and should answer "Yes" for the filtering question and complete the rest of Division B. Other reporting AIs should go directly to Division C.

(A) Calculation of floor risk-weighted amount and actual risk-weighted amount for the application of output floor

10. A reporting AI which is subject to the output floor should calculate the difference between:

(a) the floor risk-weighted amount for credit risk, market risk, CVA risk and operational risk as calculated in accordance with section 356 of the BCR (details to be reported under items 1(i) to (iv) respectively); and

(b) the actual risk-weighted amount for credit risk, market risk, CVA risk and operational risk as calculated in accordance with section 357 of the BCR (details to be reported under items 2(i) to (iv) respectively).

A reporting AI is required to report the difference in item 3 and, if any, the additional risk-weighted amount due to the application of output floor in item 4 (see section 358 of the BCR).

(B) Output Floor Level

11. A 5-year phase-in arrangement is adopted for the implementation of the output floor level (see the table below). A reporting AI is required to report its applicable output floor level according to section 356(8)[2] of the BCR in item 1(vi).

Calendar Year	Output floor level
2025	50%
2026	55%
2027	60%
2028	65%
2029	70%
2030 onwards	72.5%

(C) Treatment of concerned exposures

12. To determine the floor risk-weighted amount, section 356(4) of the BCR provides an optional method to risk-weight ***concerned exposures*** under section 356(4) of the BCR (in general, unrated ***general corporate*** exposures other than those (i) extended to ***small business*** corporates, (ii) subject to section 61(3) or (4) of the BCR, and (iii) exempted from the use of the IRB approach) according to the loan classification categories (i.e. ***loan classification method***) alternate to the use of risk-weight for 100% set out in section 61(2)(a) of the BCR. Concerning this Form, the reporting AIs chosen for the loan classification method are required to report the ***exposure amount*** (as defined in section 51(1) of the BCR) and the risk-weighted amount of those concerned exposures in memorandum items 5 and 6 respectively.

13. Once a reporting AI chooses the loan classification method, it must apply the method consistently over time and must not change the method without the MA's prior consent under section 356(5) of the BCR. Also, the reporting AIs which select to use the loan classification method are expected to be capable of mapping these exposures to the loan classification categories by referencing the loan classification criteria in the Guideline on Loan Classification System[3], internal provisioning policies and practices, and the assessment with the institution's rating system (where appropriate).

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[2] According to section 356(9), the MA may require a reporting AI to apply an output floor level specified in a notice under certain circumstances.

[3] Section 5 of the Guideline clarifies that the criteria therein could be extended to credit exposures beyond "loans", including "exposures arising from credit commitments and contingent liabilities". Without limiting the reporting AI's practice of mapping, as a general reference, the institution may consider an outline of an exemplified mapping –

Division C: Capital Buffer Requirements

14. A reporting AI is required to observe the following in reporting under this Division:

Item		Reporting
1.	Net CET1 capital ratio[4]	Report the ratio, expressed as a percentage, of (a) the amount of the AI's CET1 capital less the amount of CET1 capital that the AI requires for maintaining (i) the minimum CET1 capital ratio, Tier 1 capital ratio and Total capital ratio applicable to it as set out in section 3B of the BCR and as varied by the MA under section 97F of the Banking Ordinance and (ii) the minimum external or internal LAC risk-weighted ratio (as the case requires) that the AI is required to maintain under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules, to (b) the sum of the AI's risk-weighted amount for credit risk, risk-weighted amount for market risk, risk-weighted amount for CVA risk, risk-weighted amount for operational risk and risk-weighted amount for sovereign concentration risk, as determined in accordance with the BCR (i.e. the Total risk-weighted amount as reported under item 2.13 in Division A). Please refer to the illustrative examples in **Annex I-B** on how to calculate the net CET1 capital ratio.
2.	Buffer level	Report the buffer level that is applicable to an AI, expressed as a percentage and calculated according to section 3G of the BCR – (a) if the AI is a G-SIB or a D-SIB – Item 2.1 + 2.2 + 2.3 in this Division; or (b) in any other cases – Item 2.1 + 2.2 in this Division.
2.1	Capital conservation buffer ratio (CB ratio)	Report the CB ratio for calculating an AI's buffer level under section 3G of the BCR as at the reporting date.
2.2	Countercyclical capital buffer ratio (CCyB ratio)	Report the CCyB ratio for calculating an AI's buffer level under section 3G of the BCR as at the reporting date.

