



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

Banking Disclosure Statement

For the period ended
31 March 2021

(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”), Part 6 of the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (“LAC Rules”), 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 disclosure requirements – consolidated and enhanced framework finalized in March 2017 in the latest BDR and the LAC Rules. These disclosures are supplemented by specific additional requirements of the HKMA set out in the BDR and the LAC Rules. The banking disclosure statement includes the information required under the BDR and the LAC Rules.

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

Template KM1: Key prudential ratios

(HK\$ million)		31 Mar 2021	31 Dec 2020	30 Sep 2020	30 Jun 2020	31 Mar 2020
Regulatory capital (amount)						
1	Common Equity Tier 1 (CET1)	82,206	81,784	79,234	76,716	71,217
2	Tier 1	96,174	95,752	93,197	90,679	85,180
3	Total capital	108,835	108,421	105,822	103,213	94,446
RWA (amount)						
4	Total RWA	494,167	494,542	466,225	466,193	474,198
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	16.64%	16.54%	16.99%	16.46%	15.02%
6	Tier 1 ratio (%)	19.46%	19.36%	19.99%	19.45%	17.96%
7	Total capital ratio (%)	22.02%	21.92%	22.70%	22.14%	19.92%
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.500%	2.500%	2.500%	2.500%	2.500%
9	Countercyclical capital buffer requirement (%)	0.394%	0.388%	0.418%	0.421%	0.432%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	1.000%	1.000%	1.000%	1.000%	1.000%
11	Total AI-specific CET1 buffer requirements (%)	3.894%	3.888%	3.918%	3.921%	3.932%
12	CET1 available after meeting the AI's minimum capital requirements (%)	12.14%	12.04%	12.49%	11.96%	10.52%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	876,662	879,956	851,139	857,730	851,204
14	LR (%)	10.97%	10.88%	10.95%	10.57%	10.01%
Liquidity Coverage Ratio (LCR)						
15	Total high quality liquid assets (HQLA)	65,582	70,848	55,567	61,983	64,319
16	Total net cash outflows	34,865	39,217	31,697	34,988	36,700
17	LCR (%)	189.39%	183.84%	175.94%	177.68%	178.13%
Net Stable Funding Ratio (NSFR)						
18	Total available stable funding	536,156	540,767	523,787	512,156	502,865
19	Total required stable funding	453,739	455,969	449,753	445,902	449,941
20	NSFR (%)	118.16%	118.60%	116.46%	114.86%	111.76%

The movement of total high quality liquid assets (HQLA) between the periods was mainly contributed by the fluctuation in the average holding of central bank reserve in level 1 HQLA.

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 31st March 2021 and 31st December 2020 respectively:

(HK\$ million)		(a)	(b)	(c)
		RWA		Minimum capital requirements
		March 2021	December 2020	March 2021
1	Credit risk for non-securitization exposures	390,325	390,363	32,940
2	Of which STC approach	33,174	33,446	2,654
2a	Of which BSC approach	0	0	0
3	Of which foundation IRB approach	334,023	334,094	28,325
4	Of which supervisory slotting criteria approach	23,128	22,823	1,961
5	Of which advanced IRB approach	0	0	0
6	Counterparty default risk and default fund contributions	3,875	4,403	319
7	Of which SA-CCR*	N/A	N/A	N/A
7a	Of which CEM	2,932	3,168	243
7b	Of which CEM (such a risk to CCPs which is not included in row 7a)	179	221	14
8	Of which IMM(CCR) approach	0	0	0
9	Of which others	764	1,014	62
10	CVA risk	1,371	1,703	110
11	Equity positions in banking book under the simple risk-weight method and internal models method	16,181	18,373	1,372
12	Collective investment scheme ("CIS") exposures – LTA*	N/A	N/A	N/A
13	CIS exposures – MBA*	N/A	N/A	N/A
14	CIS exposures – FBA*	N/A	N/A	N/A
14a	CIS exposures – combination of approaches*	N/A	N/A	N/A
15	Settlement risk	0	0	0
16	Securitization exposures in banking book	0	0	0
17	Of which SEC-IRBA	0	0	0
18	Of which SEC-ERBA (including IAA)	0	0	0
19	Of which SEC-SA	0	0	0
19a	Of which SEC-FBA	0	0	0
20	Market risk	14,385	11,516	1,151
21	Of which STM approach	2,786	720	223
22	Of which IMM approach	11,599	10,796	928
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	N/A	N/A	N/A
24	Operational risk	32,367	32,285	2,589
24a	Sovereign concentration risk	0	0	0
25	Amounts below the thresholds for deduction (subject to 250% RW)	15,307	15,474	1,298
26	Capital floor adjustment	0	0	0
26a	Deduction to RWA	3,072	3,145	246
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	57	132	5
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	3,015	3,013	241
27	Total	470,739	470,972	39,533

