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

Banking Disclosure Statement

For the period ended
30 September 2019

(Unaudited)

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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 ("BCBS") 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.

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Template KM1: Key prudential ratios

	(HK$ million)	30 Sep 2019	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Sep 2018
	Regulatory capital (amount)					
1	Common Equity Tier 1 (CET1)	74,468	73,715	75,825	74,513	73,408
2	Tier 1	89,503	83,673	85,783	84,825	83,720
3	Total capital	102,786	97,885	100,128	99,027	97,773
	RWA (amount)					
4	Total RWA	470,728	482,430	501,233	475,714	472,509
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	15.82%	15.28%	15.13%	15.66%	15.54%
6	Tier 1 ratio (%)	19.01%	17.34%	17.11%	17.83%	17.72%
7	Total capital ratio (%)	21.84%	20.29%	19.98%	20.82%	20.69%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.500%	2.500%	2.500%	1.875%	1.875%
9	Countercyclical capital buffer requirement (%)	1.131%	1.090%	1.007%	0.774%	0.791%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	1.000%	1.000%	1.000%	0.750%	0.750%
11	Total AI-specific CET1 buffer requirements (%)	4.631%	4.590%	4.507%	3.399%	3.416%
12	CET1 available after meeting the AI's minimum capital requirements (%)	11.32%	10.78%	10.63%	11.16%	11.04%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	860,919	895,940	897,695	862,745	848,746
14	LR (%)	10.40%	9.34%	9.56%	9.83%	9.86%
	Liquidity Coverage Ratio (LCR)					
15	Total high quality liquid assets (HQLA)	50,688	54,771	56,872	60,377	58,874
16	Total net cash outflows	30,499	32,049	33,876	33,879	38,865
17	LCR (%)	166.91%	171.72%	169.82%	180.47%	152.98%
	Net Stable Funding Ratio (NSFR)					
18	Total available stable funding	513,923	537,746	537,846	538,482	527,549
19	Total required stable funding	461,568	467,499	479,956	458,754	457,841
20	NSFR (%)	111.34%	115.03%	112.06%	117.38%	115.23%

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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 2019 and 30th June 2019 respectively:

		(a)	(b)	(c)
		RWA		Minimum capital requirements
	(HK$ million)	September 2019	June 2019	September 2019
1	**Credit risk for non-securitization exposures**	**365,438**	**374,906**	**30,758**
2	Of which STC approach	48,237	50,841	3,859
3	Of which foundation IRB approach	293,712	299,568	24,907
4	Of which supervisory slotting criteria approach	23,489	24,497	1,992
6	**Counterparty default risk and default fund contributions**	**4,865**	**4,205**	**404**
7a	Of which CEM	2,750	2,573	232
7b	Of which CEM (such a risk to CCPs which is not included in row 7a)	264	219	21
9	Of which others	1,851	1,413	151
10	CVA risk	943	936	75
11	Equity positions in banking book under the simple risk-weight method and internal models method	16,229	16,406	1,376
15	Settlement risk	0	0	0
16	**Securitization exposures in banking book**	**0**	**3**	**0**
17	Of which SEC-IRBA	0	0	0
18	Of which SEC-ERBA (including IAA)	0	3	0
19	Of which SEC-SA	0	0	0
19a	Of which SEC-FBA	0	0	0
20	**Market risk**	**14,742**	**17,619**	**1,179**
21	Of which STM approach	2,178	3,773	174
22	Of which IMM approach	12,564	13,846	1,005
24	Operational risk	34,460	33,589	2,757
24a	Sovereign concentration risk	0		0
25	Amounts below the thresholds for deduction (subject to 250% RW)	16,436	16,610	1,394
26	Capital floor adjustment	0	0	0
26a	**Deduction to RWA**	**3,567**	**3,442**	**285**
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	395	331	31
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	3,172	3,111	254
27	**Total**	**449,546**	**460,832**	**37,658**

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

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Template LR2: Leverage ratio ("LR")

		(HK$ Million)	
		At 30 Sep 2019	At 30 Jun 2019
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	804,804	840,198
2	Less: Asset amounts deducted in determining Tier 1 capital	(13,547)	(13,649)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	791,257	826,549
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)	8,804	6,188
5	Add-on amounts for PFE associated with all derivative contracts	9,743	12,750
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	(3,960)	(2,826)
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	78	78
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	**Total exposures arising from derivative contracts**	14,665	16,190
Exposures arising from securities financing transactions (SFTs)			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	12,526	11,796
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	893	556
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	13,419	12,352
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	203,001	211,598
18	Less: Adjustments for conversion to credit equivalent amounts	(157,717)	(165,042)
19	**Off-balance sheet items**	45,284	46,556
Capital and total exposures			
20	**Tier 1 capital**	89,503	83,673
20a	**Total exposures before adjustments for specific and collective provisions**	864,625	901,647
20b	**Adjustments for specific and collective provisions**	(3,706)	(5,707)
21	**Total exposures after adjustments for specific and collective provisions**	860,919	895,940
Leverage ratio			
22	**Leverage ratio**	**10.40%**	**9.34%**

