



The Bank of East Asia, Limited
東亞銀行有限公司

Banking Disclosure Statement

For the period ended
30 September 2018

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Introduction

Purpose

The information contained in this document is for The Bank of East Asia, Limited (“the Bank”) and its subsidiaries (together “the Group”), and is prepared in accordance with the Banking (Disclosure) Rules (“BDR”) and disclosure templates issued by the Hong Kong Monetary Authority (“HKMA”).

These banking disclosures are governed by the Group’s disclosure policy, which has been approved by the Board. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the banking disclosure statement is not required to be externally audited, the document has been subject to independent review in accordance with the Group’s policies on disclosure and its financial reporting and governance processes.

Basis of preparation

Except where indicated otherwise, the financial information contained in this Banking Disclosure Statement has been prepared on the basis of regulatory scope of consolidation specified by the HKMA to the Bank. The basis of consolidation for regulatory purposes is different from that for accounting purposes.

The banking disclosure statement

The HKMA has implemented the final standards on the Revised Pillar 3 Disclosure Requirements issued by the Basel Committee on Banking Supervision in January 2015, and also incorporated the BCBS Pillar 3 disclosures requirements – consolidated and enhanced framework finalized in March 2017 in the latest BDR. These disclosures are supplemented by specific additional requirements of the HKMA set out in the BDR. The banking disclosure statement includes the information required under the BDR.

According to the BDR, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates.

Template KM1: Key prudential ratios

| (HK\$ million) | | 30 Sep 2018 | 30 Jun 2018 | 31 Mar 2018 | 31 Dec 2017 | 30 Sep 2017 |
|--|--|----------------|----------------|----------------|----------------|----------------|
| Regulatory capital (amount) | | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 73,408 | 74,207 | 74,054 | 72,786 | 70,979 |
| 2 | Tier 1 | 83,720 | 84,519 | 84,366 | 83,452 | 81,646 |
| 3 | Total capital | 97,773 | 99,560 | 99,274 | 98,124 | 95,943 |
| RWA (amount) | | | | | | |
| 4 | Total RWA | 472,509 | 486,098 | 495,037 | 551,868 | 561,758 |
| Risk-based regulatory capital ratios (as a percentage of RWA) | | | | | | |
| 5 | CET1 ratio (%) | 15.54% | 15.27% | 14.96% | 13.19% | 12.64% |
| 6 | Tier 1 ratio (%) | 17.72% | 17.39% | 17.04% | 15.12% | 14.53% |
| 7 | Total capital ratio (%) | 20.69% | 20.48% | 20.05% | 17.78% | 17.08% |
| Additional CET1 buffer requirements (as a percentage of RWA) | | | | | | |
| 8 | Capital conservation buffer requirement (%) | 1.875% | 1.875% | 1.875% | 1.250% | 1.250% |
| 9 | Countercyclical capital buffer requirement (%) | 0.791% | 0.767% | 0.721% | 0.464% | 0.459% |
| 10 | Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs) | 0.750% | 0.750% | 0.750% | 0.500% | 0.500% |
| 11 | Total AI-specific CET1 buffer requirements (%) | 3.416% | 3.392% | 3.346% | 2.214% | 2.209% |
| 12 | CET1 available after meeting the AI's minimum capital requirements (%) | 11.04% | 10.77% | 10.46% | 8.69% | 8.14% |
| Basel III leverage ratio | | | | | | |
| 13 | Total leverage ratio (LR) exposure measure | 848,746 | 854,259 | 833,319 | 833,035 | 821,739 |
| 14 | LR (%) | 9.86% | 9.89% | 10.12% | 10.02% | 9.94% |
| Liquidity Coverage Ratio (LCR) | | | | | | |
| 15 | Total high quality liquid assets (HQLA) | 58,874 | 59,450 | 66,808 | 63,569 | 59,384 |
| 16 | Total net cash outflows | 38,865 | 42,086 | 48,859 | 42,606 | 43,903 |
| 17 | LCR (%) | 152.98% | 144.80% | 137.80% | 151.66% | 136.46% |
| Net Stable Funding Ratio (NSFR) | | | | | | |
| 18 | Total available stable funding | 527,549 | 523,942 | 514,006 | N/A | N/A |
| 19 | Total required stable funding | 457,841 | 452,299 | 442,450 | N/A | N/A |
| 20 | NSFR (%) | 115.23% | 115.84% | 116.17% | N/A | N/A |