* Items marked with an asterisk (*) will be applicable only after their respective policy frameworks take effect.

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

Template LR2: Leverage ratio (“LR”)

		(HK\$ million)	
		At 31 Mar 2021	At 31 Dec 2020
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	835,547	838,118
2	Less: Asset amounts deducted in determining Tier 1 capital	(10,712)	(10,742)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	824,835	827,376
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)	7,098	8,058
5	Add-on amounts for PFE associated with all derivative contracts	3,760	3,643
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	(6,862)	(8,501)
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	4,074	3,278
Exposures arising from securities financing transactions (SFTs)			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	10,504	11,998
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	416	659
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	10,920	12,657
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	224,543	209,360
18	Less: Adjustments for conversion to credit equivalent amounts	(182,715)	(167,507)
19	Off-balance sheet items	41,828	41,853
Capital and total exposures			
20	Tier 1 capital	96,174	95,752
20a	Total exposures before adjustments for specific and collective provisions	881,657	885,164
20b	Adjustments for specific and collective provisions	(4,995)	(5,208)
21	Total exposures after adjustments for specific and collective provisions	876,662	879,956
Leverage ratio			
22	Leverage ratio	10.97%	10.88%

The decrease in total leverage ratio exposure measures by HK\$3,294 million is mainly attributed to decreases in placement with and advances to banks, loans and advances to customers and securities repurchase transactions.

Template LIQ1: Liquidity Coverage Ratio (“LCR”)

(HK\$ million)		Quarter ending on 31 March 2021		Quarter ending on 31 December 2020	
Number of data points used in calculating the average value of the LCR and related components set out in this template		73		73	
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		76,794		81,749
B. Cash Outflows					
2	Retail deposits and small business funding, of which:	285,712	22,342	289,770	22,021
3	<i>Stable retail deposits and stable small business funding</i>	51,461	1,581	50,019	1,537
4	<i>Less stable retail deposits and less stable small business funding</i>	180,967	18,097	169,932	16,993
4a	<i>Retail term deposits and small business term funding</i>	53,284	2,664	69,819	3,491
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the institution, of which:	145,403	84,429	156,157	90,600
6	<i>Operational deposits</i>	0	0	0	0
7	<i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i>	137,828	76,854	146,248	80,691
8	<i>Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period</i>	7,575	7,575	9,909	9,909
9	Secured funding transactions (including securities swap transactions)		7		363
10	Additional requirements, of which:	81,579	12,154	79,915	11,872
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	4,133	4,133	4,156	4,156
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	0	0	0	0
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	77,446	8,021	75,759	7,716
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	7,338	7,338	10,341	10,341
15	Other contingent funding obligations (whether contractual or non-contractual)	118,070	1,912	111,347	1,873
16	Total Cash Outflows		128,182		137,070
C. Cash Inflows					
17	Secured lending transactions (including securities swap transactions)	1,926	1,926	1,678	907
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	146,261	87,306	151,793	93,776
19	Other cash inflows	5,614	5,196	6,118	5,516
20	Total Cash Inflows	153,801	94,428	159,589	100,199
D. Liquidity Coverage Ratio			Adjusted value		Adjusted value
21	Total HQLA		65,582		70,848
22	Total Net Cash Outflows		34,865		39,217
23	LCR (%)		189.39%		183.84%

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.

