

**BANC OF AMERICA SECURITIES ASIA LIMITED**

**Audited Annual Financial Statements  
for the year ended 31 December 2019**

# **Banc of America Securities Asia Limited**

Audited Annual Financial Statements for the year ended 31 December 2019

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The reports and statements set out below comprise the audited annual financial statements presented to the shareholder:

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# **Banc of America Securities Asia Limited**

Audited Annual Financial Statements for the year ended 31 December 2019

## **DIRECTORS' REPORT**

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The directors submit their report together with the audited financial statements for the year ended 31 December 2019.

### **Principal activities**

Banc of America Securities Asia Limited (the "Company") is a restricted licensed bank regulated by Hong Kong Monetary Authority and Securities and Futures Commission.

The principal activities of the Company are trading Fixed Income and Currency products.

### **Results and appropriations**

The results of the Company for the year ended 31 December 2019 are set out in the statement of comprehensive income on page 5.

The directors do not recommend the payment of a dividend.

### **Shares issued in the year**

Details of the shares issued in the year ended 31 December 2019 are set out in note 21 to the financial statements.

### **Directors**

The directors of the Company during the year and up to the date of this report were:

Anand, Puneet  
Su, Chin  
Yee, Danny Ong  
Iyer, Krishna  
Yacenda, Richard

All the existing directors would continue in office.

### **Directors' material interests in transactions, arrangements and contracts that are significant in relation to the Company's business**

No transactions, arrangements and contracts of significance in relation to the Company's business to which the Company's fellow subsidiaries or holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### **Directors' and chief executives' interests and/or short positions in the shares, underlying shares and debenture of the Company or any specified undertaking of the Company or any other associated corporation**

Certain directors of the Company are entitled to Employee Stock Compensation. Other than as disclosed in note 13 to the financial statements, at no time during the year was the Company, its fellow subsidiaries, its holding companies or its other associated corporation a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its specified undertakings or other associated corporation.

### **Employee stock compensation**

Details of share-based payment transactions are set out in note 13 to the financial statements.

### **Management contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

# **Banc of America Securities Asia Limited**

Audited Annual Financial Statements for the year ended 31 December 2019

## **DIRECTORS' REPORT**

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### **Permitted indemnity provisions**

The Bylaws of the Company's ultimate parent entity, Bank of America Corporation ("BAC"), provide that an individual serving as a director of BAC or one of its affiliates (the "Indemnitee") shall be indemnified against all expense, liability and loss reasonably incurred in connection with any actions or proceedings brought against the Indemnitee by reason of Indemnitee's service as a director. The indemnification is only available if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interest of BAC and its affiliates, and, with respect to any criminal proceeding, had no reasonable cause to believe that Indemnitee's conduct was unlawful. BAC maintains insurance against the costs associated with defending any claims which may be brought against a director of BAC or one of its affiliates.

### **Compliance with the Banking (Disclosure) Rules**

The Company is required to comply with the Banking (Disclosure) Rules which set out the minimum standards for public disclosure which authorised institutions must make in respect of the statement of comprehensive income, state of affairs and capital adequacy. The financial statements for the financial year ended 31 December 2019 comply fully with the applicable disclosure provision of the Banking (Disclosure) Rules.

### **Auditors**

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



Su, Chin Director

Hong Kong, 28 April 2020

# **Banc of America Securities Asia Limited**

Audited Annual Financial Statements for the year ended 31 December 2019

## **INDEPENDENT AUDITOR'S REPORT**

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### **Opinion**

#### *What we have audited*

The financial statements of Banc of America Securities Asia Limited (the "Company") standing alone set out on pages 5 to 41, which comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### *Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") relevant to these financial statements and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements of the Company Standing Alone section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

### **Other Information**

The directors are responsible for the other information. The other information comprises all of the information included in the Directors' Report and Supplementary Financial Information, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

## INDEPENDENT AUDITOR'S REPORT

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### Responsibilities of Directors for the Financial Statements of the Company Standing Alone

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with the applicable HKFRSs issued by the HKICPA relevant to these financial statements and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

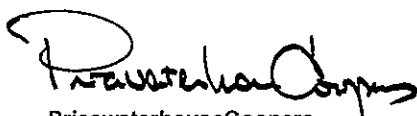
### Auditor's Responsibilities for the Audit of the Financial Statements of the Company Standing Alone

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



PricewaterhouseCoopers  
Certified Public Accountants

Hong Kong, 28 April 2020

## Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

### STATEMENT OF COMPREHENSIVE INCOME

	Note	2019 US\$'000	2018 US\$'000
Interest income		6,847	8,176
Interest expense		<u>(2,484)</u>	<u>(4,776)</u>
Net interest income	6, 24	4,363	3,400
Fee and commission expense	7	(40)	(67)
Net trading income / (expense)	8	6,301	(4,193)
Other operating income	9, 24	<u>1,696</u>	<u>12,066</u>
Operating income		12,320	11,206
Operating expenses	10	<u>(10,871)</u>	<u>(11,849)</u>
Profit / (loss) before taxation		1,449	(643)
Tax (expense) / recovery	14	<u>(238)</u>	<u>23</u>
Profit / (loss) for the year		<u>1,211</u>	<u>(620)</u>
<b>Total comprehensive profit / (loss) for the year</b>		<u><u>1,211</u></u>	<u><u>(620)</u></u>
<b>Attributable to Equity holders</b>		<u><u>1,211</u></u>	<u><u>(620)</u></u>

# Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 US\$'000	2018 US\$'000	Cross Reference to Definition of Capital components in supplementary financial information
<b>Assets</b>				
Cash and balances with banks	16	286,335	617,064	
Financial assets at fair value through profit or loss	17	285,355	4,572	
Derivative financial instruments	18	3,062	—	
Investment in subsidiary	19	—	12,971	
Amount due from intermediate holding company	23	353	523	
Amount due from affiliates	23	—	9,032	
Deferred income tax assets	15	1,360	550	(4)
Other assets		—	5	
<b>Total assets</b>		<b>576,465</b>	<b>644,717</b>	
<b>Liabilities</b>				
Deposits and balances from banks		30,548	100,719	
Financial liabilities held for trading		—	1,732	
Derivative financial instruments	18	3,699	—	
Amount due to intermediate holding company	23	2,231	1,783	
Amount due to affiliates	23	1,546	4,342	
Current income tax liabilities		1,293	61	
Other liabilities	20	1,565	1,708	
<b>Total liabilities</b>		<b>40,882</b>	<b>110,345</b>	
<b>Equity</b>				
Share capital	21	491,442	491,442	(1)
Retained earnings		37,674	36,463	(2)
Other reserves	22	6,467	6,467	(3)
<b>Total equity</b>		<b>535,583</b>	<b>534,372</b>	
<b>Total equity and liabilities</b>		<b>576,465</b>	<b>644,717</b>	

The financial statements on pages 5 to 41 were approved and authorised for issue by the Board of Directors on 28 April 2020 and were signed on its behalf by:

.....  
Su Chin, Director

.....  
Iyer Krishna, Director



**STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2019**

	Share capital US\$'000	Retained earnings US\$'000	Other reserves US\$'000	Total US\$'000
Beginning balance at 1 January 2018	491,442	37,083	6,467	534,992
Total comprehensive loss for the year	—	(620)	—	(620)
Ending balance at 31 December 2018	<u>491,442</u>	<u>36,463</u>	<u>6,467</u>	<u>534,372</u>
Beginning balance at 1 January 2019	491,442	36,463	6,467	534,372
Total comprehensive profit for the year	—	1,211	—	1,211
Ending balance at 31 December 2019	<u>491,442</u>	<u>37,674</u>	<u>6,467</u>	<u>535,583</u>

# Banc of America Securities Asia Limited

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## STATEMENT OF CASH FLOWS

	2019 US\$'000	2018 US\$'000
<b>Cash flows from operating activities</b>		
Profit / (loss) before taxation	1,449	(643)
Adjustment for:		
Net interest income	(4,363)	(3,400)
Net interest income on trading	(59)	(3,069)
Loss on disposal of subsidiary	2,086	—
Operating loss before movements in working capital	(887)	(7,112)
Change in financial assets at fair value through profit or loss	(280,863)	87,349
Change in derivative financial instruments	637	(85)
Change in placements with bank with original maturity beyond 3 months	16,166	(32,333)
Change in deposit and balance from banks	(70,005)	73,478
Change in financial liabilities held for trading	(1,682)	(53,795)
Change in amount due from / to intermediate holding company	618	483
Change in amount due from / to affiliates	6,236	59,364
Change in other assets	5	666
Change in other liabilities	(143)	(1,416)
Cash (used in) / generated from operating activities	(329,918)	126,599
Interest received	7,025	15,452
Interest paid	(2,738)	(8,715)
Income taxes refund / (paid)	184	(134)
<b>Net cash (used in) / generated from operating activities</b>	<b>(325,447)</b>	<b>133,202</b>
<b>Cash flows from investing activities</b>		
Repatriation of capital from subsidiary	10,885	—
<b>Net cash generated from investing activities</b>	<b>10,885</b>	<b>—</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(314,562)</b>	<b>133,202</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>584,731</b>	<b>451,529</b>
<b>Cash and cash equivalents at the end of year</b>	<b>270,169</b>	<b>584,731</b>
<b>Analysis of the balances of cash and cash equivalents:</b>		
Cash and balances with banks	286,335	617,064
Deposit and balances from bank with original maturity more than 3 months	(16,166)	(32,333)
Cash and cash equivalents at the end of year	270,169	584,731

# Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

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### 1. General information

Banc of America Securities Asia Limited ("the Company") trades Fixed Income and Currency products. The ultimate holding company is Bank of America Corporation ("BAC"), a listed company incorporated in the United States of America.

The Company is a restricted licensed bank incorporated and domiciled in Hong Kong, regulated by Hong Kong Monetary Authority ("HKMA") and Securities and Futures Commission ("SFC"). The address of its registered office is 52/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong.

The financial statements are presented in US dollars, unless otherwise stated.

Certain format changes have been made to prior year amounts to conform to the current year presentation.

### 2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and requirements of the Hong Kong Companies Ordinance Cap. 622 that are relevant to the preparation of company level financial statements by an intermediate parent company.

The Company is a wholly owned subsidiary of Bank of America National Association and has satisfied the exemption requirement sets out in section 379(3)(a) of the Hong Kong Companies Ordinance (Cap.622) and therefore it is not required to prepare consolidated financial statements.

Given the above, the financial statements are not prepared for the purposes of compliance with HKFRS 10 "Consolidated financial statements" (HKFRS 10) so far as the preparation of consolidated financial statements is concerned. As a consequence, the financial statements do not provide all the information required by HKFRS 10 about the economic activities of the group of which the Company is the parent. Furthermore, as these financial statements are prepared in respect of the Company only, disclosures required by HKFRS 12 "Disclosures of Interests in Other Entities" have not been made.

The financial statements have been prepared on the historical cost basis, except for certain financial assets and liabilities (including derivative instruments) measured at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

#### 2.1.1 New and amended standards adopted by the Company

There are no standards, amendments or interpretations that are effective for the first time for the financial year beginning 1st January 2019 that have had a material impact on the Company.

#### 2.1.2 New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company.

# Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

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### 2.2 Investment in subsidiary

A subsidiary is defined as an entity that is controlled by another entity. An investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Where the company holds equity or equity-like instruments in a subsidiary, the balance is held within investments in subsidiaries. Investments in subsidiaries are held at cost less provision for impairment.

At each reporting date, the Company reviews the carrying amounts of its investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use. In the event of impairment, the carrying amount of the asset is reduced accordingly and the amount of the loss recognised in the statement of comprehensive income.

### 2.3 Foreign currency translation

The financial statements have been presented in US dollars as this is the functional currency of the Company. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are subsequently re-translated into the functional currency using the exchange rates prevailing at the reporting date. Exchange gains and losses on monetary assets and liabilities are recognised in the statement of comprehensive income.

Non-monetary assets and liabilities in a foreign currency that are not measured at fair value are not subsequently re-translated for movements in prevailing exchange rates.

Exchange gains and losses on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Exchange gains and losses on non-monetary financial assets measured at fair value through other comprehensive income are included in other comprehensive income.

### 2.4 Financial assets

The Company recognises financial assets in the statement of financial position when it becomes a party of the contractual provisions of the instrument.

The Company initially measures a financial asset at its fair value plus or minus, in the case of a financial asset not subsequently measured at FVPL, transaction costs that are incremental and directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The Company classifies its financial assets as measured at: amortised cost, FVOCI or FVPL. A financial asset is classified as measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

A debt instrument is classified as measured at FVOCI only if it meets both of the following conditions and is not designated as at FVPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets, including derivative assets, are classified as measured at FVPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

# Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

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### 2.5 Financial liabilities

The Company recognises financial liabilities in the statement of financial position when it becomes a party to the contractual provisions of the instrument. The company classifies its financial liabilities in the following categories: FVPL or Amortised cost.

Financial liabilities are classified at FVTPL when the financial liability is either held for trading or it is designated as FVTPL. The Company's derivatives are categorised as held as trading as at period end.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Subsequent movements in fair value are recorded in the income statement within net income from financial instruments designated at fair value.

All remaining financial liabilities are carried at amortised cost using the effective interest method.

### 2.6 Derecognition of financial assets and financial liabilities

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a secured borrowing for the cash proceeds received.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received and any cumulative gain that had been recognised in OCI is recognised in profit or loss.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Modifications to the terms of financial assets and liabilities may result in derecognition if it is deemed that the modification results in an expiry of the contractual rights and obligations of the original instrument.

### 2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

### 2.8 Impairment of financial assets

The Company calculates a probability-weighted loss allowance for ECL on its financial assets that are cash and balances with banks, amount due from intermediate holding company and affiliates and other assets that are not measured at FVPL. The Company measures loss allowances at an amount equal to 12-month ECL for financial instruments on which credit risk has not increased significantly since their initial recognition. Loss allowances for financial instruments where there has been a significant increase in credit risk are measured at lifetime ECL.

# Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

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### 2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits with banks and other financial institutions, short-term highly liquid investments that are readily convertible into known amounts of cash; which are subject to an insignificant risk of changes in value and which have a maturity of three months or less at acquisition.

### 2.10 Current and deferred income tax

The tax charge for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income (for example, deferred tax liability on pension) or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and is measured at the average tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised over the Company's planning horizon.

### 2.11 Share-based payments

The Company participates in several employee compensation plans managed by Bank of America Corporation ("BAC"), the ultimate holding company.

As this is a group share-based payment arrangement, all awards are treated by the Company as equity-settled share-based payment plans and are measured based on the fair value of those awards at grant date and recognized as staff costs.

For most awards, expense is generally recognized ratably over the vesting period net of estimated forfeitures, unless the employee meets certain retirement eligibility criteria. For awards to employees that meet retirement eligibility criteria, the Company accrues the expense in the year prior to grant. For employees that become retirement eligible during the vesting period, the Company recognises expense from the grant date to the date on which the employee becomes retirement eligible, net of estimated forfeitures.

There is no net equity impact on the Company's financial positions as the Company has contracted under a global Recharge Agreement to reimburse BAC or through an intermediate holding company, for the issuance of these awards.

### 2.12 Other operating income

Other operating income includes service fee income, which consists of charges made to affiliated undertakings to remunerate the Company for services provided or to reimburse the Company for expenditure incurred. Service fee income is recognised on an accruals basis when the transactions occur or as the service is provided.

### 2.13 Interest income and expenses

#### 2.13.1 Amortised cost and effective interest rate

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition less the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (that is to say, the amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

# Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

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### 2.13 Interest income and expenses (continued)

#### 2.13.1 *Amortised cost and effective interest rate* (continued)

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Company estimates cash flows considering all contractual terms of the financial instrument, but does not consider expected credit losses. For financial assets that are credit-impaired at initial recognition, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes all amounts received or paid by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

#### *Calculation of interest income and expense*

Interest income and expense for all interest bearing financial instruments are recognised on an accruals basis using the effective interest method. The effective interest rate is applied to the gross carrying amount of the financial asset (for non-credit impaired assets) or to the amortised cost of the liability.