Template OV1: Overview of RWA

The following table provides an overview of capital requirements in terms of a detailed breakdown of RWAs for various risks as at 30th September 2018 and 30th June 2018 respectively:

| (HK\$ million) | | (a) | (b) | (c) |
|----------------|--|----------------|----------------|------------------------------|
| | | RWA | | Minimum capital requirements |
| | | September 2018 | June 2018 | September 2018 |
| 1 | Credit risk for non-securitization exposures | 364,027 | 373,758 | 30,677 |
| 2 | Of which STC approach | 40,205 | 38,015 | 3,217 |
| 3 | Of which foundation IRB approach | 302,383 | 314,785 | 25,642 |
| 4 | Of which supervisory slotting criteria approach | 21,439 | 20,958 | 1,818 |
| 6 | Counterparty default risk and default fund contributions | 5,177 | 4,749 | 433 |
| 7a | Of which CEM | 3,852 | 3,585 | 325 |
| 7b | Of which CEM (such a risk to CCPs which is not included in row 7a) | 335 | 265 | 27 |
| 9 | Of which others | 990 | 899 | 81 |
| 10 | CVA risk | 1,302 | 1,290 | 104 |
| 11 | Equity positions in banking book under the simple risk-weight method and internal models method | 15,697 | 15,146 | 1,331 |
| 15 | Settlement risk | 0 | 0 | 0 |
| 16 | Securitization exposures in banking book | 86 | 147 | 7 |
| 17 | Of which SEC-IRBA | 0 | 0 | 0 |
| 18 | Of which SEC-ERBA | 86 | 147 | 7 |
| 19 | Of which SEC-SA | 0 | 0 | 0 |
| 19a | Of which SEC-FBA | 0 | 0 | 0 |
| 20 | Market risk | 20,236 | 24,429 | 1,619 |
| 21 | Of which STM approach | 4,999 | 7,066 | 400 |
| 22 | Of which IMM approach | 15,237 | 17,363 | 1,219 |
| 24 | Operational risk | 31,805 | 31,454 | 2,544 |
| 25 | Amounts below the thresholds for deduction (subject to 250% RW) | 15,865 | 16,140 | 1,345 |
| 26 | Capital floor adjustment | 0 | 0 | 0 |
| 26a | Deduction to RWA | 3,238 | 3,258 | 259 |
| 26b | Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital | 169 | 206 | 13 |
| 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 | 3,069 | 3,052 | 246 |
| 27 | Total | 450,957 | 463,855 | 37,801 |

The minimum capital requirements presented in this template are after application of the 1.06 scaling factor, where applicable.

Template LR2: Leverage ratio (“LR”)

| | | Leverage Ratio framework (HK\$ Million) | |
|--|--|--|----------------|
| | | At 30 Sep 2018 | At 30 Jun 2018 |
| On-balance sheet exposures | | | |
| 1 | On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral) | 787,554 | 784,658 |
| 2 | Less: Asset amounts deducted in determining Basel III Tier 1 capital | (12,623) | (12,644) |
| 3 | Total on-balance sheet exposures (excluding derivative contracts and SFTs) | 774,931 | 772,014 |
| 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) | 14,131 | 10,625 |
| 5 | Add-on amounts for PFE associated with all derivative contracts | 10,426 | 13,049 |
| 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 | (907) | (901) |
| 8 | Less: Exempted CCP leg of client-cleared trade exposures | - | - |
| 9 | Adjusted effective notional amount of written credit derivative contracts | 117 | 118 |
| 10 | Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts | - | - |
| 11 | Total exposures arising from derivative contracts | 23,767 | 22,891 |
| Exposures arising from securities financing transactions (SFTs) | | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions | 5,858 | 13,568 |
| 13 | Less: Netted amounts of cash payables and cash receivables of gross SFT assets | - | - |
| 14 | CCR exposure for SFT assets | 1 | - |
| 15 | Agent transaction exposures | - | - |
| 16 | Total exposures arising from SFTs | 5,859 | 13,568 |
| Other off-balance sheet exposures | | | |
| 17 | Off-balance sheet exposure at gross notional amount | 208,261 | 222,003 |
| 18 | Less: Adjustments for conversion to credit equivalent amounts | (161,352) | (173,442) |
| 19 | Off-balance sheet items | 46,909 | 48,561 |
| Capital and total exposures | | | |
| 20 | Tier 1 capital | 83,720 | 84,519 |
| 20a | Total exposures before adjustments for specific and collective provisions | 851,467 | 857,034 |
| 20b | Adjustments for specific and collective provisions | (2,721) | (2,775) |
| 21 | Total exposures after adjustments for specific and collective provisions | 848,746 | 854,259 |
| Leverage ratio | | | |
| 22 | Leverage ratio | 9.86% | 9.89% |

