



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

Banking Disclosure Statement

For the period ended
31 March 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 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)		31 Mar 2019	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018
Regulatory capital (amount)						
1	Common Equity Tier 1 (CET1)	75,825	74,513	73,408	74,207	74,054
2	Tier 1	85,783	84,825	83,720	84,519	84,366
3	Total capital	100,128	99,027	97,773	99,560	99,274
RWA (amount)						
4	Total RWA	501,233	475,714	472,509	486,098	495,037
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	15.13%	15.66%	15.54%	15.27%	14.96%
6	Tier 1 ratio (%)	17.11%	17.83%	17.72%	17.39%	17.04%
7	Total capital ratio (%)	19.98%	20.82%	20.69%	20.48%	20.05%
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.500%	1.875%	1.875%	1.875%	1.875%
9	Countercyclical capital buffer requirement (%)	1.007%	0.774%	0.791%	0.767%	0.721%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	1.000%	0.750%	0.750%	0.750%	0.750%
11	Total AI-specific CET1 buffer requirements (%)	4.507%	3.399%	3.416%	3.392%	3.346%
12	CET1 available after meeting the AI's minimum capital requirements (%)	10.63%	11.16%	11.04%	10.77%	10.46%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	897,695	862,745	848,746	854,259	833,319
14	LR (%)	9.56%	9.83%	9.86%	9.89%	10.12%
Liquidity Coverage Ratio (LCR)						
15	Total high quality liquid assets (HQLA)	56,872	60,377	58,874	59,450	66,808
16	Total net cash outflows	33,876	33,879	38,865	42,086	48,859
17	LCR (%)	169.82%	180.47%	152.98%	144.80%	137.80%
Net Stable Funding Ratio (NSFR)						
18	Total available stable funding	537,846	538,482	527,549	523,942	514,006
19	Total required stable funding	479,956	458,754	457,841	452,299	442,450
20	NSFR (%)	112.06%	117.38%	115.23%	115.84%	116.17%

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 2019 and 31st December 2018 respectively:

(HK\$ million)		(a)	(b)	(c)
		RWA		Minimum capital requirements
		March 2019	December 2018	March 2019
1	Credit risk for non-securitization exposures	390,383	370,571	32,855
2	Of which STC approach	51,914	53,352	4,153
3	Of which foundation IRB approach	314,832	295,005	26,698
4	Of which supervisory slotting criteria approach	23,637	22,214	2,004
6	Counterparty default risk and default fund contributions	4,326	4,428	360
7a	Of which CEM	3,074	3,116	260
7b	Of which CEM (such a risk to CCPs which is not included in row 7a)	233	281	18
9	Of which others	1,019	1,031	82
10	CVA risk	1,098	1,164	88
11	Equity positions in banking book under the simple risk-weight method and internal models method	15,364	14,737	1,303
15	Settlement risk	0	0	0
16	Securitization exposures in banking book	19	37	1
17	Of which SEC-IRBA	0	0	0
18	Of which SEC-ERBA (including IAA)	19	37	1
19	Of which SEC-SA	0	0	0
19a	Of which SEC-FBA	0	0	0
20	Market risk	21,319	18,671	1,706
21	Of which STM approach	6,782	3,758	543
22	Of which IMM approach	14,537	14,913	1,163
24	Operational risk	32,894	31,934	2,632
25	Amounts below the thresholds for deduction (subject to 250% RW)	16,826	16,355	1,427
26	Capital floor adjustment	0	0	0
26a	Deduction to RWA	3,414	3,274	273
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	310	169	25
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	3,104	3,105	248
27	Total	478,815	454,623	40,099