For financial assets that have become credit-impaired subsequent to initial recognition, the effective interest rate is applied to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, the credit-adjusted effective interest rate is applied to the amortised cost of the financial asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest on trading assets or other assets at FVPL are presented as part of net trading income in the statement of comprehensive income, along with comparative figures which have been reclassified as disclosed in note 8.

Interest income and expenses are recognised in the statement of comprehensive income for all interest-bearing financial instruments, except for those classified as designated at fair value through profit or loss, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### 2.14 Net trading income/ loss

Net trading income/ loss comprises realised and unrealised gains and losses on trading, including dividend income on cash equities, and gains and losses on derivatives held for the purpose of hedging foreign currency exposure. Unrealised gains, which represents changes in fair value of financial instruments held for trading, are recognised within net trading income as they arise. From 1 January 2018, reclassification has been made from net interest income to net trading income in relation to the interest income and expense attributable to trading financial assets and liabilities due to a change in accounting policy under HKFRS9. The reclassification, including impact to comparatives, have been disclosed in note 8.

# Banc of America Securities Asia Limited

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## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

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### 3. Critical accounting estimates and judgements

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below, along with the judgements made by the Company in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements.

#### 3.1 Valuation of financial instruments

The Company's accounting policy for valuation of financial instruments is included in note 2. The fair values of financial instruments that are not quoted in financial markets are determined by using valuation techniques based on models such as discounted cash flow models, option pricing models and other methods consistent with accepted economic methodologies for pricing financial instruments. These models incorporate observable, and in some cases unobservable inputs including security prices, interest rate yield curves, option volatility, currency, commodity or equity rates and correlations between these inputs.

Where models are used to determine fair values, they are periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that output reflects actual data and comparative market prices. These estimation techniques are necessarily subjective in nature and involve several assumptions. Note 5 further discusses the valuation of financial instruments.

### 4. Risk management

#### 4.1 Legal entity governance

BAC has established a risk governance framework (the "Risk Framework") which serves as the foundation for consistent and effective management of risks facing BAC and its subsidiaries (including the Company). The Risk Framework applies to all the employees. It provides an understanding of the Company's approach to risk management and each employee's responsibilities for managing risk. All employees must take ownership for managing risk well and are accountable for identifying, escalating and debating risks facing the Company. The following are the five components of the Company's risk management approach:

- Culture of Managing Risk Well;
- Risk Appetite and Risk Limits;
- Risk Management Processes;
- Risk Data Management, Aggregation and Reporting; and
- Risk Governance

The seven key types of risk faced by BAC Businesses as defined in the Risk Framework are market, credit, operational, liquidity, reputational, strategic and compliance risks.

Set out below is a summary of the Company's approach to each of the risk types.



## Banc of America Securities Asia Limited

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 4.1 Legal entity governance (continued)

##### 4.1.1 Market risk

The Company takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Company applies a 'Value-at-Risk' ("VaR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Company has in place limits on the VaR that may be accepted. The Company's VaR is monitored on a daily basis.

The daily market VaR is an estimate, with a confidence level set at 99%, of the potential loss that might arise if the current positions were to be held unchanged for one business day. The measurement is structured so that daily losses exceeding the VaR figure should occur, on average, not more than once every 100 days. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VaR calculation.

As VaR constitutes an integral part of the Company's market risk control regime, VaR limits are established for all trading and portfolio operations; actual exposure against limits is reviewed daily by management.

The following table shows the year-end VaR, average, high and low VaR utilisation for trading market risk:

In US\$'000	VaR Utilisation		VaR Utilisation	
	As at 31 December 2019	1 January 2019 to 31 December 2019 Average	High	Low
Total	148	167	349	20

In US\$'000	VaR Utilisation		VaR Utilisation	
	As at 31 December 2018	1 January 2018 to 31 December 2018 Average	High	Low
Total	25	264	1,000	20

However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

## Banc of America Securities Asia Limited

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 4.1 Legal entity governance (continued)

##### 4.1.1 Market risk (continued)

###### (a) Currency risk

The Company takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The tables below summarise the Company's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Company's assets and liabilities at carrying amounts in US dollars equivalent, categorised by the original currency.

	HKD US\$'000	USD US\$'000	CNY US\$'000	Other US\$'000	Total US\$'000
As at 31 December 2019					
<u>Assets</u>					
Cash and balances with banks	572	282,760	244	2,759	286,335
Financial assets at fair value through profit or loss	—	—	—	285,355	285,355
Derivative financial instruments	—	(137,214)	—	140,276	3,062
Amount due from intermediate holding company	—	353	—	—	353
Amount due from affiliates	—	—	—	—	—
Other assets	—	—	—	—	—
<b>Total assets</b>	<b>572</b>	<b>145,899</b>	<b>244</b>	<b>428,390</b>	<b>575,105</b>
<u>Liabilities</u>					
Deposits and balances from banks	—	30,045	—	503	30,548
Financial liabilities held for trading	—	—	—	—	—
Derivative financial instruments	—	(422,589)	—	426,288	3,699
Amount due to intermediate holding company	49	2,182	—	—	2,231
Amount due to affiliates	—	1,546	—	—	1,546
Other liabilities	142	1,423	—	—	1,565
<b>Total liabilities</b>	<b>191</b>	<b>(387,393)</b>	<b>—</b>	<b>426,791</b>	<b>39,589</b>
<b>Net on-balance sheet position</b>	<b>381</b>	<b>533,292</b>	<b>244</b>	<b>1,599</b>	<b>535,516</b>

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 4.1 Legal entity governance (continued)

##### 4.1.1 Market risk (continued)

##### (a) Currency risk (Continued)

	HKD US\$'000	USD US\$'000	CNY US\$'000	Other US\$'000	Total US\$'000
As at 31 December 2018					
<u>Assets</u>					
Cash and balances with banks	382	614,258	253	2,171	617,064
Financial assets at fair value through profit or loss	—	4,086	—	486	4,572
Derivative financial instruments	—	—	—	—	—
Amount due from intermediate holding company	—	523	—	—	523
Amount due from affiliates	—	9,032	—	—	9,032
Other assets	—	2	—	3	5
<b>Total assets</b>	<b>382</b>	<b>627,901</b>	<b>253</b>	<b>2,660</b>	<b>631,196</b>
<u>Liabilities</u>					
Deposits and balances from banks	—	100,211	—	508	100,719
Financial liabilities held for trading	—	1,732	—	—	1,732
Derivative financial instruments	—	—	—	—	—
Amount due to intermediate holding company	49	1,734	—	—	1,783
Amount due to affiliates	—	4,342	—	—	4,342
Other liabilities	144	1,525	—	39	1,708
<b>Total liabilities</b>	<b>193</b>	<b>109,544</b>	<b>—</b>	<b>547</b>	<b>110,284</b>
<b>Net on-balance sheet position</b>	<b>189</b>	<b>518,357</b>	<b>253</b>	<b>2,113</b>	<b>520,912</b>

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 4.1 Legal entity governance (continued)

##### 4.1.1 Market risk (continued)

##### (b) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The tables summarise the Company's exposure to interest rate risk as at 31 December. Included in the tables are the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month US\$'000	1 to 3 months US\$'000	3 to 12 months US\$'000	1 to 5 years US\$'000	Over 5 years US\$'000	Non- interest bearing US\$'000	Total US\$'000
As at 31 December 2019							
<u>Assets</u>							
Cash and balances with banks	155,899	—	—	16,167	—	114,269	286,335
Financial assets at fair value through profit or loss	103,811	181,534	—	10	—	—	285,355
Derivative financial instruments	—	—	—	—	—	3,062	3,062
Amount due from intermediate holding company	290	—	—	—	—	63	353
Amount due from affiliates	—	—	—	—	—	—	—
Other assets	—	—	—	—	—	—	—
<b>Total assets</b>	<b>260,000</b>	<b>181,534</b>	<b>—</b>	<b>16,177</b>	<b>—</b>	<b>117,394</b>	<b>575,105</b>
<u>Liabilities</u>							
Deposits and balances from banks	45	30,498	—	—	—	5	30,548
Financial liabilities held for trading	—	—	—	—	—	—	—
Derivative financial instruments	—	—	—	—	—	3,699	3,699
Amount due to intermediate holding company	—	—	—	—	—	2,231	2,231
Amount due to affiliates	—	—	—	—	—	1,546	1,546
Other liabilities	—	—	—	—	—	1,565	1,565
<b>Total liabilities</b>	<b>45</b>	<b>30,498</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>9,046</b>	<b>39,589</b>
<b>Total interest sensitivity gap</b>	<b>259,955</b>	<b>151,036</b>	<b>—</b>	<b>16,177</b>	<b>—</b>	<b>108,348</b>	

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 4.1 Legal entity governance (continued)

##### 4.1.1 Market risk (continued)

##### (b) Interest rate risk (Continued)

	Up to 1 month US\$'000	1 to 3 months US\$'000	3 to 12 months US\$'000	1 to 5 years US\$'000	Over 5 years US\$'000	Non- interest bearing US\$'000	Total US\$'000
As at 31 December 2018							
<u>Assets</u>							
Cash and balances with banks	473,523	—	—	32,333	—	111,208	617,064
Financial assets at fair value through profit or loss	292	51	278	3,481	470	—	4,572
Derivative financial instruments	—	—	—	—	—	—	—
Amount due from intermediate holding company	—	—	—	—	—	523	523
Amount due from affiliates	—	—	—	—	—	9,032	9,032
Other assets	—	—	—	—	—	5	5
<b>Total assets</b>	<b>473,815</b>	<b>51</b>	<b>278</b>	<b>35,814</b>	<b>470</b>	<b>120,768</b>	<b>631,196</b>
<u>Liabilities</u>							
Deposits and balances from banks	211	100,508	—	—	—	—	100,719
Financial liabilities held for trading	—	—	69	1,606	57	—	1,732
Derivative financial instruments	—	—	—	—	—	—	—
Amount due to intermediate holding company	—	—	—	—	—	1,783	1,783
Amount due to affiliates	—	—	—	—	—	4,342	4,342
Other liabilities	—	—	—	—	—	1,708	1,708
<b>Total liabilities</b>	<b>211</b>	<b>100,508</b>	<b>69</b>	<b>1,606</b>	<b>57</b>	<b>7,833</b>	<b>110,284</b>
<b>Total interest sensitivity gap</b>	<b>473,604</b>	<b>(100,457)</b>	<b>209</b>	<b>34,208</b>	<b>413</b>	<b>112,935</b>	

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## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

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### 4.1 Legal entity governance (continued)

#### 4.1.1 Market risk (continued)

##### (b) Interest rate risk (Continued)

BASAL defines interest rate risk in the banking book as the risk to its current or anticipated earnings or capital arising from movements in interest rates. Economic Value of Equity (EVE) and Net Interest Income (NII) scenario based risk measurements are monitored against established limits and hedging actions will be taken as necessary. The Asset and Liability Committee approves the risk measurement methodology, limits and hedging strategy.

Change in EVE and NII under interest rate shock scenarios are measured quarterly. Shock scenarios include parallel up, parallel down, steepener, flattener, short rates up and short rates down consistent with HKMA SPM IR-1 Interest Rate Risk in the Banking Book. There are no differences in modelling assumptions between internal assessments and disclosures in Template IRRBB1. Key modelling and parametric assumptions include:

- Change in EVE measurements include commercial margins in cash flows and uses a risk free discount rate
- Non-maturity deposits (NMDs) repricing maturity is based on shortest possible period that the deposit could be repriced
- Analysis of contractual terms to estimate prepayment rates of customer loans and early withdrawal rates for time deposits
- Risk measurement for each material currency is aggregated by direct summation. For change in EVE, any gains by currency are ignored

IRRBB hedges that may be taken include changing the maturity and/or interest rate repricing profile of banking book assets and liabilities either through incremental positions or longer term changes to the composition of the balance sheet (accrual accounting).

#### 4.1.2 Credit risk

In conducting its business activities, the Company is exposed to the risk that borrowers or counterparties may default on their obligations to the Company. Credit risk arises through counterparty exposures on capital markets transactions.

The Board of Directors of the Company has established procedures for reviewing and monitoring credit decisions adopted and transactional activity. The Company also takes into account the requirements of the Hong Kong Banking Ordinance and the guidelines issued by the Hong Kong Monetary Authority ("HKMA") with respect to large exposures requirements.

The Company enters into International Swaps and Derivatives Association, Inc. ("ISDA") master agreements or their equivalent ("master netting agreements") with derivative counterparties. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset for risk management purposes. Agreements are negotiated bilaterally and can require complex terms. The enforceability of master netting agreements under bankruptcy laws in certain countries is not free from doubt, and receivables and payables with counterparties in these countries are accordingly recorded on a gross basis for risk assessment purposes.

# Banc of America Securities Asia Limited

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## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

### 4.1 Legal entity governance (continued)

#### 4.1.2 Credit risk (Continued)

In addition, to reduce the risk of loss, the Company usually requires collateral that is permitted by documentation such as Credit Support Annex to an ISDA. From an economic standpoint, the Company evaluates risk exposures net of related collateral that meets specified standards. The Company also attempts to mitigate its default risk on derivatives whenever possible by entering into transactions with provisions that enable it to terminate or reset the terms of the derivative contracts under certain defined conditions.

##### (a) Credit risk measurement

For cash, placements with banks, external rating such as Standard & Poor's and Moody's rating are used for managing the credit risk exposures.

##### (b) Risk limit control and mitigation policies

The Company maintains strict control limits on derivative position. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Company together with the potential exposures from market movement. The credit risk exposure arise from derivative exposure is managed as part of the overall lending limits with customers.

Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Company's market transactions on any single day.

##### (c) Maximum exposure to credit risk before collateral held or other credit enhancements

	2019	2018
	US\$'000	US\$'000
Cash and balances with banks	286,335	617,064
Financial assets at fair value through profit or loss	285,355	4,572
Derivative financial instruments	3,062	—
Amount due from intermediate holding company	353	523
Amount due from affiliates	—	9,032
Other assets	—	5
	<u>575,105</u>	<u>631,196</u>

At 31 December 2019 and 31 December 2018, there were no loans and advances to customers.

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 4.1 Legal entity governance (continued)

##### 4.1.2 Credit risk (continued)

###### (d) Financial assets at fair value through profit or loss

The table below presents an analysis of financial assets at fair value through profit or loss by rating agency designation for the respective issues at 31 December, based on Moody's, Fitch and Standard & Poor's ratings or their equivalent:

	US\$'000
As at 31 December 2019	
AA- to AA+	285,345
B- to BBB+	10
Unrated	—
Total	<u>285,355</u>
As at 31 December 2018	
AA- to AA+	—
B- to BBB+	1,649
Unrated	2,923
Total	<u>4,572</u>

At 31 December 2019 and 31 December 2018, there are no overdue nor individually impaired financial assets at fair value through profit or loss.

The Company's counterparties are primarily highly rated financial institutions and the financial assets in the scope of HKFRS 9 are typically short-dated. As a result, the probability of default, loss given default, or both are such that the resulting ECL is not significant to the Company. Actual amounts written off during the year are also not significant to the Company. In light of this, no further breakdown of the Company's debtors by credit risk grade is considered necessary.



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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 4.1 Legal entity governance (continued)

##### 4.1.2 Credit risk (continued)

###### (e) Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December. For this table, the Company has allocated exposures to regions based on the country of domicile of its counterparties. Credit risk exposure by geographical sectors is classified according to the location of counterparties after taking into account the transfer risk.