Template LIQ1: Liquidity Coverage Ratio (“LCR”)

| (HK\$ Million) | | Quarter ending on 30 September 2018 : (76 data points) | | Quarter ending on 30 June 2018 : (73 data points) | |
|--------------------------------------|---|--|--|---|--|
| Basis of disclosure: consolidated | | UNWEIGHTED AMOUNT (Average Value) | WEIGHTED AMOUNT (Average Value) | UNWEIGHTED AMOUNT (Average Value) | WEIGHTED AMOUNT (Average Value) |
| A. HIGH QUALITY LIQUID ASSETS | | | | | |
| 1 | Total high quality liquid assets (HQLA) | | 58,874 | | 59,450 |
| B. CASH OUTFLOWS | | | | | |
| 2 | Retail deposits and small business funding, of which: | 290,506 | 21,873 | 283,151 | 21,171 |
| 3 | Stable retail deposits and stable small business funding | 39,593 | 1,225 | 39,712 | 1,233 |
| 4 | Less stable retail deposits and less stable small business funding | 162,037 | 16,204 | 155,315 | 15,532 |
| 4a | Retail term deposits and small business term funding | 88,876 | 4,444 | 88,124 | 4,406 |
| 5 | Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which: | 148,575 | 80,877 | 148,142 | 79,010 |
| 6 | Operational deposits | 0 | 0 | 0 | 0 |
| 7 | Unsecured wholesale funding (other than small business funding) not covered in row 6 | 139,185 | 71,487 | 143,422 | 74,290 |
| 8 | Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period | 9,390 | 9,390 | 4,720 | 4,720 |
| 9 | Secured funding transactions (including securities swap transactions) | | 1,196 | | 543 |
| 10 | Additional requirements, of which: | 89,357 | 12,133 | 94,884 | 12,915 |
| 11 | Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements | 2,902 | 2,902 | 2,796 | 2,796 |
| 12 | Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions | 0 | 0 | 0 | 0 |
| 13 | Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities) | 86,455 | 9,231 | 92,088 | 10,119 |
| 14 | Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows | 6,746 | 6,746 | 8,482 | 8,482 |
| 15 | Other contingent funding obligations (whether contractual or non-contractual) | 133,580 | 2,793 | 139,486 | 2,874 |
| 16 | TOTAL CASH OUTFLOWS | | 125,618 | | 124,995 |
| C. CASH INFLOWS | | | | | |
| 17 | Secured lending transactions (including securities swap transactions) | 6,324 | 6,200 | 5,669 | 5,321 |
| 18 | Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions | 127,847 | 74,860 | 129,992 | 71,796 |
| 19 | Other cash inflows | 6,288 | 5,877 | 6,342 | 5,849 |
| 20 | TOTAL CASH INFLOWS | 140,459 | 86,937 | 142,003 | 82,966 |
| D. LIQUIDITY COVERAGE RATIO | | | | | |
| | | ADJUSTED VALUE | | ADJUSTED VALUE | |
| 21 | TOTAL HQLA | | 58,874 | | 59,450 |
| 22 | TOTAL NET CASH OUTFLOWS | | 38,865 | | 42,086 |
| 23 | LCR (%) | | 152.98% | | 144.80% |

This is the standard disclosure template that a category 1 institution must use for the purposes of making its liquidity information disclosures under section 16FK and 103A of the Banking (Disclosure) Rules.

Template LIQ1: Liquidity Coverage Ratio (“LCR”) (continued)**Main drivers of LCR results**

The Liquidity Coverage Ratio (“LCR”), which came into effect on 1st January, 2015, promotes the short-term resilience of the Group’s liquidity risk by requiring that the Group hold sufficient high quality liquid assets (“HQLAs”) to survive under a pre-defined stress scenario over a period of 30 days. It is expressed as a percentage, of the amount of a category 1 institution’s HQLAs to the amount of the institution’s “total net cash outflows” over 30 calendar days.

The Banking (Liquidity) Rules require that Group meets the minimum LCR by 2019. During the transitional period, the percentage will increase from 60% in 2015 to 100% in 2019, with 10% added to the regulatory requirement each year from 2016.

The total net cash outflows is the total cash outflows offset by the total cash inflows. Total cash outflows mainly consist of customer deposits which are the Group’s main source of stable funding. Total cash inflows mainly come from maturing assets such as money market placements, loans and securities within 30 calendar days.

The Group’s LCR is well above the regulatory limit of 90% throughout the first nine months of 2018. The average LCR increased from 138% for the first quarter of 2018 to 153% for the third quarter of 2018 mainly resulted from comparably higher cash inflows from money market placements and loans.

Composition of HQLA

The HQLAs for fulfilling the LCR consist of cash, exchange fund bills and notes, high quality government debt securities and other equivalent liquid marketable assets. The majority of HQLAs are denominated in Hong Kong dollars. The classification of HQLAs among level 1, 2A or 2B is based on the credit rating of securities and a number of market factors in determining the degree of readiness of monetizing the assets in short period of time. The Group’s liquid assets are predominately classified as level 1 assets.

