



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

Banking Disclosure Statement

For the period ended
30 September 2020

(Unaudited)

Table of contents

Introduction	1
Template KM1: Key prudential ratios.....	2
Template OV1: Overview of RWA	3
Template LR2: Leverage ratio (“LR”).....	4
Template LIQ1: Liquidity Coverage Ratio (“LCR”).....	5
Template CR8: RWA flow statements of credit risk exposures under IRB approach	7
Template MR2: RWA flow statements of market risk exposures under IMM approach.....	8
Template KM2: Key metrics – LAC requirements for resolution entities (at LAC consolidation group level)	9
Glossary	10

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

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)		30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019
Regulatory capital (amount)						
1	Common Equity Tier 1 (CET1)	79,234	76,716	71,217	75,313	74,468
2	Tier 1	93,197	90,679	85,180	89,276	89,503
3	Total capital	105,822	103,213	94,446	98,625	102,786
RWA (amount)						
4	Total RWA	466,225	466,193	474,198	484,195	470,728
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	16.99%	16.46%	15.02%	15.55%	15.82%
6	Tier 1 ratio (%)	19.99%	19.45%	17.96%	18.44%	19.01%
7	Total capital ratio (%)	22.70%	22.14%	19.92%	20.37%	21.84%
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 (%)	0.418%	0.421%	0.432%	0.882%	1.131%
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 (%)	3.918%	3.921%	3.932%	4.382%	4.631%
12	CET1 available after meeting the AI's minimum capital requirements (%)	12.49%	11.96%	10.52%	11.05%	11.32%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	851,139	857,730	851,204	873,419	860,919
14	LR (%)	10.95%	10.57%	10.01%	10.22%	10.40%
Liquidity Coverage Ratio (LCR)						
15	Total high quality liquid assets (HQLA)	55,567	61,983	64,319	55,748	50,688
16	Total net cash outflows	31,697	34,988	36,700	31,825	30,499
17	LCR (%)	175.94%	177.68%	178.13%	175.72%	166.91%
Net Stable Funding Ratio (NSFR)						
18	Total available stable funding	523,787	512,156	502,865	525,048	513,923
19	Total required stable funding	449,753	445,902	449,941	464,523	461,568
20	NSFR (%)	116.46%	114.86%	111.76%	113.03%	111.34%

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

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 2020 and 30th June 2020 respectively:

(HK\$ million)		(a)	(b)	(c)
		RWA		Minimum capital requirements
		September 2020	June 2020	September 2020
1	Credit risk for non-securitization exposures	365,417	368,479	30,821
2	Of which STC approach	34,524	36,050	2,762
3	Of which foundation IRB approach	308,768	309,604	26,183
4	Of which supervisory slotting criteria approach	22,125	22,825	1,876
6	Counterparty default risk and default fund contributions	3,689	3,398	306
7a	Of which CEM	2,544	1,906	215
7b	Of which CEM (such a risk to CCPs which is not included in row 7a)	242	254	19
9	Of which others	903	1,238	72
10	CVA risk	1,238	942	99
11	Equity positions in banking book under the simple risk-weight method and internal models method	17,154	16,383	1,455
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	12,333	11,049	987
21	Of which STM approach	1,961	1,145	157
22	Of which IMM approach	10,372	9,904	830
24	Operational risk	32,634	32,589	2,611
24a	Sovereign concentration risk	0	0	0
25	Amounts below the thresholds for deduction (subject to 250% RW)	15,088	14,623	1,279
26	Capital floor adjustment	0	0	0
26a	Deduction to RWA	3,256	3,187	260
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	179	109	14
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	3,077	3,078	246
27	Total	444,297	444,276	37,298

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

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

Template LR2: Leverage ratio (“LR”)

		(HK\$ Million)	
		At 30 Sep 2020	At 30 Jun 2020
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	815,726	802,535
2	Less: Asset amounts deducted in determining Tier 1 capital	(10,710)	(10,491)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	805,016	792,044
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)	6,805	5,627
5	Add-on amounts for PFE associated with all derivative contracts	4,528	12,128
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	(5,636)	(5,554)
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	5,775	12,279
Exposures arising from securities financing transactions (SFTs)			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	6,344	18,011
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	340	1,288
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	6,684	19,299
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	197,580	199,018
18	Less: Adjustments for conversion to credit equivalent amounts	(158,688)	(159,511)
19	Off-balance sheet items	38,892	39,507
Capital and total exposures			
20	Tier 1 capital	93,197	90,679
20a	Total exposures before adjustments for specific and collective provisions	856,367	863,129
20b	Adjustments for specific and collective provisions	(5,228)	(5,399)
21	Total exposures after adjustments for specific and collective provisions	851,139	857,730
Leverage ratio			
22	Leverage ratio	10.95%	10.57%