	Hong Kong US\$'000	Asia Pacific excluding Hong Kong US\$'000	North America and South America US\$'000	Europe US\$'000	Total US\$'000
As at 31 December 2019					
Cash and balances with banks	46,290	2,364	227,220	10,461	286,335
Financial assets at fair value through profit or loss	—	285,355	—	—	285,355
Derivative financial instruments	—	—	3,062	—	3,062
Amount due from intermediate holding company	—	—	353	—	353
Amount due from affiliates	—	—	—	—	—
Other assets	—	—	—	—	—

###### As at 31 December 2018

Cash and balances with banks	496,416	1,742	108,486	10,420	617,064
Financial assets at fair value through profit or loss	2,514	1,549	105	404	4,572
Derivative financial instruments	—	—	—	—	—
Amount due from intermediate holding company	—	—	523	—	523
Amount due from affiliates	—	—	—	9,032	9,032
Other assets	—	3	2	—	5

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 4.1 Legal entity governance (continued)

##### 4.1.2 Credit risk (continued)

###### (f) Offsetting financial assets and financial liabilities

The financial instruments are subject to enforceable master netting arrangements

The Company has the following financial instruments subject to enforceable master netting arrangements or similar agreements as follows:

	Related amounts set off in the statement of financial position			Related amounts not set off in the statement of financial position		
	Gross amounts		Net amounts	Financial assets/ (liabilities)	Financial collateral	Net amount
	- financial assets	- financial liabilities	-presented in balance sheet			
US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	
2019						
Derivative assets	3,062	—	3,062	(3,062)	—	—
Derivative liabilities	—	(3,699)	(3,699)	3,062	290	(347)
	<u>3,062</u>	<u>(3,699)</u>	<u>(637)</u>	<u>—</u>	<u>290</u>	<u>(347)</u>
2018						
Derivative assets	—	—	—	—	—	—
Derivative liabilities	—	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

##### 4.1.3 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

###### (a) Liquidity risk management process

The Company's management of liquidity is conducted in accordance with the corporate strategy on liquidity and in compliance with the rules, regulations and guidelines stipulated by the local regulatory authority. The process, as carried out within the Company and monitored by the Treasury unit, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure liquidity requirements can be met;
- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity against internal and regulatory requirements;
- Management review on balance sheet profile and maturity gaps; and
- Reporting of non-compliance on internal and regulatory requirements.

## Banc of America Securities Asia Limited

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 4.1 Legal entity governance (continued)

##### 4.1.3 Liquidity risk (continued)

###### (b) Maturity analysis

The tables below summarise the Company's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	Repayable on demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
As at 31 December 2019								
<u>Assets</u>								
Cash and balances with banks	126,951	143,218	—	—	16,166	—	—	286,335
Financial assets at fair value through profit or loss	—	103,811	181,534	—	10	—	—	285,355
Derivative financial instruments	—	—	—	3,062	—	—	—	3,062
Amount due from intermediate holding company	290	63	—	—	—	—	—	353
Amount due from affiliates	—	—	—	—	—	—	—	—
Other assets	—	—	—	—	—	—	—	—
<b>Total assets</b>	<b>127,241</b>	<b>247,092</b>	<b>181,534</b>	<b>3,062</b>	<b>16,176</b>	<b>—</b>	<b>—</b>	<b>575,105</b>
<u>Liabilities</u>								
Deposits and balances from banks	5	45	30,498	—	—	—	—	30,548
Financial liabilities held for trading	—	—	—	—	—	—	—	—
Derivative financial instruments	—	50	—	3,649	—	—	—	3,699
Amount due to intermediate holding company	6	2,225	—	—	—	—	—	2,231
Amount due to affiliates	—	1,546	—	—	—	—	—	1,546
Other liabilities	—	—	1,422	142	—	—	1	1,565
<b>Total liabilities</b>	<b>11</b>	<b>3,866</b>	<b>31,920</b>	<b>3,791</b>	<b>—</b>	<b>—</b>	<b>1</b>	<b>39,589</b>
<b>Net liquidity gap</b>	<b>127,230</b>	<b>243,226</b>	<b>149,614</b>	<b>(729)</b>	<b>16,176</b>	<b>—</b>	<b>(1)</b>	<b>535,516</b>

## Banc of America Securities Asia Limited

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 4.1 Legal entity governance (continued)

##### 4.1.3 Liquidity risk (continued)

###### (b) Maturity analysis (continued)

	Repayable on demand US\$'000	Up to 1 month US\$'000	1 to 3 months US\$'000	3 to 12 months US\$'000	1 to 5 years US\$'000	Over 5 years US\$'000	Undated US\$'000	Total US\$'000
As at 31 December 2018								
<u>Assets</u>								
Cash and balances with banks	122,248	462,483	—	—	32,333	—	—	617,064
Financial assets at fair value through profit or loss	—	292	51	278	3,481	470	—	4,572
Derivative financial instruments	—	—	—	—	—	—	—	—
Amount due from intermediate holding company	—	523	—	—	—	—	—	523
Amount due from affiliates	—	9,032	—	—	—	—	—	9,032
Other assets	—	—	—	—	—	—	5	5
<b>Total assets</b>	<b>122,248</b>	<b>472,330</b>	<b>51</b>	<b>278</b>	<b>35,814</b>	<b>470</b>	<b>5</b>	<b>631,196</b>
<u>Liabilities</u>								
Deposits and balances from banks	—	211	100,508	—	—	—	—	100,719
Financial liabilities held for trading	—	—	—	69	1,606	57	—	1,732
Derivative financial instruments	—	—	—	—	—	—	—	—
Amount due to intermediate holding company	—	1,783	—	—	—	—	—	1,783
Amount due to affiliates	—	4,342	—	—	—	—	—	4,342
Other liabilities	—	—	—	144	—	—	1,564	1,708
<b>Total liabilities</b>	<b>—</b>	<b>6,336</b>	<b>100,508</b>	<b>213</b>	<b>1,606</b>	<b>57</b>	<b>1,564</b>	<b>110,284</b>
<b>Net liquidity gap</b>	<b>122,248</b>	<b>465,994</b>	<b>(100,457)</b>	<b>65</b>	<b>34,208</b>	<b>413</b>	<b>(1,559)</b>	<b>520,912</b>

## Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 4.1 Legal entity governance (continued)

##### 4.1.3 Liquidity risk (continued)

###### (c) Funding approach

Sources of liquidity are regularly reviewed by the Treasury unit to ensure daily and expected funding requirement can be fully met.

###### (d) Non-derivative financial liabilities held for managing liquidity risk

The table below presents the cash flows payable by the Company under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Repayable on Demand US\$'000	Up to 1 month US\$'000	1 to 3 months US\$'000	3 to 12 months US\$'000	1 to 5 years US\$'000	Over 5 years US\$'000	Undated US\$'000	Total US\$'000
As at 31 December 2019								
Deposits and balances from banks	5	45	30,498	—	—	—	—	30,548
Financial liabilities held for trading	—	—	—	—	—	—	—	—
Amount due to intermediate holding company	6	2,225	—	—	—	—	—	2,231
Amount due to affiliates	—	1,546	—	—	—	—	—	1,546
Other liabilities	—	—	1,422	142	—	—	1	1,565
	11	3,816	31,920	142	—	—	1	35,890
Assets held for managing liquidity risk	127,241	247,092	181,534	—	16,176	—	—	572,043
As at 31 December 2018								
Deposits and balances from banks	—	211	100,508	—	—	—	—	100,719
Financial liabilities held for trading	—	—	—	69	1,606	57	—	1,732
Amount due to intermediate holding company	—	1,783	—	—	—	—	—	1,783
Amount due to affiliates	—	4,342	—	—	—	—	—	4,342
Other liabilities	—	—	—	144	—	—	1,564	1,708
	—	6,336	100,508	213	1,606	57	1,564	110,284
Assets held for managing liquidity risk	122,248	472,330	51	278	35,814	470	5	631,196

## Banc of America Securities Asia Limited

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 4.1 Legal entity governance (continued)

##### 4.1.3 Liquidity risk (continued)

###### (e) Derivative liabilities

The table below analyses the Company's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cashflows on all derivatives. Some of the Company's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Undated	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
As at 31 December 2019							
Derivative financial instruments:							
Exchange rate contracts							
- Outflow	3,246	—	423,064	—	—	—	426,310
- Inflow	3,196	—	419,415	—	—	—	422,611

As at 31 December 2018

Derivative financial instruments:							
Exchange rate contracts							
- Outflow	—	—	—	—	—	—	—
- Inflow	—	—	—	—	—	—	—

#### 4.2 Capital Management

The Company's objectives when managing capital are as follows:

- To comply with the capital requirement under the Banking (Capital) Rule of the Hong Kong Banking Ordinance;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits of other stakeholders;
- To support the Company's stability and growth; and
- To maintain a strong capital base to support the development of its business.

The Hong Kong Banking Ordinance requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum of 8%.

## Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 4.2 Capital Management (continued)

Capital adequacy and the use of capital are monitored daily by the Company's management. The Company applies an internal trigger capital adequacy ratio which is well above the minimum statutory requirement as an indicator for managing the capital adequacy. In addition, the Company will assess the impact on its capital adequacy ratio when there are new products, new investments or any significant transactions.

The table below summarises the ratio and the composition of regulatory capital of the Company as at 31 December.

	2019	2018
Capital adequacy ratios		
Common Equity Tier 1	457.65 %	286.98 %
Tier 1	457.65 %	286.98 %
Total	457.65 %	286.98 %

The capital base used in the calculation of the above capital adequacy ratios as at 31 December and reported to HKMA is analysed as follows:

	2019	2018
	US\$'000	US\$'000
Components of capital base:		
Common Equity Tier 1:		
Paid up ordinary share capital	491,442	491,442
Disclosed reserves	42,930	43,550
Profit and loss account	1,211	(620)
Regulatory deductions	(1,361)	(647)
Total capital base	<u>534,222</u>	<u>533,725</u>

The capital adequacy ratios (including Common Equity Tier 1, Tier 1 Capital and Total Capital ratios) as at 31 December 2019 and 31 December 2018 were calculated in accordance with the Banking (Capital) Rules (the "Capital Rules") issued by the HKMA under section 98A of the Hong Kong Banking Ordinance. HKMA has implemented Basel III capital adequacy requirements which became effective on 1 January 2014. In accordance with the Capital Rules, the Company has adopted the "standardised (credit risk) approach" for the calculation of the risk-weighted assets for credit risk and the "basic indicator approach" for the calculation of operational risk.

There were regulatory deductions on the Company's Common Equity Tier 1 capital and the total capital base as at 31 December 2019 and 31 December 2018, representing valuations adjustments and deferred tax assets (refer to note 5 Composition of Regulatory Capital in the Supplementary financial information). There were no limits or minima applied to the calculation of the capital base of the Company in accordance with the Capital Rules.

The Banking (Capital) (Amendment) Rules 2014 came into effect on 1 January 2015 to implement the Basel III capital buffer requirements in Hong Kong. The changes include the phase-in from 2016 to 2019 of the Capital Conservation Buffer ("CB") which is designed to ensure banks build up capital outside periods of stress of 2.5% of risk-weighted assets, the Countercyclical Capital Buffer ("CCyB") which is set on an individual country basis and is built up during periods of excess credit growth to protect against future losses, and the Higher Loss Absorbency ("HLA") requirements for Domestic Systemically Important Banks ("D-SIB"). On 27th January 2017 and 10 January 2018, the HKMA announced a CCyB for Hong Kong of 1.875% and 2.5% of risk-weighted assets from 1 January 2018 and 1 January 2019 respectively. On 14 October 2019, the HKMA announced a CCyB for Hong Kong is reduced to 2% from 2.5% of risk-weighted assets with immediate effect. On 16th March 2015 and 31 December 2015, the HKMA announced that the Company is not designed as a D-SIB in Hong Kong and is not required to establish risk-weighted assets for HLA from 1 January 2016 under the phase-in arrangement.

# Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

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### 4.2 Capital Management (continued)

The applicable CCyB ratio to the Company as at 31 December is as follows:

	2019	2018
Countercyclical capital buffer ("CCyB") ratio	<u>0.00%</u>	<u>0.11%</u>

During the year, the Company has complied with all of the externally imposed capital requirements set by the HKMA.

### 5. Fair value of financial assets and liabilities

The fair value of financial instruments traded in an active market (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

a) The fair values of financial assets and liabilities not presented at fair value in the Company's statement of financial position are estimated as follows:

#### Cash and short term funds

The fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits, which is normally less than one year, is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. Therefore the fair value is approximately equal to its carrying value.

#### Placements with banks

The estimated fair value of fixed interest-bearing deposits of banks without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. As they are normally less than one year, their fair values are approximately equal to their carrying values.

#### Other assets and other liabilities

The carrying value of other assets and other liabilities approximates their fair value as these balances are generally short term in nature and the associated credit risk considered to be insignificant.

#### b) Fair value hierarchy

HKFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:



## Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

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#### 5. Fair value of financial assets and liabilities (continued)

##### b) Fair value hierarchy (continued)

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes actively traded securities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes the majority of the OTC derivative contracts. The sources of input parameters are Bloomberg and Reuters.

Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

	Level 2 US\$'000
At 31 December 2019	
<b>Assets</b>	
Financial assets at fair value through profit or loss	
Debt securities	285,355
Derivative financial instruments	
Exchange rate contracts	3,062
Total assets	<u><u>288,417</u></u>
<b>Liabilities</b>	
Financial liabilities held for trading	
Debt securities	—
Derivative financial instruments	
Exchange rate contracts	3,699
Total liabilities	<u><u>3,699</u></u>

## Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 5. Fair value of financial assets and liabilities (continued)

##### b) Fair value hierarchy (continued)

	Level 2 US\$'000
At 31 December 2018	
<b>Assets</b>	
Financial assets at fair value through profit or loss	
Debt securities	4,572
Derivative financial instruments	
Exchange rate contracts	—
Total assets	<u>4,572</u>
<b>Liabilities</b>	
Financial liabilities held for trading	
Debt securities	1,732
Derivative financial instruments	
Exchange rate contracts	—
Total liabilities	<u>1,732</u>

There were no transfers of financial assets or liabilities between levels of the fair value hierarchy classifications during the years ended 31 December 2019 and 2018.

#### 6. Net interest income

	2019 US\$'000	2018 US\$'000
<u>Interest income:</u>		
Placements with banks	6,847	8,176
<u>Interest expense:</u>		
Deposits and balances from banks	(2,484)	(4,776)
Net interest income	<u>4,363</u>	<u>3,400</u>

#### 7. Fee and commission expense

	2019 US\$'000	2018 US\$'000
Securities custodian fees	39	66
Other fees paid	1	1
Fee and commission expense	<u>40</u>	<u>67</u>

No fee income and fee expenses, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value.

## Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 8. Net trading income / (expense)

	2019 US\$'000	2018 US\$'000
Net foreign exchange gain	6,249	1,563
Interest income from financial assets at fair value through profit or loss	97	6,252
Interest expense from financial liabilities held for trading	(38)	(3,183)
Net loss from financial instruments at fair value through profit or loss	(7)	(8,825)
	<u>6,301</u>	<u>(4,193)</u>

#### 9. Other operating income

	2019 US\$'000	2018 US\$'000
Service fee income (note 24)	1,696	12,066
	<u>1,696</u>	<u>12,066</u>

#### 10. Operating expenses

	2019 US\$'000	2018 US\$'000
Auditors' remuneration	93	123
Employee benefit expenses (note 11)	5,453	8,252
Directors' fees (note 12)	133	124
Legal and professional fees	2	26
Licence fee	56	49
Impairment loss of subsidiary (note 19 and 24)	2,086	—
Service fee expenses (note 24)	2,804	2,949
Others	244	326
	<u>10,871</u>	<u>11,849</u>

## Banc of America Securities Asia Limited

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 11. Employee benefit expenses

	2019 US\$'000	2018 US\$'000
Wages, salaries and other staff costs	2,239	2,580
Share-based payments (note 13)	3,166	5,615
Retirement benefit schemes contribution	22	47
Other post-employment benefits	26	10
	<u>5,453</u>	<u>8,252</u>

As of 31 December 2019, staff related payable of US\$27,000 (2018: US\$22,000) is included in other liabilities.

#### 12. Directors' fees

	2019 US\$'000	2018 US\$'000
Fees	133	124
	<u>133</u>	<u>124</u>

Certain directors of the Company are members of stock option schemes and restricted stock plans which give them the rights to acquire shares in BAC. During the year ended 31 December 2019 and 2018, no stock and/ or stock option in respect of their services to the Company was granted to the directors.

#### 13. Share-based payments

The Company participates in several employee compensation plans managed by BAC, with awards being granted predominantly from the Bank of America Corporation Key Employee Equity Plan ("KEEP").

Generally, one-third of the restricted stock units ("RSUs") vest on each of the first three anniversaries of the grant date provided that the employee remains continuously employed with the Company during that time.