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Template LIQ1: Liquidity Coverage Ratio ("LCR")

(HK$ Million)	Quarter ending on 30 September 2019		Quarter ending on 30 June 2019	
Number of data points used in calculating the average value of the LCR and related components set out in this template	77		71	
Basis of disclosure: consolidated	**Unweighted value** (average)	**Weighted value** (average)	**Unweighted value** (average)	**Weighted value** (average)
A. High Quality Liquid Assets (HQLA)				
1 Total HQLA		50,688		54,771
B. Cash Outflows				
2 Retail deposits and small business funding, of which:	298,910	21,948	303,233	22,095
3 *Stable retail deposits and stable small business funding*	44,450	1,369	44,862	1,383
4 *Less stable retail deposits and less stable small business funding*	157,107	15,711	155,861	15,586
4a *Retail term deposits and small business term funding*	97,353	4,868	102,510	5,126
5 Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the institution, of which:	134,396	75,538	141,105	79,311
6 *Operational deposits*	-	-	-	-
7 *Unsecured wholesale funding (other than small business funding) not covered in row 6*	126,755	67,897	133,589	71,795
8 *Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period*	7,641	7,641	7,516	7,516
9 Secured funding transactions (including securities swap transactions)		876		-
10 Additional requirements, of which:	87,607	11,597	89,544	11,653
11 *Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements*	2,452	2,452	2,449	2,449
12 *Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions*	-	-	-	-
13 *Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)*	85,155	9,145	87,095	9,204
14 Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	6,829	6,829	8,070	8,070
15 Other contingent funding obligations (whether contractual or non-contractual)	122,256	2,413	118,024	2,444
16 **Total Cash Outflows**		119,201		123,573
C. Cash Inflows				
17 Secured lending transactions (including securities swap transactions)	1,887	1,863	3,666	3,584
18 Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	142,943	86,121	145,927	86,310
19 Other cash inflows	5,085	4,661	6,979	6,426
20 **Total Cash Inflows**	149,915	92,645	156,572	96,320
D. Liquidity Coverage Ratio		**Adjusted value**		**Adjusted value**
21 **Total HQLA**		50,688		54,771
22 **Total Net Cash Outflows**		30,499		32,049
23 **LCR (%)**		166.91%		171.72%

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 or 103A (where applicable) of the Banking (Disclosure) Rules.

<u>Template LIQ1: Liquidity Coverage Ratio ("LCR")</u> <u>(continued)</u>

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 the Group meets the minimum LCR of not less than 100% starting from 1st January, 2019.

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 100% throughout the third quarter of 2019. The average LCR increased from 153% for the third quarter of 2018 to 167% for the third quarter of 2019 mainly resulted from comparably higher cash inflows from money market placements and lower cash outflows for customer deposits.

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 for the period from 30th June 2019 to 30th September 2019:

		(a)
(HK$ million)		Amount
1	**RWA as at end of previous reporting period**	**357,081**
2	Asset size	-8,192
3	Asset quality	3,495
4	Model updates	0
5	Methodology and policy	0
6	Acquisitions and disposals	0
7	Foreign exchange movements	-2,453
8	Other	-65
9	**RWA as at end of reporting period**	**349,866**

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 for the period from 30th June 2019 to 30th September 2019:

		(a)	(b)	(c)	(d)	(e)	(f)
(HK$ million)		VaR	Stressed VaR	IRC	CRC	Other	Total RWA
1	**RWA as at end of previous reporting period**	**3,706**	**10,140**	**0**	**0**	**0**	**13,846**
1a	Regulatory adjustment	2,618	6,897	0	0	0	9,515
1b	RWA as at day-end of previous reporting period	1,088	3,243	0	0	0	4,331
2	Movement in risk levels	-108	-486	0	0	0	-594
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	-43	-9	0	0	0	-52
7	Other	102	-11	0	0	0	91
7a	RWA as at day-end of reporting period	1,039	2,737	0	0	0	3,776
7b	Regulatory adjustment	2,371	6,417	0	0	0	8,788
8	**RWA as at end of reporting period**	**3,410**	**9,154**	**0**	**0**	**0**	**12,564**

Glossary

Abbreviations	Descriptions
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CEM	Current Exposure Method
CRC	Comprehensive Risk Charge
CVA	Credit Valuation Adjustment
IAA	Internal Assessment Approach
IMM Approach	Internal Models Approach
IRB Approach	Internal Ratings-Based Approach
IRC	Incremental Risk Charge
PFE	Potential Future Exposure
RWA	Risk-Weighted Amount
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 Approach	Standardized (Credit Risk) Approach
STM Approach	Standardized (Market Risk) Approach
VaR	Value-At-Risk