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 holds 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 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 first quarter of 2021. The average LCR increased from 178% for the first quarter of 2020 to 189% for the first quarter of 2021 mainly resulted from comparably higher average holdings of high quality liquid assets.

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 31st December 2020 to 31st March 2021:

(HK\$ million)		(a)
		Amount
1	RWA as at end of previous reporting period	390,764
2	Asset size	-3,954
3	Asset quality	2,123
4	Model updates	0
5	Methodology and policy	0
6	Acquisitions and disposals	0
7	Foreign exchange movements	-301
8	Other	7
9	RWA as at end of reporting period	388,639

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 31st December 2020 to 31st March 2021:

(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	3,785	7,011	0	0	0	10,796
1a	Regulatory adjustment	2,585	4,637	0	0	0	7,222
1b	RWA as at day-end of previous reporting period	1,200	2,374	0	0	0	3,574
2	Movement in risk levels	-114	-234	0	0	0	-348
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	5	2	0	0	0	7
7	Other	150	-53	0	0	0	97
7a	RWA as at day-end of reporting period	1,241	2,089	0	0	0	3,330
7b	Regulatory adjustment	2,791	5,478	0	0	0	8,269
8	RWA as at end of reporting period	4,032	7,567	0	0	0	11,599

Template KM2: Key metrics – LAC requirements for resolution entities (at LAC consolidation group level)

(HK\$ million)		31 Mar 2021	31 Dec 2020	30 Sep 2020	30 Jun 2020	31 Mar 2020 ¹
Of the resolution entity at LAC consolidation group level						
1	External loss-absorbing capacity available	101,071	100,669	93,055	90,447	N.A
2	Risk-weighted amount under the LAC Rules	494,167	494,542	466,225	466,193	N.A
3	External LAC risk-weighted ratio	20.45%	20.36%	19.96%	19.40%	N.A
4	Exposure measure under the LAC Rules	876,662	879,956	851,139	857,730	N.A
5	External LAC leverage ratio	11.53%	11.44%	10.93%	10.54%	N.A
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply? ²	N.A	N.A	N.A	N.A	N.A
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply? ²	N.A	N.A	N.A	N.A	N.A
6c	If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised as external loss-absorbing capacity, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised as external loss-absorbing capacity if no cap was applied ²	N.A	N.A	N.A	N.A	N.A

Footnotes:

- 1 The LAC disclosure for the Group commenced on 30 June 2020 in accordance with the LAC Rules, accordingly the prior periods' ratios are not available.
- 2 The subordination exemptions under Section 11 of the FSB TLAC Term Sheet do not apply in Hong Kong under the LAC Rules.

Glossary

<u>Abbreviations</u>	<u>Descriptions</u>
AI	Authorised Institution
BSC Approach	Basic Approach
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CEM	Current Exposure Method
CIS	Collective Investment Scheme
CRC	Comprehensive Risk Charge
CVA	Credit Valuation Adjustment
D-SIB	Domestic Systemically Important Authorised Institution
FBA	Fall-back Approach
FSB	Financial Stability Board
G-SIB	Global Systemically Important Authorised Institution
IAA	Internal Assessment Approach
IMM Approach	Internal Models Approach
IMM(CCR) Approach	Internal Models (Counterparty Credit Risk) Approach
IRB Approach	Internal Ratings-Based Approach
IRC	Incremental Risk Charge
LAC	Loss-absorbing Capacity
LAC Rules	Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements –Banking Sector) Rules
LTA	Look-through Approach
MBA	Mandate-based Approach
PFE	Potential Future Exposure
RW	Risk-Weight
RWA	Risk-Weighted Amount
SA-CCR	Standardised Approach for Counterparty Credit Risk
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
TLAC	Total Loss-absorbing Capacity
VaR	Value-At-Risk