The fair value of RSU was determined based on the price of BAC common stock at the date of grant. RSUs may be settled in cash or in shares of common stock depending on the terms of the applicable award.

The Company granted 63,696 stock units at a grant price of \$26.08 for a total grant cost of \$1,661,000. The compensation cost for the stock-based plans was US\$3,166,000 and US\$5,615,000 in 2019 and 2018 respectively.

##### Other Stock Plans

The company did not granted any non-qualified stock options plans for both 2019 and 2018 respectively. All the options has been expired in 2018 and there are no non-qualified stock options outstanding at the end of the year 2019 and 2018.

## Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 14. Taxation

Hong Kong profits tax has been calculated at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year.

(a) The amount of tax charged to the statement of comprehensive income represents:

	2019 US\$'000	2018 US\$'000
Current income tax:		
- Hong Kong profit tax	730	382
- Withholding tax	4	—
- Adjustment in respect of prior years	308	—
Deferred tax		
- Reversal of temporary difference	(491)	(405)
- Adjustment in respect of prior years	(313)	—
Taxation expense/ (recovery)	<u>238</u>	<u>(23)</u>

(b) The tax on the Company's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2019 US\$'000	2018 US\$'000
Profit / (loss) before taxation	<u>1,449</u>	<u>(643)</u>
Calculated at Hong Kong profits tax rate of 16.5%	239	(106)
Tax effect:		
Income not taxable for tax purposes	—	(45)
Utilization of tax loss brought forward	—	(6)
Foreign tax paid	4	133
Adjustment in respect of prior years	(5)	1
Taxation expense/ (recovery)	<u>238</u>	<u>(23)</u>

## Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 15. Deferred income tax assets

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2018: 16.5%). The movement in the deferred income tax assets/ (liabilities) during the year is as follows:

	Depreciation allowances US\$'000	Share-based payment charge and accrual US\$'000	Total US\$'000
Beginning balance at 1 January 2018	(2)	147	145
Charge to the statement of comprehensive income for the year	—	405	405
Ending balance at 31 December 2018	(2)	552	550
Charge to the statement of comprehensive income for the year	—	804	804
Foreign exchange difference	—	6	6
Ending balance at 31 December 2019	(2)	1,362	1,360

#### 16. Cash and balances with banks

	2019 US\$'000	2018 US\$'000
Demand balances with banks	126,951	122,248
Deposits at call	159,384	494,816
	<u>286,335</u>	<u>617,064</u>

#### 17. Financial assets at fair value through profit or loss

	2019 US\$'000	2018 US\$'000
Debt securities, at fair value:		
Government bonds	285,355	486
Corporate bonds	—	4,086
	<u>285,355</u>	<u>4,572</u>

## Banc of America Securities Asia Limited

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 18. Derivative financial instruments

The Company uses the following derivative instruments for trading purpose.

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates or a combination of these. No exchange of principal takes place, except for certain currency swaps. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market.

The notional amounts provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial instrument assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative instruments held are set out below:

	Notional amount US\$'000	Fair Value	
		Assets US\$'000	Liabilities US\$'000
At 31 December 2019			
Derivatives held for trading			
- Exchange rate contracts			
Currency swaps	10,855	257	—
FX forwards	555,276	2,805	(3,699)
At 31 December 2018			
Derivatives held for trading			
- Exchange rate contracts			
Currency swaps	—	—	—
FX forwards	—	—	—

## Banc of America Securities Asia Limited

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 18. Derivative financial instruments (continued)

As at 31 December, the credit risk-weighted amounts of the financial derivative exposures entered during the year, are shown on a gross basis as follows:

	Credit risk weighted amount	
	2019 US\$'000	2018 US\$'000
Derivatives:		
- Exchange rate contracts		
Currency swaps	183	—
FX forwards	4,169	—
	<u>4,169</u>	<u>—</u>

The contractual amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date, they do not represent amounts at risk.

The credit risk-weighted amounts at 31 December 2019 and 31 December 2018 were computed in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

#### 19. Investment in subsidiary

	US\$'000
<u>Unquoted – at investment cost</u>	
At 1 January 2018 and 31 December 2018	12,971
Capital repatriation from subsidiary (note i)	(10,885)
Impairment loss recognized (note ii)	(2,086)
At 31 December 2019	<u>—</u>

#### Note:

- The final cash distribution of US\$10,885,000 from BA Australia Limited (BAAL) was received as part of the liquidation process in 2019. No shares were exchanged during the transaction, with the result being a reduction in the Company's investment in BAAL to Nil.
- During the year, the directors assessed the recoverable amounts of investment in subsidiary by reference to value in use, and determined that the cost of investment in subsidiary was impaired by US\$ 2,086,000 (2018: US\$ Nil)

Details of the Company's subsidiary at 31 December 2019 and 2018 are as follows:

Name of company	Proportion of nominal value of issued capital held by the Company		Place of incorporation	Class of share held	Principal activities
	2019	2018			
BA Australia Limited	NIL	100%	Australia	Ordinary	Liquidated



## Banc of America Securities Asia Limited

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### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 20. Other liabilities

	2019 US\$'000	2018 US\$'000
Other payables	<u>1,565</u>	<u>1,708</u>

#### 21. Share capital

	Number of Shares	Share capital US\$'000
Ordinary shares, issued and fully paid: At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	<u>110,000,000</u>	<u>491,442</u>

#### 22. Other reserves

	Share-based payments reserve US\$'000
At 1 January 2018 and 31 December 2018	6,467
Directors' and employees' stocks and stock options granted	—
At 31 December 2019	<u>6,467</u>

Share-based payments reserve is not available for distribution.

#### 23. Balances with group companies

Included in the following balance sheet captions are balances with subsidiaries of BAC, the ultimate holding company.

	2019 US\$'000	2018 US\$'000
<b>Assets</b>		
Cash and balance with bank		
Demand balances with banks	114,259	110,200
Deposits at call	159,384	494,816
	<u>273,643</u>	<u>605,016</u>
Derivative financial instruments	3,062	—
Amount due from intermediate holding company	353	523
Amount due from affiliates	—	9,032
	<u>277,058</u>	<u>614,571</u>

## Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

#### 23. Balances with group companies (continued)

	2019	2018
	US\$'000	US\$'000
<b>Liabilities</b>		
Deposits and balances from banks	30,543	100,719
Derivative financial instruments	3,699	—
Amount due to intermediate holding company	2,231	1,783
Amount due to affiliates	1,546	4,342
	<u>38,019</u>	<u>106,844</u>

#### 24. Related party transactions

In addition to balances with group companies as set out in note 23 and note 25, the Company had the following material transactions with related parties during the year:

##### (a) Profit and loss

	Note	2019	2018
		US\$'000	US\$'000
<b>Revenue</b>			
Interest income on placements	(i)	6,847	8,176
Service fee income	(ii)	1,696	12,066
<b>Expenses</b>			
Interest expense on deposits	(iii)	(2,484)	(4,776)
Impairment loss of subsidiary	(iv)	(2,086)	—
Service fee expenses	(v)	<u>(2,804)</u>	<u>(2,949)</u>

##### Note:

- (i) The interest income was generated from placements with group companies. The interest rates are similar to that which would normally apply to customers of comparable standing.
- (ii) Service fee income represents income received and receivable from supporting services provided to group companies and income recognised when certain charges are accrued by the Company. Service fees are calculated in accordance with BAC Global Transfer Pricing Policy and are generally documented in service level agreements entered into between the Company and other group companies.
- (iii) The interest expenses were paid on deposits from group companies. The interest rates are similar to that which would normally apply to customers of comparable standing.
- (iv) The amount represents impairment loss of subsidiary.
- (v) Service fee expenses represent expenses paid and payable for supporting services provided by group companies and expenses recognised when certain charges are accrued by the service provider. Service fees are calculated in accordance with BAC Global Transfer Pricing Policy and are generally documented in service level agreements entered into between the Company and other group companies.

The amounts paid to holding companies include amount charged under the Recharge Agreement described in note 2.11 for the Company's participation in the employee compensation plans. The fee is determined based on the change of the fair value between the grant dates and the vesting dates for shares; and between the grant dates and the exercise dates for options and the allocation of fair value for employees who rendered services to the Company and other group companies during the life of the awards. The amount included in Service fee expense is a net service fee of US\$ 705,000 (2018: US\$ 69,000).

## Banc of America Securities Asia Limited

Audited Annual Financial Statements for the year ended 31 December 2019

### NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

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24. Related party transactions (continued)

(b) Derivatives transactions

	Note	2019 US\$'000	2018 US\$'000
Exchange rate contracts with group companies for trading purpose	(i)	<u>566,131</u>	<u>—</u>

Note:

- (i) Balances represent the contractual notional amount of the outstanding currency swap and forward contracts entered into with group companies. The terms of these contracts were entered in accordance with terms and conditions which would apply to customers of comparable standing.

25. Key management compensation

Key management personnel include individual employees whose duties or activities in the course of their employment involve the assumption of material risk or the taking on of material exposures on behalf of the Company.

Apart from the aggregated amount of directors' emoluments as disclosed in note 12 above, there were no other contracts and transactions with key personnel during the year of 2018 and 2019.

26. Contingent liabilities and commitments

At 31 December 2019 and 31 December 2018, the Company did not have any contingent liabilities and commitments.

27. Event after the reporting period

Subsequent to the reporting date, direct and indirect effects of the coronavirus outbreak are impacting the global economy, markets, and the Company's counterparties and clients. The Company cannot predict the coronavirus's potential future direct or indirect effects; however, the Company is taking actions to mitigate the impacts on the Company. The coronavirus's effects could have a material negative impact on the Company's future results of operations.

28. Approval of accounts

The accounts were approved by the Board of Directors on 28 April 2020.

The following supplementary financial information is disclosed  
as part of the accompanying information to the accounts and  
does not form part of the audited accounts

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

#### 1. Key Prudential Ratios:

The following table provides an overview of the Bank's key prudential ratios.

	as at 31 Dec 2019	as at 30 Sep 2019	as at 30 Jun 2019	as at 31 Mar 2019	as at 31 Dec 2018	
<b>Regulatory capital (amount US\$'000)</b>						
1	Common Equity Tier 1 (CET1)	534,222	534,872	533,424	531,174	533,725
2	Tier 1	534,222	534,872	533,424	531,174	533,725
3	Total capital	534,222	534,872	533,424	531,174	533,725
<b>RWA (amount US\$'000)</b>						
4	Total RWA	116,731	162,655	175,624	156,312	185,983
<b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>						
5	CET1 ratio (%)	457.65	328.84	303.73	339.82	286.98
6	Tier 1 ratio (%)	457.65	328.84	303.73	339.82	286.98
7	Total capital ratio (%)	457.65	328.84	303.73	339.82	286.98
<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>						
8	Capital conservation buffer requirement (%)	2.50	2.50	2.50	2.50	1.88
9	Countercyclical capital buffer requirement (%)	-	-	0.79	0.86	0.11
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	NA	NA	NA	NA	NA
11	Total AI-specific CET1 buffer requirements (%)	2.50	2.50	3.29	3.36	1.99
12	CET1 available after meeting the AI's minimum capital requirements (%)	447.15	318.34	292.44	328.46	276.99
<b>Basel III leverage ratio</b>						
13	Total leverage ratio (LR) exposure measure (amount US\$'000)	580,765	693,091	747,036	636,365	644,717
14	LR (%)	91.99	77.17	71.41	83.47	82.78
<b>Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)</b>						
Applicable to category 1 institution only:						
15	Total high quality liquid assets (HQLA)	NA	NA	NA	NA	NA
16	Total net cash outflows	NA	NA	NA	NA	NA
17	LCR (%)	NA	NA	NA	NA	NA
Applicable to category 2 institution only:						
17a	LMR (%)	4,278,110.69	333,333,333,336,243.00	32,858.19	167.80	215.67
<b>Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)</b>						
Applicable to category 1 institution only:						
18	Total available stable funding	NA	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA	NA
20	NSFR (%)	NA	NA	NA	NA	NA
Applicable to category 2A institution only:						
20a	CFR (%)	NA	NA	NA	NA	NA

As of 31st December 2019, the LMR was 4,278,110.69%, decreased by 333,333,329,058,132.31% when compared to 30th September 2019. This is mainly driven by increase in qualifying liabilities during the quarter.

# Banc of America Securities Asia Limited

## Supplementary Financial Information (Unaudited)

The above key regulatory ratios were calculated in accordance with the following Rules, where relevant, issued by the HKMA.

- Banking (Capital) Rules ("BCR")
- Leverage Ratio Framework
- Banking (Liquidity) Rules ("BLR")

### 2. Risk Management Approach

BASAL has adopted the risk philosophy, processes and controls of BAC, including the BAC Risk Framework. Bank of America's risk management approach is appropriate given the Company's size, complexity, structure, activities and risk profile. The following are the five components of our risk management approach:

- **Risk culture:** A culture that instills the importance of managing risk well, ensures appropriate focus on risk in all activities and that risk is everyone's responsibility. It encourages the necessary mindset and behavior to enable effective risk management and promote sound risk-taking within our risk appetite. Our culture requires that risks are promptly identified, escalated and debated, thereby benefiting the overall performance of the Company.
- **Risk appetite:** The Company's risk appetite statement defines the types and levels of risk the Company is willing to take to achieve its objectives. It includes qualitative statements and quantitative measures, as appropriate.
- **Risk governance:** Our risk governance framework serves as the foundation for the comprehensive management of risks facing the Company. It outlines, among other things, clear ownership and accountability for managing risk across three lines of defense: front line units, independent risk management and Corporate Audit.
- **Risk data aggregation and reporting:** Effective risk reporting provides a clear understanding of our risk profile. We leverage our data and management information systems to achieve transparency and generate actionable insights.
- **Risk management processes.** Sound risk management includes processes to effectively identify, measure, monitor and control risk. Risk management is both an essential component of our daily business activities and an integral part of our strategic, capital and financial planning processes. BASAL employs a simple but effective risk management process, referred to as IMMC: Identify, Measure, Monitor and Control.

The risk appetite statement indicates the amount of capital, earnings or liquidity we are willing to put at risk to achieve our strategic objectives and business plans, consistent with applicable regulatory requirements. The risk appetite statements ensure that the Company maintains an acceptable risk profile that is in alignment with our strategic and capital plans. Risk appetite statements provide a common framework and a comparable set of measures for senior management and the boards of directors to clearly indicate the level of risk the Company is willing to accept. The risk appetite statements include both quantitative limits and qualitative components that are reviewed and approved by the board of directors at least annually.

The Risk Appetite Statement is rooted in several principles:

- **Overall risk capacity:** BASAL's overall capacity to take risk is limited; therefore, it prioritizes the risks it takes. Our risk capacity informs our risk appetite, which is the level and types of risk we are willing to take to achieve our business objectives.
- **Financial strength to absorb risk:** BASAL must maintain a strong and flexible financial position so it can weather challenging economic times and take advantage of growth opportunities. Therefore, BASAL sets objectives and targets for capital and liquidity that will permit the Company to continue to operate in a safe and sound manner at all times, including under stressed market conditions.
- **Risk-reward equation:** Risks taken must fit BASAL risk appetite and offer acceptable risk-adjusted returns.
- **Acceptable risks:** We consider all types of risk including those that are difficult to quantify. Qualitative guidance within the risk appetite statements describes our approach to managing such risks in a manner consistent with our risk culture. For example, actions considered in a line of business that unduly threaten the Company's reputation should be escalated and restricted appropriately.
- **Skills and capabilities:** BASAL seeks to only assume risks that it can identify, measure, monitor and control.

The risk appetite statements quantitative framework is designed to articulate the risks we are willing to take and limit excessive risk taking. It is comprised of limits indicating the amount of risk we are willing to take.

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

#### 2. Risk Management Approach (continued)

Robust monitoring and reporting processes for limits are in place, with limit breaches triggering appropriate notification and escalation based on the severity of the breach as defined by magnitude or frequency. Breach remediation plans include a written description of the root cause, how a breach will be resolved and the timeline for remediation. Management and committees of the board of directors monitor risk metrics relative to risk appetite limits and take action as necessary to proactively and effectively manage risk.

