



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

Banking Disclosure Statement
For the period ended
30 September 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 (“BCBS”) 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 2021	30 Jun 2021	31 Mar 2021	31 Dec 2020	30 Sep 2020
Regulatory capital (amount)						
1	Common Equity Tier 1 (CET1)	85,872	83,395	82,206	81,784	79,234
2	Tier 1	99,840	97,363	96,174	95,752	93,197
3	Total capital	112,530	110,451	108,835	108,421	105,822
RWA (amount)						
4	Total RWA	502,753	492,165	494,167	494,542	466,225
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	17.08%	16.94%	16.64%	16.54%	16.99%
6	Tier 1 ratio (%)	19.86%	19.78%	19.46%	19.36%	19.99%
7	Total capital ratio (%)	22.38%	22.44%	22.02%	21.92%	22.70%
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 (%)	0.377%	0.384%	0.394%	0.388%	0.418%
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 (%)	3.877%	3.884%	3.894%	3.888%	3.918%
12	CET1 available after meeting the AI's minimum capital requirements (%)	12.58%	12.44%	12.14%	12.04%	12.49%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	936,913	900,572	876,662	879,956	851,139
14	LR (%)	10.66%	10.81%	10.97%	10.88%	10.95%
Liquidity Coverage Ratio (LCR)						
15	Total high quality liquid assets (HQLA)	62,974	67,380	65,582	70,848	55,567
16	Total net cash outflows	34,890	38,227	34,865	39,217	31,697
17	LCR (%)	180.93%	177.32%	189.39%	183.84%	175.94%
Net Stable Funding Ratio (NSFR)						
18	Total available stable funding	546,194	542,465	536,156	540,767	523,787
19	Total required stable funding	490,941	474,589	453,739	455,969	449,753
20	NSFR (%)	111.25%	114.30%	118.16%	118.60%	116.46%

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 30th September 2021 and 30th June 2021 respectively:

(HK\$ million)		(a)	(b)	(c)
		RWA		Minimum capital requirements
		September 2021	June 2021	September 2021
1	Credit risk for non-securitization exposures	398,339	383,154	33,640
2	Of which STC approach	28,943	31,707	2,315
2a	Of which BSC approach	0	0	0
3	Of which foundation IRB approach	347,479	330,241	29,466
4	Of which supervisory slotting criteria approach	21,917	21,206	1,859
5	Of which advanced IRB approach	0	0	0
6	Counterparty default risk and default fund contributions	3,465	4,059	288
7	Of which SA-CCR approach	3,042	3,702	253
7a	Of which CEM	0	0	0
8	Of which IMM(CCR) approach	0	0	0
8a	Of which counterparty default risk to CCPs in respect of derivative contracts	231	236	19
9	Of which others	192	121	16
10	CVA risk	1,058	1,587	85
11	Equity positions in banking book under the simple risk-weight method and internal models method	20,182	20,894	1,711
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	12,925	14,672	1,034
21	Of which STM approach	992	3,216	79
22	Of which IMM approach	11,933	11,456	955
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	31,741	32,053	2,539
24a	Sovereign concentration risk	0	0	0
25	Amounts below the thresholds for deduction (subject to 250% RW)	14,161	15,447	1,201
26	Capital floor adjustment	0	0	0
26a	Deduction to RWA	3,474	3,088	278
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	519	133	42
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	2,955	2,955	236
27	Total	478,397	468,778	40,220

* 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 30 Sep 2021	At 30 Jun 2021
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	886,903	858,508
2	Less: Asset amounts deducted in determining Tier 1 capital	(11,189)	(11,125)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	875,714	847,383
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)	1,760	1,714
5	Add-on amounts for PFE associated with all derivative contracts	9,982	12,845
6	Gross-up for collateral provided in respect of derivative contracts 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	(3,621)	(5,439)
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit-related derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts	-	-
11	Total exposures arising from derivative contracts	8,121	9,120
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	9,837	6,181
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	372	302
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	10,209	6,483
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	257,673	225,627
18	Less: Adjustments for conversion to credit equivalent amounts	(210,327)	(183,357)
19	Off-balance sheet items	47,346	42,270
Capital and total exposures			
20	Tier 1 capital	99,840	97,363
20a	Total exposures before adjustments for specific and collective provisions	941,390	905,256
20b	Adjustments for specific and collective provisions	(4,477)	(4,684)
21	Total exposures after adjustments for specific and collective provisions	936,913	900,572
Leverage ratio			
22	Leverage ratio	10.66%	10.81%

The increase in total leverage ratio exposure measures by HK\$36,341 million is mainly attributed to increase in placement with and advances to banks, and increase in loans and advances to customers.