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 31 Mar 2019	At 31 Dec 2018
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	855,822	798,526
2	Less: Asset amounts deducted in determining Tier 1 capital	(12,604)	(12,720)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	843,218	785,806
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)	6,936	10,214
5	Add-on amounts for PFE associated with all derivative contracts	5,739	12,029
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	(1,753)	(796)
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	118	117
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	Total exposures arising from derivative contracts	11,040	21,564
Exposures arising from securities financing transactions (SFTs)			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	782	13,041
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	1	2
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	783	13,043
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	204,301	196,496
18	Less: Adjustments for conversion to credit equivalent amounts	(158,870)	(151,398)
19	Off-balance sheet items	45,431	45,098
Capital and total exposures			
20	Tier 1 capital	85,783	84,825
20a	Total exposures before adjustments for specific and collective provisions	900,472	865,511
20b	Adjustments for specific and collective provisions	(2,777)	(2,766)
21	Total exposures after adjustments for specific and collective provisions	897,695	862,745
Leverage ratio			
22	Leverage ratio	9.56%	9.83%

Template LIQ1: Liquidity Coverage Ratio (“LCR”)

(HK\$ Million)		Quarter ending on 31 March 2019		Quarter ending on 31 December 2018	
Number of data points used in calculating the average value of the LCR and related components set out in this template		73		75	
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		56,872		60,377
B. Cash Outflows					
2	Retail deposits and small business funding, of which:	308,295	22,549	305,224	22,309
3	<i>Stable retail deposits and stable small business funding</i>	45,093	1,390	40,952	1,267
4	<i>Less stable retail deposits and less stable small business funding</i>	159,979	15,998	156,557	15,656
4a	<i>Retail term deposits and small business term funding</i>	103,223	5,161	107,715	5,386
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the institution, of which:	137,657	76,153	140,289	75,492
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>	127,768	66,264	132,812	68,015
8	<i>Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period</i>	9,889	9,889	7,477	7,477
9	Secured funding transactions (including securities swap transactions)		513		1,163
10	Additional requirements, of which:	86,142	11,690	84,859	11,603
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	2,360	2,360	2,553	2,553
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>	83,782	9,330	82,306	9,050
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	6,599	6,599	7,423	7,423
15	Other contingent funding obligations (whether contractual or non-contractual)	119,471	2,628	128,098	2,747
16	TOTAL CASH OUTFLOWS		120,132		120,737
C. Cash Inflows					
17	Secured lending transactions (including securities swap transactions)	2,481	2,344	4,891	4,848
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	136,873	81,052	130,149	77,522
19	Other cash inflows	5,908	5,488	5,614	5,175
20	TOTAL CASH INFLOWS	145,262	88,884	140,654	87,545
D. Liquidity Coverage Ratio			Adjusted value	Adjusted value	
21	Total HQLA		56,872		60,377
22	Total Net Cash Outflows		33,876		33,879
23	LCR (%)		169.82%		180.47%

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 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 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 2019. The average LCR increased from 138% for the first quarter of 2018 to 170% for the first quarter of 2019 mainly resulted from comparably higher cash inflows from money market placements and loans, and lower cash outflows from customer deposits and other contractual cash outflows.

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 2018 to 31st March 2019:

(HK\$ million)		(a)
		Amount
1	RWA as at end of previous reporting period	348,311
2	Asset size	16,933
3	Asset quality	2,960
4	Model updates	0
5	Methodology and policy	0
6	Acquisitions and disposals	0
7	Foreign exchange movements	2,357
8	Other	98
9	RWA as at end of reporting period	370,659

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 2018 to 31st March 2019:

(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	4,229	10,684	0	0	0	14,913
1a	Regulatory adjustment	2,941	7,165	0	0	0	10,106
1b	RWA as at day-end of previous reporting period	1,288	3,519	0	0	0	4,807
2	Movement in risk levels	225	182	0	0	0	407
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	12	(6)	0	0	0	6
7	Other	(188)	35	0	0	0	(153)
7a	RWA as at day-end of reporting period	1,337	3,730	0	0	0	5,067
7b	Regulatory adjustment	2,298	7,172	0	0	0	9,470
8	RWA as at end of reporting period	3,635	10,902	0	0	0	14,537

Glossary

<u>Abbreviations</u>	<u>Descriptions</u>
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CEM	Current Exposure Method
CRC	Comprehensive risk charge
CVA	Credit Valuation Adjustment
IAA	Internal Assessment Approach
IMM	Internal Models Method
IRB	Internal Ratings-Based
IRC	Incremental risk charge
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