(a) if, apart from off-balance sheet exposures, the reporting AI also has a loan exposure to that particular unrated corporate obligor, it can apply the same loan classification grade of the loan exposure, where appropriate, to the off-balance sheet exposures, with adjustments to transactional characteristics as appropriate; and

(b) if not, the reporting AI could categorise the off-balance sheet exposures based on the underlying principle of loan classification (for example, an institution may consider classifying an exposure to a Pass grade by mirroring the characteristics of a Pass "loan" that the obligor or the counterparty is "current in meeting commitments and the financial standing is not in doubt").

[4] Reporting reflects calculation requirement under section 3E(2) of the BCR.

Item		Reporting
		The CCyB ratio reported in this item should be consistent with the ratio reported in the cell labelled "CCyB ratio" in column (8) of the Quarterly Reporting on the Countercyclical Capital Buffer (Form MA(BS)25).
2.3	Higher loss absorbency ratio (HLA ratio)	Report the HLA ratio notified by the MA as applicable to the AI, if any, for calculating the AI's buffer level under section 3G of the BCR as at the reporting date.

Hong Kong Monetary Authority
March 2025

Annex I-A

Items in MA(BS)3(I)		Cross reference with other return forms
Division A	Division B	
1.1	N/A	MA(BS)3(II) – Item (E) of Part II
1.1(i)	N/A	MA(BS)3(II) – Item (B) of Part II
1.1(ii)	N/A	MA(BS)3(II) – Item (D) of Part II
1.2	N/A	MA(BS)3(II) – Item (G) of Part II
1.3	N/A	MA(BS)3(II) – Item (H) of Part II
2.1	2(i)(a)	MA(BS)3(IIIa) – Item (A9) of Division A
2.2	2(i)(b)	MA(BS)3(IIIb) – Item (A10) of Division A
2.3	2(i)(c)	MA(BS)3(IIIc) – Item 7 of Division A
2.4	2(i)(f)	MA(BS)3(IIIe) – Item 6
2.6(i)	2(i)(e)	MA(BS)3(IIId) – Column 1 of item A5(a) of Division A
2.6(ii)	2(i)(d)	MA(BS)3(IIId) – Column 1 of items A5(b) and A6 of Division A
2.8	N/A	MA(BS)3A(I) – Item 7 of Division A or MA(BS)3A(I) – Item 11 of Division E.1 or MA(BS)3A(I) – Item 8 of Division F
N/A	2(ii)(a)	MA(BS)3A(I) – Item 8 of Division F
N/A	2(ii)(b)	MA(BS)3A(I) – Item 7 of Division A or 0 if at least one trading desk is using the IMA
N/A	2(ii)(c)	MA(BS)3A(I) – Item 11 of Division E.1
2.8a	N/A	Sum of (i) MA(BS)3A(II) – Item 1(2) of Division A and (ii) MA(BS)3A(II) – Item 6 of Division C.1 or Sum of (i) MA(BS)3A(II) – Item 1(4) of Division B and (ii) MA(BS)3A(II) – Item 6 of Division C.1 or MA(BS)3A(II) – Item 1(2) of Division D
N/A	2(iii)(a)	MA(BS)3A(II) – Item 1(2) of Division A or

Items in MA(BS)3(I)		Cross reference with other return forms
Division A	Division B	
		MA(BS)3A(II) – Item 1(4) of Division B
N/A	2(iii)(b)	MA(BS)3A(II) – Item 6 of Division C.1
N/A	2(iii)(c)	MA(BS)3A(II) – Item 1(2) of Division D
2.9	1(iv) 2(iv)	MA(BS)3(V) – Item 4 of Division A
2.9a	N/A	MA(BS)3(VI) – Item 2
2.10	N/A	MA(BS)3(I) – Item 4 of Division B

Annex I-B

Illustrative examples to calculate the net CET1 capital ratio

Scenario 1

Suppose Bank A is classified as a resolution entity under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (AI LAC Rules). Bank A's risk-weighted amount is 100 units and it has 15 units of Total capital (comprising 14 units of CET1 capital and 1 unit of Tier 2 capital) and 8 units of non-capital LAC debt resources. Therefore, the CET1 capital ratio, Tier 1 capital ratio, Total capital ratio and external LAC risk-weighted ratio of Bank A are 14%, 14%, 15% and 23% respectively.