Integration with strategic, capital and financial operating plans and other processes:

Risk appetite is set at least annually in conjunction with the strategic, capital, and financial operating plans to ensure risk appetite is consistent with BASAL's strategy and financial resources. Line of business strategies and risk appetite are also aligned. Ongoing reporting shows performance against the strategic plan, as well as risk appetite breaches for each of the lines of business. Risk appetite is also considered within the New Product Review and Approval Policy and processes, within decisions around acquisitions and divestitures, if any, and as part of compensation and performance management decisions.

The Company's Risk Appetite Statement encompasses the seven risk types described in the Risk Framework.

The risk appetite structure is comprised of qualitative narrative statements and a framework of quantitative metrics and limits.

The qualitative narrative statements describe BASAL's appetite for risk and establish the tone and structure for line of business and subsidiary legal entity risk appetite:

<b>Risk Type</b>	<b>Risk Appetite Qualitative Summary Statements</b>
Strategic	We evaluate our capacity for risk and seek to protect our brand and reputation, our financial strength and flexibility, the value of our assets and the strategic potential of the Company.
Credit	We maintain prudent underwriting standards with a focus on client selection that allows us to deliver for customers and shareholders throughout the credit cycle.
Market	We manage our sensitivity to changes in interest rates and market prices in order to deliver for customers and shareholders at all times, including during times of volatility and stress.
Liquidity	We ensure that Bank of America can meet expected or unexpected cash flow and collateral needs under a range of economic conditions.
Operational	We manage operational risk to an overall residual risk level of moderate across the company and within each business by striving for operational excellence in everything that we do.
Compliance	We have no tolerance for compliance breaches. While minor breaches may occur from time to time due to the scope of our business, there is no excuse for substantive breaches at any time.
Reputational	We manage and control situations that could negatively impact our reputation and brand. When reputational risk arises, we aggressively manage it to preserve our brand and reputation.

# Banc of America Securities Asia Limited

## Supplementary Financial Information (Unaudited)

### 2. Risk Management Approach (continued)

BASAL's risk appetite is heavily influenced and evidenced by our client selection criteria, which aim to achieve a high quality portfolio mostly comprising multinational corporate clients, strong domestic and foreign financial institutions, and strong local corporate clients. As a result, the Company does not currently focus on retail and consumer clients, small to medium sized enterprises, project finance, or real estate, which tend to carry higher levels of credit and other risks.

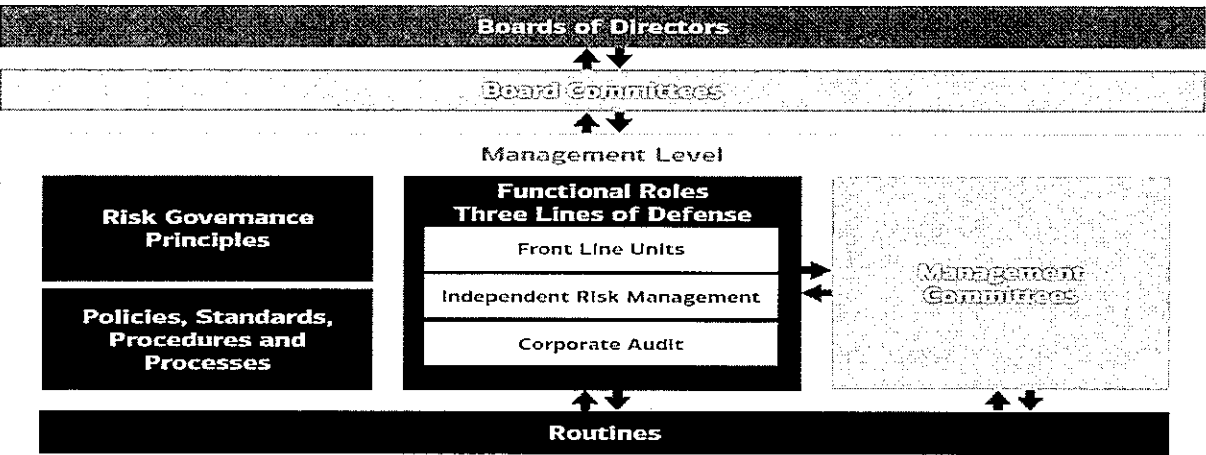
BASAL's client selection criteria consist of the following characteristics:

1. Global Multinational and Asian indigenous companies which maintain a significant global strategic and operating footprint or whose cross border business flows leave us well positioned as a provider of operating, treasury, risk management, and advisory solutions.
2. Companies with sophisticated corporate treasury and financing requirements, including the need to raise capital, in either public or private markets in capital markets covered by BAC, or hedging.
3. Companies who are leaders in the industries that they operate and require multiple product offerings and financial solutions.
4. Companies either currently or likely to be investors in or acquirers of offshore financial or strategic assets.

Our business will generally remain focused on the upper quartile of the corporate sector, as measured either by market capitalization, revenue mix, market share, or governance and disclosure practices. Our client base will also include government, quasi-government, and "national champions" whose economic or political significance in the domestic economy provide certain competitive advantages and implied government support or sponsorship. Bank and non-bank financial institutions client selection guideline is also based on FI's financial strengths, risk/ return criteria, and market position & size.

BASAL adheres to a risk governance framework that is designed by independent risk management and approved by the board of directors of BASAL. The risk governance framework includes delegations of authority from the board of directors or board committees to management committees and executive officers as well as risk limits established for material activities to ensure the Company operates within risk appetite.

Bank of America's risk governance framework links multiple components to provide strong risk governance



↑ Escalating and reporting    ↓ Delegations of authority

Bank of America's Risk Framework is reviewed at least annually by appropriate board-level committees, approved by the Enterprise Risk Committee (ERC) and then recommended by the ERCs of BAC and the Covered Banks, and then recommended by the ERCs to the boards of directors of BAC and the Covered Banks for approval. Any off-cycle changes to the Risk Framework deemed to be significant by the Chief Risk Officer (CRO) must be reviewed by appropriate board-level committees, approved by the ERCs and then recommended by the ERCs to the respective boards of directors for approval. Immaterial changes (e.g. corrections, name changes) may be approved by the CRO with no subsequent reporting to the boards of directors and their committees.



## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

#### 2. Risk Management Approach (continued)

As part of their oversight responsibilities, the respective boards of directors of BAC and the Covered Banks and their committees exercise sound independent judgment to actively oversee risk-taking activities and hold management accountable for adhering to the Risk Framework. The boards of directors conduct an annual self-assessment that includes an evaluation of their effectiveness in meeting the requirements of the Risk Framework. Any changes in governance approved by the boards of directors may be reflected in an updated version of the Risk Framework without additional approval of the Risk Framework by the board of directors.

Effective risk data management, aggregation and reporting are critical to provide a clear understanding of current and emerging risks, as well as how these risks align with overall risk appetite and ability to quickly and effectively act upon them. BASAL achieves transparency in risk reporting by understanding the current risk profile; leveraging data, information and analytics; and by reporting actionable insights and recommendations to appropriate levels of the Company.

Reporting risk information and analysis to employees, senior management, the boards of directors and their committees is a central component of managing risk well.

Key objectives of our risk reporting efforts include:

- Timely and actionable reporting – Reports that are accurate and comprehensive and provided with the appropriate frequency to enable us to manage all material current and emerging risks and changing business needs, at all times.

Differentiation by audience – Reports that are tailored to meet the needs of their recipients and contain the information needed to enable effective decision-making.

#### 3. Overview of Risk Weighted Assets

The following table sets out the Banks's risk-weighted assets ("RWA") and the corresponding minimum capital requirements by risk types.

		RWA US\$'000		Minimum capital requirements US\$'000
		As at 31 Dec 2019	As at 30 Sep 2019	As at 31 Dec 2019
1	Credit risk for non-securitization exposures	62,194	65,472	4,975
2	Of which STC approach	62,194	65,472	4,975
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	6,334	10,213	507
7	Of which SA-CCR	-	-	-
7a	Of which CEM	4,352	7,021	348
8	Of which IMM(CCR) approach	-	-	-
9	Of which other	-	-	-
10	CVA Risk	1,982	3,192	159
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA	-	-	-
13	CIS exposures – MBA	-	-	-
14	CIS exposures – FBA	-	-	-
14a	CIS exposures – combination of approaches	-	-	-

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

		RWA US\$'000		Minimum capital requirements US\$'000
		As at 31 Dec 2019	As at 30 Sep 2019	As at 31 Dec 2019
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which SEC-IRBA	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-
20	Market risk	30,762	71,673	2,461
21	Of which STM approach	30,762	71,673	2,461
22	Of which IMM approach	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	-	-	-
24	Operational risk	17,441	15,297	1,395
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	-	-	-
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
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	-	-	-
27	Total	116,731	162,655	9,338

#### 4. Prudent valuation adjustments

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
		Equity	Interest rates	FX	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
US\$'000									
1	Close-out uncertainty, of which:	-	1	-	-	-	1	1	-
2	Mid-market value	-	1	-	-	-	1	1	-
3	Close-out costs	-	-	-	-	-	-	-	-
4	Concentration	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risks	-	-	-	-	-	-	-	-
8	Investing and funding cost	-	-	-	-	-	-	-	-
9	Unearned credit spreads	-	-	-	-	-	-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other adjustments	-	-	-	-	-	-	-	-
12	Total adjustments	-	1	-	-	-	1	1	-

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

#### 5. Composition of Regulatory Capital

##### 5.1 Financial Statements and Regulatory Scope of Consolidation

For regulatory reporting purposes, the bank is required to compute its capital adequacy ratio and leverage ratio on a solo basis.

##### 5.2 Capital Adequacy and Reconciliation of Regulatory Capital to the Financial Statement

The following table sets out the detailed composition of the Company's regulatory capital as at 31 Dec 2019.

		US\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
<b>CET1 capital: instruments and reserves</b>			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	491,442	(1)
2	Retained earnings	37,674	(2)
3	Disclosed reserves	6,467	(3)
4	<i>Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)</i>	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	<b>CET1 capital before regulatory deductions</b>	<b>535,583</b>	
<b>CET1 capital: regulatory deductions</b>			
7	Valuation adjustments	1	
8	Goodwill (net of associated deferred tax liability)	-	
9	Other intangible assets (net of associated deferred tax liability)	-	
10	Deferred tax assets net of deferred tax liabilities	1,360	(4)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

		US\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	-	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	
26b	Regulatory reserve for general banking risks	-	
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	Total regulatory deductions to CET1 capital	-	
29	CET1 capital	534,222	
	<b>AT1 capital: instruments</b>		
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Capital instruments subject to phase out arrangements from AT1 capital	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements	-	
36	AT1 capital before regulatory deductions	-	

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

		US\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
<b>AT1 capital: regulatory deductions</b>			
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	<b>Total regulatory deductions to AT1 capital</b>	-	
44	<b>AT1 capital</b>	-	
45	<b>Tier 1 capital (Tier 1 = CET1 + AT1)</b>	534,222	
<b>Tier 2 capital: instruments and provisions</b>			
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	<i>Capital instruments subject to phase out arrangements from Tier 2 capital</i>	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	<i>of which: capital instruments issued by subsidiaries subject to phase out arrangements</i>	-	
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	-	
51	<b>Tier 2 capital before regulatory deductions</b>	-	
<b>Tier 2 capital: regulatory deductions</b>			
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	-	

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

		US\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
57	Total regulatory deductions to Tier 2 capital	-	
58	Tier 2 capital	-	
59	Total regulatory capital (TC = T1 + T2)	534,222	
60	Total RWA	116,731	
<b>Capital ratios (as a percentage of RWA)</b>			
61	CET1 capital ratio	457.65%	
62	Tier 1 capital ratio	457.65%	
63	Total capital ratio	457.65%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	2.50%	
65	<i>of which: capital conservation buffer requirement</i>	2.50%	
66	<i>of which: bank specific countercyclical buffer requirement</i>	0.00%	
67	<i>of which: higher loss absorbency requirement</i>	0.00%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	447.15%	
<b>National minima (if different from Basel 3 minimum)</b>			
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
74	Mortgage servicing rights (net of associated deferred tax liability)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liability)	Not applicable	Not applicable

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

		US\$'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	-	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	-	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
<b>Capital instruments subject to phase-out arrangements</b>			
80	<i>Current cap on CET1 capital instruments subject to phase out arrangements</i>	Not applicable	Not applicable
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	Not applicable	Not applicable
82	<i>Current cap on AT1 capital instruments subject to phase out arrangements</i>	-	
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	-	
84	<i>Current cap on Tier 2 capital instruments subject to phase out arrangements</i>	-	
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	-	

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

#### 5.3 Differences between Accounting and Regulatory Scopes of Consolidation and Mapping of Financial Statement Categories with Regulatory Risk Categories

US\$'000	As at 31 Dec 2019							
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:					not subject to capital requirements or subject to deduction from capital
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework		
<b>Assets</b>								
Cash and balances at central banks	286,335	286,335	286,335	-	-	-	-	
Financial assets at fair value through profit or loss	285,355	285,355	-	-	-	285,355	-	
Derivative financial instruments	3,062	3,062	-	3,062	-	-	-	
Amount due from intermediate holding company	353	353	353	-	-	-	-	
Deferred income tax assets	1,360	1,360	-	-	-	-	1,360	
<b>Total assets</b>	<b>576,465</b>	<b>576,465</b>	<b>286,688</b>	<b>3,062</b>	<b>-</b>	<b>288,355</b>	<b>1,360</b>	
<b>Liabilities</b>								
Deposits and balances from banks	30,548	30,548	-	-	-	-	30,548	
Derivative financial instruments	3,699	3,699	-	-	-	-	3,699	
Amount due to intermediate holding company	2,231	2,231	-	-	-	-	2,231	
Amount due to affiliates	1,546	1,546	-	-	-	-	1,546	
Current income tax liabilities	1,293	1,293	-	-	-	-	1,293	
Other liabilities	1,565	1,565	-	-	-	-	1,565	
<b>Total liabilities</b>	<b>40,882</b>	<b>40,882</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,882</b>	

The above table shows the mapping of financial statement categories with regulatory risk categories; the amounts shown in the column "Carrying values under scope of regulatory exposure" do not equal to the sum of the amounts shown in the remaining columns for "Derivatives financial instruments" as it is subjected to regulatory capital charges in counterparty credit risk and market risk categories.



## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

#### 5.4 Main Sources of Differences between Regulatory Exposure Amounts and Carrying Values in Financial Statements:

US\$'000	(a)	(b)	(c)	(d)	(e)	
	Total	Items subject to:				
		credit risk framework	securitization framework	counterparty credit risk framework	market risk framework	
1	Asset carrying value amount under scope of regulatory consolidation	575,105	286,688	-	3,062	285,355
2	Liabilities carrying value amount under regulatory scope of consolidation	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	575,105	286,688	-	3,062	285,355
4	Off-balance sheet amounts	5,661	-	-	5,661	-
5	Exposure amounts considered for regulatory purposes	5,80,766	286,688	-	8,723	285,355

#### Explanations of differences between accounting and regulatory exposure amounts

The key differences between regulatory exposure amounts and accounting carrying value is the potential future exposures arises from derivatives.

#### 5.5 Main Features of Capital instruments

The following is a summary of main features of the Company's issued Common Equity Tier 1 ("CET1") capital instrument outstanding as at 31 Dec 2019.

The Company did not have Additional Tier 1 or Tier 2 capital instruments as of 31 Dec 2019.

1	Issuer	Banc of America Securities Asia Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	BBG002Y21XT8
3	Governing law(s) of the instrument	Hong Kong Law
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo / group / solo & group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognized in regulatory capital (Currency in million, as of most recent reporting date)	USD 491mil
9	Par value of instrument	NA
10	Accounting classification	Shareholders' equity
11	Original date of issuance	May 22,1973
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	Discretionary dividend amount
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	No

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20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Nonconvertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned)	No
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

#### 6. Countercyclical Capital Buffer

##### 6.1 Geographical breakdown of RWA related to Credit Exposures used in the Countercyclical Capital Buffer Ratio

At 31 Dec 2019, the Company did not have any RWA related to Credit Exposures used in the computation of Countercyclical Capital Buffer.