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

Template LIQ1: Liquidity Coverage Ratio (“LCR”)

(HK\$ Million)		Quarter ending on 30 September 2020		Quarter ending on 30 June 2020	
Number of data points used in calculating the average value of the LCR and related components set out in this template		78		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		55,567		61,983
B. Cash Outflows					
2	Retail deposits and small business funding, of which:	289,411	21,919	285,228	21,178
3	<i>Stable retail deposits and stable small business funding</i>	49,677	1,528	46,219	1,420
4	<i>Less stable retail deposits and less stable small business funding</i>	168,087	16,809	156,159	15,616
4a	<i>Retail term deposits and small business term funding</i>	71,647	3,582	82,850	4,142
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the institution, of which:	137,867	80,156	149,264	88,672
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>	130,937	73,226	138,114	77,522
8	<i>Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period</i>	6,930	6,930	11,150	11,150
9	Secured funding transactions (including securities swap transactions)		1,008		501
10	Additional requirements, of which:	79,408	12,054	79,511	12,107
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	4,039	4,039	3,694	3,694
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>	75,369	8,015	75,817	8,413
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	6,368	6,368	7,083	7,083
15	Other contingent funding obligations (whether contractual or non-contractual)	107,138	1,856	109,388	1,738
16	Total Cash Outflows		123,361		131,279
C. Cash Inflows					
17	Secured lending transactions (including securities swap transactions)	2,298	1,369	851	459
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	144,405	89,728	146,850	92,140
19	Other cash inflows	4,316	4,007	5,854	5,298
20	Total Cash Inflows	151,019	95,104	153,555	97,897
D. Liquidity Coverage Ratio			Adjusted value		Adjusted value
21	Total HQLA		55,567		61,983
22	Total Net Cash Outflows		31,697		34,988
23	LCR (%)		175.94%		177.68%

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.

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

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 third quarter of 2020. The average LCR increased from 167% for the third quarter of 2019 to 176% for the third quarter of 2020 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.

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

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 2020 to 30th September 2020:

(HK\$ million)		(a)
		Amount
1	RWA as at end of previous reporting period	363,435
2	Asset size	-4,261
3	Asset quality	258
4	Model updates	0
5	Methodology and policy	0
6	Acquisitions and disposals	0
7	Foreign exchange movements	3,078
8	Other	625
9	RWA as at end of reporting period	363,135

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 2020 to 30th September 2020:

(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	3,460	6,444	0	0	0	9,904
1a	Regulatory adjustment	2,326	4,390	0	0	0	6,716
1b	RWA as at day-end of previous reporting period	1,134	2,054	0	0	0	3,188
2	Movement in risk levels	-16	-94	0	0	0	-110
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	-1	7	0	0	0	6
7	Other	-3	17	0	0	0	14
7a	RWA as at day-end of reporting period	1,114	1,984	0	0	0	3,098
7b	Regulatory adjustment	2,660	4,614	0	0	0	7,274
8	RWA as at end of reporting period	3,774	6,598	0	0	0	10,372

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

(HK\$ million)		30 Sep 2020	30 Jun 2020	31 Mar 2020 ¹	31 Dec 2019 ¹	30 Sep 2019 ¹
Of the resolution entity at LAC consolidation group level						
1	External loss-absorbing capacity available	93,055	90,447	N.A	N.A	N.A
2	Risk-weighted amount under the LAC Rules	466,225	466,193	N.A	N.A	N.A
3	External LAC risk-weighted ratio	19.96%	19.40%	N.A	N.A	N.A
4	Exposure measure under the LAC Rules	851,139	857,730	N.A	N.A	N.A
5	External LAC leverage ratio	10.93%	10.54%	N.A	N.A	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 commences 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>
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CEM	Current Exposure Method
CRC	Comprehensive Risk Charge
CVA	Credit Valuation Adjustment
D-SIB	Domestic Systemically Important Authorised Institution
FSB	Financial Stability Board
G-SIB	Global Systemically Important Authorised Institution
IAA	Internal Assessment Approach
IMM Approach	Internal Models 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
PFE	Potential Future Exposure
RW	Risk-Weight
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
TLAC	Total Loss-absorbing Capacity
VaR	Value-At-Risk