Concentration of Funding Sources

The Group has strengthened the deposit base by retaining loyal customers and maintaining customer relationships. The Group balances funding among retail, small business, and wholesale funding to avoid concentration in any one source. Professional markets are accessed through the issuance of certificates of deposit, medium-term notes, subordinated debt, money market placement, and borrowing for the purposes of providing additional funding, maintaining a presence in local money markets, and optimizing asset and liability maturities.

Currency mismatch in the LCR

Majority of the Group’s customer deposits are denominated in HKD, USD and RMB. The Bank held an amount of HKD-denominated level 1 assets that was not less than 20% of its HKD-denominated total net cash outflows. The Group manages the composition of its HQLA by currency through funding swaps. There is no significant currency mismatch in the Bank’s LCR at respective levels of consolidation.

Degree of centralization of liquidity management

The Asset and Liability Management Committee is delegated by the Board to oversee the Group’s liquidity risk management. The Asset and Liability Management Committee sets the strategy, policy, and limits for managing liquidity risk and the means for ensuring that such strategy and policy are implemented. Regular meetings are held to review the compliance status of the monitoring matrix established and the need for any change in strategy and policy. Liquidity is managed daily by the Capital Markets & Liquidity Management Department under the Treasury Markets Division of the Group within the set limits. The Asset & Liability Management Department under the Risk Management Division of the Group is responsible for monitoring the activities relating to liquidity risk. The Internal Audit Division performs periodic reviews to ensure that the liquidity risk management functions are carried out effectively.

Template CR8: RWA flow statements of credit risk exposures under IRB approach

The following table presents a flow statement explaining variations in the RWA for credit risk determined under the IRB approach as at 30th September 2018 and 30th June 2018 respectively:

| (HK\$ million) | | (a) |
|----------------|---|----------------|
| | | Amount |
| 1 | RWA as at end of previous reporting period | 367,029 |
| 2 | Asset size | (9,232) |
| 3 | Asset quality | (105) |
| 4 | Model updates | 0 |
| 5 | Methodology and policy | 0 |
| 6 | Acquisitions and disposals | 0 |
| 7 | Foreign exchange movements | (1,208) |
| 8 | Other | (1,100) |
| 9 | RWA as at end of reporting period | 355,384 |

Template MR2: RWA flow statements of market risk exposures under IMM approach

The table below presents a flow statement explaining variations in the RWA for market risk determined under the IMM approach as at 30th September 2018 and 30th June 2018 respectively:

| (HK\$ million) | | (a) | (b) | (c) | (d) | (e) | (f) |
|----------------|---|--------------|---------------|----------|----------|----------|---------------|
| | | VaR | Stressed VaR | IRC | CRC | Other | Total RWA |
| 1 | RWA as at end of previous reporting period | 4,825 | 12,538 | 0 | 0 | 0 | 17,363 |
| 1a | Regulatory adjustment | 3,222 | 8,930 | 0 | 0 | 0 | 12,152 |
| 1b | RWA as at day-end of previous reporting period | 1,603 | 3,608 | 0 | 0 | 0 | 5,211 |
| 2 | Movement in risk levels | (70) | 750 | 0 | 0 | 0 | 680 |
| 3 | Model updates/changes | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | Methodology and policy | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | Acquisitions and disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | Foreign exchange movements | (33) | (15) | 0 | 0 | 0 | (48) |
| 7 | Other | (28) | (595) | 0 | 0 | 0 | (623) |
| 7a | RWA as at day-end of reporting period | 1,472 | 3,748 | 0 | 0 | 0 | 5,220 |
| 7b | Regulatory adjustment | 2,931 | 7,086 | 0 | 0 | 0 | 10,017 |
| 8 | RWA as at end of reporting period | 4,403 | 10,834 | 0 | 0 | 0 | 15,237 |

Glossary

| <u>Abbreviations</u> | <u>Descriptions</u> |
|----------------------|--|
| CCP | Central Counterparty |
| CCR | Counterparty Credit Risk |
| CEM | Current Exposure Method |
| CVA | Credit Valuation Adjustment |
| IMM | Internal Models Method |
| IRB | Internal Ratings-Based |
| PFE | Potential Future Exposure |
| RWA | Risk Weighted Asset |
| SEC-ERBA | Securitization External Ratings-Based Approach |
| SEC-FBA | Securitization Fall-back Approach |
| SEC-IRBA | Securitization Internal Ratings-Based Approach |
| SEC-SA | Securitization Standardized Approach |
| SFT | Securities Financing Transaction |
| STC | Standardized (Credit Risk) |
| STM | Standardized (Market Risk) |
| VaR | Value-At-Risk |