#### 7. Leverage Ratio

##### 7.1 Summary Comparison of Accounting Assets against Leverage Ratio ("LR") Exposure Measure

	Item	Leverage ratio framework US\$'000 31 Dec 2019
1	Total consolidated assets as per published financial statements	576,465
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative contracts	5,661
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	-
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	-
7	Other adjustments	(1,361)
8	Leverage ratio exposure measure	580,765

##### 7.2 Leverage Ratio ("LR")

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	Item	Leverage ratio framework US\$'000 31 Dec 2019	Leverage ratio framework US\$'000 30 Sep 2019
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	573,403	679,951
2	Less: Asset amounts deducted in determining Tier 1 capital	(1,361)	(904)
3	<b>Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>	<b>572,042</b>	<b>679,047</b>
<b>Exposures arising from derivative contracts</b>			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	3,062	9,822
5	Add-on amounts for PFE associated with all derivative contracts	5,661	4,222
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	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	<b>Total exposures arising from derivative contracts</b>	<b>8,723</b>	<b>14,044</b>
<b>Securities financing transaction exposures</b>			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	<b>Total exposures arising from SFTs</b>	<b>-</b>	<b>-</b>
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	-	-
18	Less: Adjustments for conversion to credit equivalent amounts	-	-
19	Off-balance sheet items	-	-
<b>Capital and total exposures</b>			
20	Tier 1 capital	534,222	534,872
20a	Total exposures before adjustments for specific and collective provisions	580,765	693,091
20b	Adjustments for specific and collective provisions	-	-
21	<b>Total exposures after adjustments for specific and collective provisions</b>	<b>580,765</b>	<b>639,091</b>
<b>Leverage ratio</b>			
22	Leverage ratio	91.99%	77.17%

#### 8. Liquidity Risk Management

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Liquidity risk is the inability to meet expected or unexpected cash flow and collateral needs while continuing to support our businesses and customers under a range of economic conditions.

Liquidity risk is present in each of our lines of business and in enterprise activities conducted by Bank of America Corporation and its Subsidiaries. The Bank of America Corporation Liquidity Risk Policy establishes requirements and accountabilities for managing liquidity risk at BAC and its Subsidiaries in conformity with applicable laws, rules and regulations. The BAC Policy permits Subsidiary- or branch-specific liquidity risk policies as deemed necessary by Global Risk Management ("GRM") or by regulatory requirement.

The BAC Policy also outlines requirements for uniformity in liquidity risk management practices in alignment with the Bank of America Risk Framework (the "Risk Framework") and BAC Risk Appetite Statement.

Banc of America Securities Asia Limited ("BASAL"), a Tier 3 subsidiary as defined in the Subsidiary Governance Policy, is governed by the BAC Policy and the BASAL Liquidity Risk Policy (LRP). The BASAL LRP provides additional requirements for reporting, stress testing, risk limits, roles and responsibilities, and regulatory requirements for BASAL beyond those described in the BAC Policy.

As described in the Risk Framework, the Company assigns clear accountability for managing risk across three lines of defense: 1) FLUs; 2) independent risk management; and 3) Corporate Audit. All of the Company's lines of business are categorized as FLUs; in addition, certain areas within Company-wide control functions are also categorized as FLUs. For example, Treasury is a FLU responsible for managing the Company's liquidity and funding position.

FLUs have primary responsibility for managing liquidity risk inherent in their businesses. FLUs actively identify, escalate and debate liquidity risks related to their activities both internally and to independent risk management.

GRM, a second line of defense, oversees the risk management governance structure, establishes liquidity risk policies, reports and monitors all liquidity risk related limits, and provides effective challenge and an independent view of the Company's liquidity risk management processes. GRM is also accountable for providing timely and accurate liquidity risk reporting to risk governance committees and boards, as well as conducting independent monitoring and testing of compliance with laws, regulations, directives and guidance that impact liquidity risk management.

Corporate Audit, in its role as the third line of defense, provides independent assessment and validation through testing of key processes and controls across the Company. Corporate Audit and the Corporate General Auditor maintain their independence from the FLUs, Independent risk management, and other control functions by reporting directly to the Audit Committee and the Board, respectively, consistent with the Risk Framework.

BASAL is regulated by Hong Kong Monetary Authority ("HKMA"), and is subject to various regulatory rules and guidance with respect to liquidity risk management. The BASAL LRP complies with these rules and regulatory guidance. Taken together, the BAC Policy and the BASAL LRP determine the approach to liquidity risk management and combined with local liquidity limits define the overall liquidity risk tolerance for BASAL.

The BASAL Asset and Liability Committee ("ALCO"), reports to the BASAL Board of Directors ("BASAL Board"), and is responsible for providing management oversight and certain approvals of (or recommending to the BASAL Board, the Asia Pacific Regional Risk Committee or other committees, as appropriate) balance sheet, capital, liquidity management and stress testing activities for BASAL. The BASAL Board provides oversight of BASAL's liquidity risk profile. The BASAL Board periodically reviews and approves the liquidity risk management strategies, policies, and procedures and the BASAL LRP.

BASAL uses limits and EWIs to manage liquidity risk within risk tolerance and ensure the amount of liquidity maintained at BASAL remains prudently sized under baseline and stressed conditions.

GRM is responsible for establishing and maintaining liquidity risk limits and EWIs for BASAL. FLUs may provide input to GRM on liquidity risk limits. FLUs, including Treasury, may also establish operating guidelines within approved liquidity risk limits. GRM regularly monitors approved liquidity risk limits and EWIs. Limit breaches are escalated by GRM in accordance with the Bank of America Risk Appetite Guidelines and internal procedures.

BASAL has foreign currency liquidity management strategy documented and reviewed at the local ALCO. The document highlights

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how different products are funded, including its source, currency, funding instrument, funding tenor, and funding source concentration.

For liquidity risk mitigation, BASAL has below Key components:

- The BASAL LRP, which formally articulates the principles for managing liquidity risk within BASAL, including requirements for internal stress testing, limits and early warning indicators, reporting and monitoring, roles and accountabilities and regulatory requirements;
- Liquidity risk limits, established by EFAS Risk APAC and approved based on internal procedures, requiring BASAL to maintain sufficient excess liquidity resources and to comply with regulatory requirements; and
- The BASAL contingency funding plan ("BASAL CFP"), which details management's strategy to address potential liquidity shortfalls during periods of stress.

BASAL has developed a robust internal liquidity stress testing approach to monitor and measure liquidity stress impacts across several time horizons. It progressively has severe scenarios that incorporate market wide and Company-specific events. The stress tests are used to monitor and analyze the level of cash inflows and outflows including contractual and contingent flows, and to estimate the LMR position during a stress event. The results are reviewed by ALCO regularly.

BASAL CFP is the entity's ALCO's as well as management's strategy and procedures to address potential liquidity shortfalls during periods of stress. The plan includes an inventory of key indicators monitored to detect potential emerging liquidity stress, procedures for activating and deactivating the CFP, and quantitative analysis of actions that may be taken to raise cash during various liquidity stress environments.

BASAL has reviewed and approved via the local ALCO Short Term and Long Term Cash Flow forecast assumptions which highlights the customized tools and methodologies at which BASAL's balance sheet and cash flow are projected.

For Liquidity exposure and funding, BASAL has quarterly process of forward looking forecasts of balance sheet by product, by currency, and by business line allows determination of liquidity exposures and funding needs for BASAL. BASAL relies on funding from the Parent and its centralized liquidity pool. The entity performed an assessment to demonstrate sufficiency, availability and transferability of funds from Head Office to meet liquidity needs in Hong Kong in a timely manner.

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BASAL's analysis of on- and off-balance sheet items by remaining maturity and the resultant liquidity gaps as at 31<sup>st</sup> December 2019 is show as follow:

	Repayable on demand US\$'000	Up to 1 month US\$'000	1 to 3 months US\$'000	3 to 12 months US\$'000	1 to 5 years US\$'000	Over 5 years US\$'000	Undated US\$'000	Total US\$'000
As at 31 December 2019								
<u>Assets</u>								
Cash and balances with banks	126,951	143,218	—	—	16,166	—	—	286,335
Financial assets at fair value through profit or loss	—	103,811	181,534	—	10	—	—	285,355
Derivative financial instruments	—	—	—	3,062	—	—	—	3,062
Amount due from intermediate holding company	290	63	—	—	—	—	—	353
<b>Total assets</b>	<b>127,241</b>	<b>247,092</b>	<b>181,534</b>	<b>3,062</b>	<b>16,176</b>	<b>—</b>	<b>—</b>	<b>575,105</b>
<u>Liabilities</u>								
Deposits and balances from banks	5	45	30,498	—	—	—	—	30,548
Derivative financial instruments	—	50	—	3,649	—	—	—	3,699
Amount due to intermediate holding company	6	2,225	—	—	—	—	—	2,231
Amount due to affiliates	—	1,546	—	—	—	—	—	1,546
Other liabilities	—	—	1,422	142	—	—	1	1,565
<b>Total liabilities</b>	<b>11</b>	<b>3,866</b>	<b>31,920</b>	<b>3,791</b>	<b>—</b>	<b>—</b>	<b>1</b>	<b>39,589</b>
<b>Net liquidity gap</b>	<b>127,230</b>	<b>243,226</b>	<b>149,614</b>	<b>(729)</b>	<b>16,176</b>	<b>—</b>	<b>(1)</b>	<b>535,516</b>

The sources of funding are the following:

	31 Dec 2019 USD'000	31 Dec 2018 USD'000
Group Companies	521,985	592,160
As of total liabilities	90.55%	91.85%

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

#### 9. Interest rate risk in banking books

##### 9.1 Qualitative Disclosures

BASAL defines interest rate risk in the banking book as the risk to its current or anticipated earnings or capital arising from movements in interest rates. Economic Value of Equity (EVE) and Net Interest Income (NII) scenario based risk measurements are monitored against established limits and hedging actions will be taken as necessary. The Asset and Liability Committee approves the risk measurement methodology, limits and hedging strategy.

Change in EVE and NII under interest rate shock scenarios are measured quarterly. Shock scenarios include parallel up, parallel down, steepener, flattener, short rates up and short rates down consistent with HKMA SPM IR-1 Interest Rate Risk in the Banking Book. There are no differences in modelling assumptions between internal assessments and disclosures in Template IRRBB1. Key modelling and parametric assumptions include:

- Change in EVE measurements include commercial margins in cash flows and uses a risk free discount rate
- Non-maturity deposits (NMDs) repricing maturity is based on shortest possible period that the deposit could be repriced
- Analysis of contractual terms to estimate prepayment rates of customer loans and early withdrawal rates for time deposits
- Risk measurement for each material currency is aggregated by direct summation. For change in EVE, any gains by currency are ignored

IRRBB hedges that may be taken include changing the maturity and/or interest rate repricing profile of banking book assets and liabilities either through incremental positions or longer term changes to the composition of the balance sheet (accrual accounting).

##### 9.2.1 Quantitative Disclosures

Average repricing maturity assigned to NMDs is 1 day.

Longest repricing maturity assigned to NMDs is 1 day.

##### 9.2.2 Quantitative Disclosures on interest rate risk in banking book

(US\$'000)	Period	EVE		NII	
		T	T-1	T	T-1
1	Parallel up	798	845	(2,585)	(2,340)
2	Parallel down	-	-	2,585	2,340
3	Steepener	-	-		
4	Flattener	852	752		
5	Short rate up	1,149	1,077		
6	Short rate down	-	-		
7	<b>Maximum</b>	1,149	1,077	2,585	2,340
	<b>Period</b>	<b>T</b>		<b>T-1</b>	
8	<b>Tier 1 capital</b>	534,222		533,424	

Positive values in the above table indicate losses. Period T is as of Dec 31, 2019 and T-1 as of June 30, 2019 which is the earliest period measured under SPM IR-1. Maximum loss for EVE and NII as a proportion of Tier 1 capital is 0.2% and 0.5% respectively as of Dec 31, 2019. This is within BASAL's risk appetite. No material changes between the periods.

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## Supplementary Financial Information (Unaudited)

### 10. Credit Risk

#### 10.1 Qualitative Disclosures

##### (a) General Information Disclosures

Credit risk in BASAL primarily arises from its trading activities:

- Holding of debt securities issued by government, corporates or financial institutes
- Counterparty credit risk exposures arising from FX and interest rate hedging activities (traded internally via OTC or exchange traded platform)
- Due from placements with financial institutions

Credit risk arising from holding of debt securities are approved based on grid limits subject to any statutory large exposure limit and concentration limit approved by the Board for exempt exposures from time to time.

BASAL will be required to comply with these BASAL Grid Limits as well as the Global Issuer Grid Limits under the Core Credit Policy, which may be more restrictive.

BAC manages credit risk within its risk appetite utilizing three processes:

- Credit strategy and origination. To align each credit decision with our strategic goals, BAC has established a comprehensive credit risk strategy and developed credit processes to provide for the efficient execution of that strategy. This strategy enables the setting and enforcement of different limits by business, segment, country or risk type at origination so that actual risk exposures are maintained within approved risk tolerances.
- Credit portfolio management. Once credit has been extended, processes are in place to monitor credit risk exposures at both the individual and portfolio levels, as well as to actively manage the portfolio to achieve desired risk and return goals.
- Loss mitigation. At times, our borrowers and counterparties do not fulfil their obligations and we must take steps to mitigate and manage our losses. We have stringent processes to appropriately handle nonperforming loans

Given the approved product scope of BASAL, the focus of credit risk management is on issuer risk arisen from bond trading, corporate debt, credit default swaps and other credit derivatives. Issuer risk exposure measures the value of securities held via trading activities or balance sheet management activities. Exposure is typically calculated daily at fair market value on an aggregate basis per issuer. Net long positions are managed against the issuer risk limit.

BASAL Grid Limits specifying maximum issuer risk exposures for BASAL on certain sovereigns, investment grade and non-investment grade names are set up and monitored by Global Market Risk Management – Asia (“GMRM Asia”). BASAL will be required to comply with these BASAL Grid Limits as well as the Global Issuer Grid Limits under the Core Credit Policy, which may be more restrictive.

##### (b) Credit Risk Mitigation

At 31 December 2019, the Company did not apply credit risk mitigation technique for credit risk capital calculation.

##### (c) Use of ECAI ratings

BASAL calculates credit risk by using STC approach.

The risk-weight for an exposure is determined based on ECAI ratings assigned by external credit assessment institutions (ECAIs) recognized by the HKMA. Each of the six ECAI ratings based portfolios has its own risk-weighting framework under which risk-weights are mapped to a scale of Credit Quality Grades represented by the numerals 1 to 5 or 1 to 6, as the case may be.

ECAIs recognized by the HKMA and used by BASAL are Standard & Poor’s Rating Services (S&P), Moody’s Investors Service (Moody’s) and Fitch Ratings (Fitch). In instances where there are more than one ECAI the credit assessment ratings, BASAL will choose ECAI rating for deriving risk weights of the exposure as per HKMA guidance in Banking Capital Rules.



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### Supplementary Financial Information (Unaudited)

The ECAI(s) nominated for an ECAI ratings based portfolio should (taken collectively if more than one ECAI is nominated) issue a range of credit assessment ratings which provides a reasonable coverage to the counterparties and the geographical regions in relation to the exposures falling within that portfolio. BASAL use the ratings of the nominated ECAI(s) within each of the portfolios consistently.

#### 10.2 Quantitative Disclosures

The Company uses the standardized approach for calculation of credit risk.

At 31 Dec 2019, the Company did not have any loans, debt securities and off-balance sheet exposures for subjected to credit risk capital.

#### 10.3 Credit risk exposures and effects of recognized credit risk mitigation –STC approach

US\$'000

Exposure classes		As at 31 Dec 2019					
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density (%)
1	Sovereign exposures	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	286,688	8,723	286,688	8,723	66,546	23
5	Securities firm exposures	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-
7	CIS exposures	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	-
11	Residential mortgage loans	-	-	-	-	-	-
12	Other exposures which are not past due exposures	-	-	-	-	-	-
13	Past due exposures	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	<b>Total</b>	<b>286,688</b>	<b>8,723</b>	<b>286,688</b>	<b>8,723</b>	<b>66,546</b>	<b>23</b>

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#### 10.4 Credit risk exposures by asset classes and by risk weights – for STC approach

US\$'000

		As at 31 Dec 2019										
Risk Weight		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
Exposure class												
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	270,531	-	24,880	-	-	-	-	-	295,411
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	-	-	-	-	-
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
12	Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	<b>Total</b>	-	-	270,531	-	24,880	-	-	-	-	-	295,411

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## Supplementary Financial Information (Unaudited)

### 11. Counterparty Credit Risk

#### 11.1 Qualitative Disclosures related to Counterparty Credit Risk

Counterparty Credit Risk is defined as the risk that a counterparty could default before the final settlement of the cash flows of derivatives or securities financing transactions.