Template LIQ1: Liquidity Coverage Ratio (“LCR”)

(HK\$ million)		Quarter ending on 30 September 2021		Quarter ending on 30 June 2021	
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		74,989		80,116
B. Cash Outflows					
2	Retail deposits and small business funding, of which:	279,737	22,007	279,942	22,048
3	<i>Stable retail deposits and stable small business funding</i>	50,982	1,567	51,561	1,585
4	<i>Less stable retail deposits and less stable small business funding</i>	180,046	18,005	180,866	18,087
4a	<i>Retail term deposits and small business term funding</i>	48,709	2,435	47,515	2,376
5	Unsecured wholesale funding (other than small business funding), and debt securities and prescribed instruments issued by the institution, of which:	150,035	86,729	152,907	87,212
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>	143,815	80,509	146,211	80,516
8	<i>Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period</i>	6,220	6,220	6,696	6,696
9	Secured funding transactions (including securities swap transactions)		461		659
10	Additional requirements, of which:	93,456	13,625	83,707	12,445
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	3,782	3,782	3,936	3,936
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>	89,674	9,843	79,771	8,509
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	8,008	8,008	7,761	7,761
15	Other contingent funding obligations (whether contractual or non-contractual)	124,105	1,827	127,536	1,762
16	Total Cash Outflows		132,657		131,887
C. Cash Inflows					
17	Secured lending transactions (including securities swap transactions)	1,986	1,969	1,074	1,073
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	150,765	92,957	147,204	88,173
19	Other cash inflows	5,285	4,973	5,257	4,935
20	Total Cash Inflows	158,036	99,899	153,535	94,181
D. Liquidity Coverage Ratio			Adjusted value	Adjusted value	
21	Total HQLA		62,974		67,380
22	Total Net Cash Outflows		34,890		38,227
23	LCR (%)		180.93%		177.32%

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 third quarter of 2021. The average LCR increased from 177% for the second quarter of 2021 to 181% for the third quarter mainly due to the decrease in average net cash outflows resulted from comparably higher average cash inflows from money market placements which outweighed the impact of the decrease in holdings of high quality liquid assets. The average LCR was maintained at similar level of over 170% when comparing the ratio for the third quarter of 2021 year-on-year.

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 2021 to 30th September 2021:

(HK\$ million)		(a)
		Amount
1	RWA as at end of previous reporting period	387,788
2	Asset size	16,161
3	Asset quality	67
4	Model updates	0
5	Methodology and policy	0
6	Acquisitions and disposals*	-1,250
7	Foreign exchange movements	-322
8	Other	1,295
9	RWA as at end of reporting period	403,739

* The quarterly RWA variance attributed to “acquisitions and disposals” in the current reporting period arose from the closing of the Bank’s disposal of BEA Life Limited which took place on 1st September, 2021.

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 2021 to 30th September 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	4,064	7,392	0	0	0	11,456
1a	Regulatory adjustment	2,764	5,123	0	0	0	7,887
1b	RWA as at day-end of previous reporting period	1,300	2,269	0	0	0	3,569
2	Movement in risk levels	-76	32	0	0	0	-44
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	-7	-8	0	0	0	-15
7	Other	47	58	0	0	0	105
7a	RWA as at day-end of reporting period	1,264	2,351	0	0	0	3,615
7b	Regulatory adjustment	2,763	5,555	0	0	0	8,318
8	RWA as at end of reporting period	4,027	7,906	0	0	0	11,933

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

(HK\$ million)		30 Sep 2021	30 Jun 2021	31 Mar 2021	31 Dec 2020	30 Sep 2020
Of the resolution entity at LAC consolidation group level						
1	External loss-absorbing capacity available	104,757	102,691	101,071	100,669	93,055
2	Risk-weighted amount under the LAC Rules	502,753	492,165	494,167	494,542	466,225
3	External LAC risk-weighted ratio	20.84%	20.87%	20.45%	20.36%	19.96%
4	Exposure measure under the LAC Rules	936,913	900,572	876,662	879,956	851,139
5	External LAC leverage ratio	11.18%	11.40%	11.53%	11.44%	10.93%
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply? ¹	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? ¹	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 ¹	N.A	N.A	N.A	N.A	N.A

Footnotes:

- 1 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