Taking into account Bank A's minimum capital adequacy and loss-absorbency capacity (LAC) requirements (assuming 5.3%, 7.1%, 9.5% and 19% for CET1 capital ratio, Tier 1 capital ratio, Total capital ratio and external LAC risk-weighted ratio respectively in this scenario), the calculation of the net CET1 capital ratio includes the following steps:

Tier of capital / LAC	**CARs of Bank A**	**Bank A's capital requirement[5] (as varied under s.97F of the BO)**	**CET1 capital required to meet Bank A's capital requirement**	**Remarks**
CET1 capital	14.0%	5.3%	5.3 units	
Tier 1 capital	14.0%	7.1%	= 5.3 + (7.1 - 5.3) = 5.3 + 1.8 = 7.1 units	Since Bank A has no Additional Tier 1 capital, the bank must make use of an additional 1.8 unit of CET1 capital to meet its Tier 1 capital requirement
Total capital	15.0%	9.5%	= 7.1 + [(9.5 - 7.1) - 1] = 7.1+1.4 = 8.5 units	Since Bank A has only 1 unit of Tier 2 capital and no Additional Tier 1 capital, the bank must make use of an additional 1.4 unit of CET1 capital to meet its total capital requirement

[5] Please refer to subsection 3.5 of the HKMA Supervisory Policy Manual module CA-G-5 *Supervisory Review Process* for details on the apportionment of the P2A to the three minimum capital ratios (http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CA-G-5.pdf).

Tier of capital / LAC	External LAC risk-weighted ratio of Bank A	Bank A's minimum external LAC risk-weighted ratio (as determined under Part 4 of the AI LAC Rules)	CET1 capital required to meet Bank A's LAC requirement	Remarks
External LAC	23%	19%	= 8.5 + [(19 – 9.5) – 8] = 8.5 + 1.5 = 10 units	Since Bank A has only 8 units of non-capital LAC debt resources with no available Additional Tier 1 capital or Tier 2 capital (other than those mentioned above), the bank must make use of an additional 1.5 units of CET1 capital to meet its total LAC requirement

Net CET1 Capital	= 14.0 – 10.0 = 4.0 units
Net CET1 Capital Ratio	**= 4.0 / 100** **= 4.0%**

Scenario 2

Suppose Bank B is classified as a resolution entity under the AI LAC Rules. Bank B's risk-weighted amount is 100 units and it has 18 units of Total capital (comprising 14 units of CET1 capital, 2 units of Additional Tier 1 capital and 2 units of Tier 2 capital) and 8 units of non-capital LAC debt resources. Therefore, the CET1 capital ratio, Tier 1 capital ratio, Total capital ratio and external LAC risk-weighted ratio of Bank B are 14%, 16%, 18% and 26% respectively.

Taking into account Bank B's minimum capital adequacy and LAC requirements (assuming 5.3%, 7.1%, 9.5% and 19% for CET1 capital ratio, Tier 1 capital ratio, Total capital ratio and external LAC risk-weighted ratio respectively in this scenario), the calculation of the net CET1 capital ratio includes the following steps:

Tier of capital / LAC	**CARs of Bank B**	**Bank B's capital requirement[5] (as varied under s.97F of the BO)**	**CET1 capital required to meet Bank B's capital requirement**	**Remarks**
CET1 capital	14.0%	5.3%	5.3 units	
Tier 1 capital	16.0%	7.1%	5.3 units	Since Bank B has 2 units of Additional Tier 1 capital, the bank does not need to make use of additional units of CET1 capital to meet its Tier 1 capital requirement
Total capital	18.0%	9.5%	= 9.5 - 2 - 2 = 5.5 units	Since Bank B has 2 units of Additional Tier 1 capital and 2 units of Tier 2 capital, the bank needs to make use of an additional 0.2 unit of CET1 capital to meet its total capital requirement

Tier of capital / LAC	External LAC risk-weighted ratio of Bank B	Bank B's minimum external LAC risk-weighted ratio (as determined under Part 4 of the AI LAC Rules)	CET1 capital required to meet Bank B's LAC requirement	Remarks
External LAC	26%	19%	= 19 – 2 – 2 - 8 = 7 units	Since Bank B has 2 units of Additional Tier 1 capital, 2 units of Tier 2 capital and 8 units of non-capital LAC debt resources, the bank need to make use of an additional 1.5 units of CET1 capital to meet its total LAC requirement

Net CET 1 Capital	= 14.0 - 7.0 = 7.0 units
Net CET1 Capital Ratio	**= 7.0 / 100** **= 7.0%**