Pre-settlement credit risk for traded products arising from a counterparty potentially defaulting on its obligations is quantified by evaluation of the market price, plus potential future exposure.

Issuer default risk that may also arise from derivatives, notes and securities are generally measured based on jump-to-default computations.

BASAL is governed by the HK Banking Ordinance, BAC's Global Core Credit Policy and BASAL Large Exposure & Concentration Policy, which actively manages concentrations in relation to the credit risk it undertakes by placing limits on the amount of risk accepted. Limits are reviewed annually or more frequently when considered necessary. Actual exposures against limits are monitored regularly. In addition, BASAL must comply with HKMA's large exposure limits in relation to non-exempt exposures. A cluster limit is also set up and approved by the Board from time to time.

#### Country Limits

- ▶ Country Limits set the maximum amount of exposure which BAC is willing to take in each country outside the United States where it conducts or intends to conduct business. These limits reflect a balancing of several considerations including the country's risk rating, BAC's Risk Appetite, the business strategy guiding BAC's activities in the country, and the desire to support the business needs of its customers.
- ▶ Country Limits are reviewed and approved annually by the Regional Risk Committee ("RRC") and the Country Risk Committee ("CRC"). The Country Risk Group facilitates the annual review of limits and presents annual limit recommendations to the RRC and CRC for approval.

BASAL has no guarantees and other forms of credit risk mitigation.

Given the approved product scope of BASAL, the focus of credit risk management is on issuer risk arisen from bond trading, corporate debt, credit default swaps and other credit derivatives. Issuer risk exposure measures the value of securities held via trading activities or balance sheet management activities. Exposure is typically calculated daily at fair market value on an aggregate basis per issuer. Net long positions are managed against the issuer risk limit.

BASAL Grid Limits specifying maximum issuer risk exposures for BASAL on certain sovereigns, investment grade and non-investment grade names are set up and monitored by Global Market Risk Management – Asia ("GMRM Asia"). BASAL will be required to comply with these BASAL Grid Limits as well as the Global Issuer Grid Limits under the Core Credit Policy, which may be more restrictive.

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### Supplementary Financial Information (Unaudited)

#### 11.2 Quantitative Disclosures

(a) Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

		(a)	(b)	(c)	(d)	(e)	(f)
		Replacement cost (RC)	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
	As at 31 December 2019	US\$'000					
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-
1a	CEM	3,062	5,661		-	8,723	4,352
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	<b>Total</b>						4,352

(b) CVA capital charge

		(a)	(b)
		EAD post CRM	RWA
	As at 31 December 2019	US\$'000	
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	8,723	1,982
4	<b>Total</b>	8,723	1,982

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### Supplementary Financial Information (Unaudited)

(c) Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – STC approach

As at 31 December 2019												
Exposure class	Risk Weight	(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	32	-	8,691	-	-	-	-	-	8,723
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	-	-	-	-	-
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	<b>Total</b>	-	-	32	-	8,691	-	-	-	-	-	8,723

(d) Composition of collateral for counterparty default risk exposures (including those or contracts or transactions cleared through CCPs)

At 31 Dec 2019, the Company did not have any composition of collateral for counterparty default risk exposures.

(e) Credit-related derivatives contracts

At 31 Dec 2019, the Company did not have any credit-related derivatives contracts.

(f) Exposures to CCPs

At 31 Dec 2019, the Company did not have any exposures as clearing member or client to qualifying and non-qualifying CCPs.

#### 12. Securitization Exposures

At 31 Dec 2019, the Company did not have any Securitization Exposures.

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

#### 13. Market Risk

##### 13.1 Qualitative Disclosure

Market risk is the risk that changes in market conditions may adversely impact the value of asset or liabilities or otherwise negatively impact earnings. Market risk is inherent in the financial instruments associated with the operations and activities engaged by BASAL and its market risk exposures emanates primarily from its Global Markets business.

Key market risk exposures are assessed at both specific and aggregate levels. At the specific level, market risk sensitivities are assessed by evaluating the impact of individual risk factors such as interest rates and foreign exchange. At the aggregate level, market risk is assessed using two key measures, which are Value-at-Risk ("VaR") and Bi-Weekly Maximum Observed Loss ("MOL").

VaR is a statistical measure of potential portfolio market value loss resulting from changes in market variables, during a given holding period, measured at a specified confidence level. The Entity uses historical simulation approach for VaR and it is calculated over a one-day holding period at a 99% confidence level, using three years of historical data. The performance of VaR model is monitored through daily back-testing and is performed at both Entity and Line of Business (LoB) level. MOL is the potential market value loss on a portfolio over a 10-day holding period using historical data with start date anchored to January 1st, 2007.

VaR and MOL measurements are supplemented with stress tests that are conducted on a quarterly basis per our stress testing framework. The stress tests are designed to highlight exposures to unlikely but plausible events or extremely volatile conditions, both hypothetically and historically.

Market risk of the Entity is primarily managed through establishing and monitoring limits. Approved limits are stored and tracked in a centralized Limits Management System ("LMS") to ensure appropriate controls are in place and complete audit trails are maintained. Limit excesses, temporary, and permanent limit changes are communicated to senior management and to relevant risk governance committees. Risk exposures, including VaR and MOL are reported to senior management and reviewed at the monthly BASAL Risk Forum.

The Market Risk function is independent of the Business. Market Risk is managed by personnel based in Hong Kong, accountable to the BASAL Chief Risk Officer (CRO).

##### 13.2 Quantitative Disclosure

###### Market Risk under Standardized Approach

(In US\$'000)		As at 31 Dec 2019
		RWA
	<b>Outright product exposures</b>	
1	Interest rate exposures (general and specific risk)	29,565
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	1,197
4	Commodity exposures	-
	<b>Option exposures</b>	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	<b>Total</b>	<b>30,762</b>

# Banc of America Securities Asia Limited

## Supplementary Financial Information (Unaudited)

### 14. Corporate Governance

Corporate governance is a system by which business entities are directed, supervised, monitored and controlled. The corporate governance structure specifies the interaction of rights and responsibilities among the shareholders, Board of Directors, officers, senior management and other stakeholders, and sets forth the rules, policies, procedures and guidelines for making decisions on corporate affairs. The corporate governance structure of the Company met the relevant requirements set out in the guideline on "Corporate Governance of Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual issued by HKMA.

As at 31st December 2019, the Board of Directors of the Company was comprised of an independent non-executive director and four other directors representing the business and control functions including executive management, finance and risk management. Appointment to the directorships must be approved by the Board and HKMA.

In addition to the Board of Directors, the businesses and affairs of the Company are also monitored by the following governance framework:

#### Country Leadership Team

Bank of America Corporation's operations in the Asia Pacific region are managed by a Country Leadership Team ("CLT") in each jurisdiction with membership generally comprised of the Country Executive, Country Operating Officer, Risk, Compliance, Finance, HR and Representatives from Local Lines of Business and other Enterprise Control Functions. The CLT is chaired by the Country Executive.

Country governance and control is managed by the Country Executive and the CLT and connects at the regional level through the Regional President and the Regional Executive Committee ("APAC ExCo"). Issues and agenda items at a country level are brought to the APAC ExCo for resolution.

The management of BASAL is accountable to the Hong Kong CLT. The Chief Executive's office will ensure that any material issues and/or changes in operational or reputational risk profile identified are promptly escalated and reported to the Hong Kong CLT.

#### Audit Committee

The Board of Directors formed the Audit Committee on 12 September 2019. Its main function is to provide independent oversight of the Company's financial reporting, internal and external audit function, internal controls and to help ensure checks and balances within the Company. Its objective is to assist the Board in ensuring the adequacy of internal control systems and reinforcing the work of the internal and external auditors.

As at 31st December 2019, the Audit Committee of the Company was chaired by an independent non-executive director and its membership also includes two non-executive directors. The Board of Directors of the Company has adopted the same risk management philosophies and control procedures that are established by BAC and has designed a corporate governance structure to monitor different risks of the business.

#### Risk Committee

The Board of Directors formed the Risk Committee on 17 August 2017. Its main function is to assist the Board in fulfilling its oversight responsibility relating to senior management's responsibilities regarding the identification of, management of, and planning for, the following key risks of the Company: strategic risk, market risk, credit risk, liquidity risk, regulatory risk, operational risk and reputational risk.

As at 31st December 2019, the Risk Committee of the Company was chaired by a non-executive director and its membership also includes one independent non-executive director and one non-executive director.

## **Banc of America Securities Asia Limited**

### **Supplementary Financial Information (Unaudited)**

#### **Remuneration, Nomination and Culture Committee**

The Board of Directors formed the Remuneration, Nomination and Culture Committee ("RNCC") on 12 September 2019. Its main function is to assist the Board to ensure the Company utilizes transparent, rigorous and comprehensive procedures for the appointment, review, compensation and removal of senior management and members of the Board. In addition, the RNCC supports the Board in ensuring that the Company's culture and behavioral standards promote prudent risk-taking and fair treatment of clients.

As at 31st December 2019, the RNCC of the Company was chaired by a non-executive director and its membership also includes one independent non-executive director and one non-executive director.

#### **Operating Committee (OpCo)**

The Operating Committee ("OPCO") ensures that BASAL operates in compliance with applicable local laws, rules and regulations. The OPCO is a management level committee established by the BASAL Board of Directors. The OPCO's objective is to provide effective oversight of branch operations and review and approve global line of business policies and procedures as well as local regulatory requirements.

The OPCO is chaired by BASAL's Chief Executive and is comprised of Alternate Chief Executive(s), Chief Operating Officer and BASAL's Front Line Unit and Control Function leaders from key business lines representing Finance, Risk, Compliance, Global Financial Crimes and Compliance ("GFCC"), Operations, Human Resources, Legal, Technology and Corporate Treasury as voting members. In addition, the Committee comprises of other non-voting such as Audit. Furthermore, the Committee shall have authority to invite to its meetings any officers, employees and independent advisers, or any other person or persons it deems necessary to effectively perform its role.

#### **Asset and Liability Committee (ALCO)**

The BASAL Asset and Liability Committee ("ALCO") is responsible for providing management oversight and certain approvals of (or recommending to the Board, the Asia Pacific Regional Risk Committee (the "APAC RRC") of Bank of America, National Association ("BANA") or other committees, as appropriate) balance sheet, capital, liquidity management and stress testing activities for BASAL. It reports to the BASAL Board of Directors.

The Chair of the ALCO and the BASAL Corporate Treasurer is a standing invitee of the BASAL Risk Committee and provides an ALCO update at each Risk Committee meeting.

#### **Remuneration system**

##### **Introduction**

The following information sets forth the remuneration disclosures required under Section 3 of the Guideline on a Sound Remuneration System (CG-5) issued by the Hong Kong Monetary Authority ("HKMA") in March 2015 (the "Guideline") and the Banking (Disclosure) (Amendment) Rules 2018 (Section 21: Division 9 - Remuneration), to reflect the Pillar 3 requirements for remuneration disclosure published by the Basel Committee on Banking Supervision in March 2017. The information relates to the incentive remuneration programs operated in respect of performance year 2019 by Bank of America Corporation ("Bank of America" or the "Company"). Annex A of the Guideline outlines the qualitative remuneration disclosure requirements under paragraphs (a) to (f) as exhibited in the following information. The quantitative remuneration disclosures required under the Amendment paragraphs (16ZR) to (16ZV) in respect of Bank of America operations in Hong Kong appear after this section.

The disclosures relate to employees located in Hong Kong providing service to Banc of America Securities Asia Limited, including senior management and Key Personnel as defined in Section 2 of the Guideline.

The Company applies prudent risk management practices to its incentive remuneration programs across the enterprise and is committed to a remuneration governance structure that effectively contributes to its overall risk management policies.



## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

In order to provide an appropriate balance of risk and reward, incentive remuneration plans are developed in accordance with the Company's Global Compensation Principles:

Principle 1. Compensation should be comprised of an appropriate mix of salary, benefits and incentives paid over time that properly aligns employee and stockholder interests.

Principle 2. Criteria for payment of incentive compensation should take into account Company-wide, business unit and individual factors.

Principle 3. Compensation should be determined on the basis of a combination of financial and non-financial factors that reflect both the current period and a longer period.

Principle 4. Compensation programs should incorporate appropriate governance processes and procedures.

These principles work in conjunction with broader remuneration practices, including the Company's overall commitment to pay-for-performance, remuneration policies and risk management processes set forth in the Company's Risk Framework and Risk Appetite Statement.

#### Governance and the Decision-making Process for Determining the Remuneration Policy

The Company applies its remuneration policy on a global basis and has four primary levels for the governance of incentive remuneration plans:

- (i) The Board of Directors (the "Board"),
- (ii) The Board of Directors Compensation and Benefits Committee (the "Committee"), which is wholly made up of independent directors and functions as the Company's global Remuneration Committee,
- (iii) The Management Compensation Committee ("MCC"), and
- (iv) Governance by line of business management and independent control functions aligned to the line of business and regional governance.

The Committee oversees the establishment, maintenance and administration of the Company's remuneration programs and employee benefit plans, including approving the remuneration of the direct reports of the Chief Executive Officer (the "CEO") and approving and recommending the remuneration of the CEO to the Board for its further approval. Under supervision of the Committee, oversight, review and responsibility for remuneration decision-making is allocated to the appropriate level of the Company's structure so that the most relevant level of management makes remuneration decisions with documented input from the Company's independent control functions.

The Committee has adopted and annually reviews (most recently in September 2019) the Bank of America Compensation Governance Policy ("CGP") to govern incentive remuneration decisions and define the framework for design oversight of incentive remuneration programs across the Company. The CGP is designed to be consistent with global regulatory initiatives so that the Company's incentive remuneration plans do not encourage excessive risk-taking.

The Committee receives, from time to time, direct feedback from the independent control functions on remuneration programs. For performance year 2019, in addition to reviewing the individual incentive remuneration awards for executive officers and other senior executives who report directly to the CEO, the Committee also reviewed the outcomes of the Company's robust control function feedback process, conduct reviews and individual incentive remuneration awards for certain highly compensated employees and material risk takers. As part of its governance routine, the Committee met with the heads of the Company's independent control functions (including the Chief Risk Officer ("CRO")) and business lines to discuss their feedback on the pay-for-performance process, including their experience managing risk and conduct matters. In addition, the Company's CRO also certifies all incentive plans across the Company as part of the MCC's governance process.

As a result of these processes and reviews, and in combination with the risk management and claw back features of the Company's remuneration programs, Bank of America believes that its remuneration policies and practices appropriately balance risk and reward in a way that does not encourage excessive or imprudent risk-taking or create risks that are reasonably likely to have a material adverse effect on the Company. Moreover, oversight by the Committee, MCC, independent control functions, and line of business management help the Company maintain a remuneration program that is intended to mitigate the potential for conflicts of interests. As authorized under its charter, the Committee has engaged Farient Advisors, LLC as its independent remuneration consultant. The independent remuneration consultant meets regularly with the Committee outside the presence of management and alone with the Committee Chair, and also reviews management's incentive plan certifications with the Committee.

## **Banc of America Securities Asia Limited**

### **Supplementary Financial Information (Unaudited)**

During performance year 2019, the Committee held seven (7) meetings. Additional information regarding the Committee is included in the annual Proxy Statement available on Bank of America's Investor Relations website.

#### **The Link between Pay and Performance**

The cornerstone of Bank of America's remuneration philosophy across all lines of business is to pay for performance – Company, line of business and individual performance. Through the Company's Performance Management process, employees understand performance expectations for their role through ongoing dialogue with their manager. The Performance Management process is designed and monitored by the Leadership Development function in Human Resources. This process is reviewed periodically so that it meets the needs of managers to assess and communicate performance expectations. Throughout the year, employees receive coaching on their performance and ultimately receive a rating for their full year of performance based upon their achievement of goals for their job.

In addition, the Company does not remunerate or assess employees' performance in a way that encourages employees to act in a manner that conflicts with the duties owed to the Company's clients. Each employee's performance is assessed on quantitative and qualitative objectives as well as specific behaviors, and performance is factored into each employee's incentive remuneration award. Depending on the employee, quantitative performance objectives may be focused on Company-wide, line of business, or product results. Qualitative performance objectives may include quality and sustainability of earnings, successful implementation of strategic initiatives, adoption of risk culture/adherence to the Risk Framework and operating principles and other core values of the Company.

Employees receive two ratings – a Result rating (based on factors such as business performance) and a Behavior rating (based on factors such as conduct, broader contributions to the Company, leadership, teamwork, etc.). The scale for both ratings is Exceeds Expectations, Meets Expectations, and Does Not Meet Expectations. Both the Result and Behavior ratings are used in determining employees' remuneration. As a result, an employee's remuneration can be influenced not only by what the employee achieves, but how the employee achieves it and the employee may receive no variable award if performance is not sufficiently strong.

The Company's pay-for-performance program also requires that all employees complete annual mandatory risk and compliance training.

#### **Risk Management and Incentive Plans**

Risk is inherent in every material business activity that the Company undertakes. The Company's business exposes it to strategic, credit, market, liquidity, compliance, operational and reputational risks. The Company must manage these risks to maximize its long-term results by ensuring the integrity of its assets and the quality of its earnings. To support the Company's corporate goals and objectives, risk appetite, and business and risk strategies, the Company maintains a governance structure that delineates the responsibilities for risk management activities, as well as governance and oversight of those activities, by management and the Company's Board.

Executive management develops for Board approval the Company's Risk Framework, which defines the accountability of the Company and its employees in managing risk; the Company's Risk Appetite Statement, which defines the parameters under which the Company will take risk; and the Company's strategic and financial operating plans. Management monitors, and the Board oversees directly and through its committees, the Company's financial performance, execution against the strategic and financial operating plans, compliance with the risk appetite metrics and the adequacy of internal controls.

The Company believes that prudent risk management practices are applied to its incentive remuneration programs across the enterprise. The Company continually evaluates the design of its remuneration programs in accordance with the Risk Framework. The Committee is committed to a remuneration governance structure that effectively contributes to the Company's broader risk management policies.

The Company's incentive plans are designed to compensate employees based on their performance ratings for results against their individual performance plan and behaviors, as well as overall Company and line of business performance.

Incentive plan bonus pools are based on profit measures, which inherently recognize certain underlying risk factors and are further adjusted to reflect the use of capital associated with individual lines of business or products and/or the quality and sustainability of earnings over time. The determination of incentive plan bonus pools is also subject to management discretion which operates so proper account is taken of the performance of the overall Company, individual lines of business, products and other factors including the achievement of strategic objectives.

## **Banc of America Securities Asia Limited**

### **Supplementary Financial Information (Unaudited)**

Incentive plan bonus pools may be adjusted to reflect long-term risk arising through line of business and product performance. These pools are tied to the overall performance, inclusive of risk, of Bank of America and/or specific lines of business or products, creating for employees a vested interest in profitable performance across the Company and its businesses.

Risk is also taken into account and managed in connection with the Company's incentive remuneration programs through arrangements permitting performance adjustment of deferred variable remuneration. Employees in positions where the greatest risk is being taken are subject to higher levels of deferral and potential performance adjustments.

The remuneration of the independent control functions is determined independently from the line of business supported. The funding of the incentive pool for these employees is based upon overall Company performance with the actual employee awards determined based upon individual performance against predetermined objectives.

#### **Employee Pay**

Bank of America compensates its employees using a balanced mix of fixed remuneration, benefits, annual cash incentives and deferred incentives (which are delivered in equity, equity-based instruments or cash). In general, the higher an employee's management level or amount of incentive remuneration award, the greater the proportion of incentive remuneration should be (i) subject to deferral and (ii) delivered in the form of equity-based remuneration. The Company believes equity-based awards are the simplest, most direct way to align employee interests with those of its stockholders. A portion of incentive awards is provided as a deferred incentive that generally becomes earned and payable over a period of three years after grant and will be cancelled in case of detrimental conduct and (for certain risk takers) may be cancelled if the Company, line of business or business unit (as applicable) fails to remain profitable during the vesting period. This approach serves two key objectives, which are to focus employees on long-term sustainable results and to subject remuneration awards at-risk over an appropriate time horizon that can be easily communicated and understood.

#### **Key Personnel Identification and Pay**

The Company operates an enterprise-wide approach in the identification of material risk takers, which has included determining where senior management and Key Personnel (or equivalent designations) are located. Senior management for the purposes of the Guideline are those employees "who are responsible for oversight of the [Company's] firm-wide strategy or activities or those of the [Company's] material business lines (including, by not limited to, executive directors, the chief executive and other senior executives)." Key Personnel include individual employees "whose duties or activities in the course of their employment involve the assumption of material risk or the taking on of material exposures on behalf of the [Company or their local employing entity]." The Company considers that it applies its remuneration policies (including the determination of senior management and Key Personnel) in a way that is appropriate to the size, internal organization and the nature, scope and complexity of its activities in all the countries in which it operates.

Variable pay for Key Personnel generally consists of a mixture of payments and deferred awards. Deferred awards will be cancelled in the case of detrimental conduct and may be cancelled if the Company, line of business or business unit, as applicable, fails to remain profitable during the vesting period. If risks taken as part of approved business strategies do not result in sustainable profits, or if the employee fails to behave according to Company standards, the value of the deferred equity award may be impacted. The deferral rates for Key Personnel ranged from approximately 40%-65% of total variable remuneration.

By combining deferred awards with the Company's malus and claw back provisions, the Company considers that it places a strong focus on sustainable long-term results and appropriate behaviors.

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

#### Quantitative Disclosures and Tables

The Committee held seven (7) meetings in 2018 and seven (7) in 2019. The 2018 remuneration of the Committee members is disclosed in the 2019 Proxy statement available on Bank of America's Investor Relations website. 2019 remuneration of the Committee members will similarly be disclosed in the 2020 Proxy statement, to be available on or about 13 March 2020.

The following disclosure tables contain the information required under paragraphs (16ZR) to (16ZV) of the Banking (Disclosure) (Amendment) Rules 2018 (Section 21: Division 9 – Remuneration) in respect of Banc of America Securities Asia Limited related to all employees, including Key Personnel, due to employee privacy concerns arising from the very small number of Key Personnel. There were no employees of the Banc of America Securities Asia Limited identified as senior management. Senior employees at Banc of America Securities Asia Limited have functional reporting lines to more senior Bank of America employees in other countries and/or legal entities who are covered by local and/or regional regulations and who are reported as senior management and/or Key Personnel equivalents in their respective countries.

#### 16ZT. Remuneration awarded during financial year - annual disclosures

(USD 000's)			2019	2018
Remuneration amount and quantitative information			Key personnel	Key personnel
1	Fixed remuneration	Number of employees	2	2
2		Total fixed remuneration	816	816
3		Of which: cash-based	816	816
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable remuneration	Number of employees	2	2
10		Total variable remuneration	3,409	3,275
11		Of which: cash-based	1,422	1,452
12		Of which: deferred	-	-
13		Of which: shares or other share-linked instruments	1,987	1,823
14		Of which: deferred	1,987	1,823
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	Total remuneration		4,225	4,091

#### 16ZU. Special payments - annual disclosures

(USD 000's)		Guaranteed bonuses		Sign-on awards		Severance payments	
Special payments		# of EE	Total \$	# of EE	Total \$	# of EE	Total \$
2019	Key personnel	-	-	-	-	-	-
2018	Key personnel	-	-	-	-	-	-

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

#### 16ZV. Deferred remuneration - annual disclosures

(USD 000's)	(a)	(b)	(c)	(d)	(e)
Deferred and retained remuneration	Total amount of outstanding deferred remuneration (as of Dec 31)	Of which: Total amount of outstanding and deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment (as of Dec 31)	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
2019 Key personnel					
1	Cash	-	-	-	-
2	Shares	5,030	5,030	-	3,320
3	Cash-linked instruments	-	-	-	-
4	Other	-	-	-	-
2018 Key personnel					
5	Cash	-	-	-	-
6	Shares	4,759	4,759	659	4,472
7	Cash-linked instruments	-	-	-	-
8	Other	-	-	-	-

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

#### 15. International claims

US\$' 000

As at 31 December 2019	Banks	Official Sector	Non Bank Private Sector		Total
			Non-bank Financial institutions	Non-financial private sector	
Developed Countries	289,178	-	-	-	289,178
- United States (49%)	279,082	-	-	-	279,082
Offshore centers	-	-	-	-	-
Developing Asia and Pacific	-	285,345	-	10	285,355
- South Korea (50%)	-	285,345	-	-	285,345
<b>Total</b>	<b>289,178</b>	<b>285,345</b>	<b>-</b>	<b>10</b>	<b>574,533</b>

US\$' 000

As at 31 December 2018	Banks	Official Sector	Non Bank Private Sector		Total
			Non-bank Financial institutions	Non-financial private sector	
Developed Countries	615,754	-	21,726	105	637,585
- United States (90%)	605,322	-	21,726	-	627,048
Offshore centers	-	-	256	2,662	2,918
Developing Asia and Pacific	1,730	3	-	1,549	3,282
<b>Total</b>	<b>617,484</b>	<b>3</b>	<b>21,982</b>	<b>4,316</b>	<b>643,785</b>

The information of international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, transfer of risk from one country to another is recognized, if the claims against counterparties are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country.

A country or geographical segment (including Hong Kong) should generally be reported individually if it constitutes 10% or more of the aggregated international claims.

#### 16. Loans and advance to customers and overdue and rescheduled assets

At 31 Dec 2019, the Company did not have any loans and advance to customers and overdue and rescheduled assets.

#### 17. Repossessed assets

At 31 Dec 2019, the Company did not have any repossessed assets.

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

#### 18. Mainland activities

The analysis of Mainland activities is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA return of Mainland activities.

As at 31 Dec 2019	On-balance sheet exposure US\$'000	Off-balance sheet exposure US\$'000	Total US\$'000
<u>Type of counterparties</u>			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	-	-	-
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local government not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>
Total assets after provision	<u>576,465</u>		
On-balance sheet exposures as percentage of total assets	<u>0.00%</u>		

## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

As at 31 Dec 2018	On-balance sheet exposure US\$'000	Off-balance sheet exposure US\$'000	Total US\$'000
<u>Type of counterparties</u>			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	192	-	192
2. Local governments, local government-owned entities and their subsidiaries and JVs	165	-	165
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	882	-	882
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local government not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	1,444	-	1,444
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
<b>Total</b>	<u>2,683</u>	<u>-</u>	<u>2,683</u>
<b>Total assets after provision</b>	<u>644,717</u>		
<b>On-balance sheet exposures as percentage of total assets</b>	<u>0.42%</u>		



## Banc of America Securities Asia Limited

### Supplementary Financial Information (Unaudited)

#### 19. Currency risk

The net positions in foreign currencies in US dollars equivalent are disclosed below where each currency constitutes 10% or more of the respective total net position in all foreign currencies.

US\$ '000	USD	CNY	EUR	PHP	KRW	OTH	Total
As at 31 Dec 2019							
Spot assets	286,174	244	385	1,581	286,128	21	574,533
Spot liabilities	(574,478)	-	(502)	-	-	(1)	(574,981)
Forward purchases	425,391	-	-	-	140,740	-	566,131
Forward sales	(138,259)	-	-	-	(427,516)	-	(565,775)
Net long/(short) position	(1,172)	244	(117)	1,581	(648)	20	(92)
As at 31 Dec 2018							
Spot assets	640,872	253	422	1,487	739	12	643,785
Spot liabilities	(643,916)	-	(506)	(39)	-	(1)	(644,462)
Forward purchases	-	-	-	-	-	-	-
Forward sales	-	-	-	-	-	-	-
Net long/(short) position	(3,044)	253	(84)	1,448	739	11	(677)

As at 31st Dec 2019, the Company did not have any net structural position.

#### 20. Authorized institution under requirements of G-SIBs

BASAL is not an authorized institution under requirements of G-SIB.

#### 21. Operational Risk

The Company has adopted the Basel Committee definition of operational risk. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, which is the risk of loss (including litigation costs, settlements, and regulatory fines) resulting from the failure of the Company to comply with laws, regulations, prudent ethical standards, and contractual obligations in any aspect of the Company's business. Although operational risk excludes strategic and reputational risks, operational risk may impact or be impacted by these risks. Operational risk events may result in unexpected or undesired consequences including a financial loss, an unexpected gain, a near miss, an opportunity cost (lost future revenue), or a reputational impact.

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An operational loss event can be associated with any of the following seven operational loss event categories: Internal fraud; external fraud; employment practices and workplace safety; clients, products, and business practices; damage to physical assets; business disruption and system failures; or execution, delivery and process management.

Operational risk exists in all business activities across the Company. The Company is committed to maintaining strong operational risk management practices across all front line units and control functions. Strong sustainable risk management practices support the front line units' and control functions' responsibility for identifying, escalating and debating risks associated with their business activities in support of: the Bank of America Risk Framework, operational risk management program requirements and their related identification, measurement, monitoring, and control ("IMMC") accountabilities. The Operational Risk Management - Enterprise Policy ("Policy") establishes the minimum requirements and accountabilities for managing operational risk at Bank of America, in conformity with applicable laws and regulations.

Operational risk management is the responsibility of all Bank of America employees through the continual identification, escalation and debate of operational risks and control related issues.

The key roles to facilitate and support the implementation of this Policy are outlined below. These roles and accountabilities should be read in conjunction with the specific requirements within this Policy; further detail is available in the supporting Standards.

**Front line units & control functions own operational risk, with roles & responsibilities defined as:**

- Identify their business processes and the related risks and controls
- Understand the laws, rules, regulations and internal policies applicable to their business activities
- Measure, monitor and report on the effectiveness of the control environment
- Identify Issues and Risks and take timely action to remediate control gaps and mitigate risks
- Identify, assess, and mitigate operational risk
- Aggregate and escalate operational risk within front line units / control functions
- Oversee that employees complete required operational risk training

**The Global Compliance & Operational Risk (GC&OR) teams** are independent of front line unit & control function, and objectively assess, challenge and advise on operational risk.

- Assess and advise on front line unit / control function implementation of the program
- Execute the Coverage Plan to assess, monitor, and test the effectiveness of the operational risk controls
- Challenge operational risks and controls
- Aggregate and escalate operational risk in accordance with established criteria
- Work with the front line units / control functions on a consultative, regular basis to manage and mitigate operational risk
- Monitor completion of required operational risk training

**Operational Risk Program Owners** define the program, oversee its implementation and assess and report on the Enterprise Operational Risk Profile

- Define the program and enterprise governance for operational risk management
- Execute Company-wide (i.e., program level) processes and provide infrastructure required to support the implementation of the program
- Oversee adherence to Policy and Standard requirements by front line units / control functions and GC&OR Teams
- Conduct reporting and analytics to support the aggregation and reporting of risk data to enterprise governance committees
- Build and deliver Company-wide training to support the implementation of the program and monitor training completion

22. To the best of the Company's knowledge and belief, the information contained in this statement is not false or misleading in any material respect and the operations of the Company are clearly explained.

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#### **Statement of Compliance**

Upon consultation with the HKMA under section 16(2)(a) of the Banking (Disclosure) Rules ("BDR"), BASAL had sought consent from the HKMA to continue uploading the required financial disclosure information to the website of its ultimate parent entity, Bank of America Corporation.

It is not practicable for BASAL to disclose under section 16(FE)(1)(b) of the BDR the full terms and conditions of all of its relevant regulatory capital instruments on its internet website, since BASAL does not currently maintain its own internet website. This is the reason that led BASAL to seek the aforementioned consent from HKMA.

Herein included below is the direct link to Bank of America Corporation's internet website, whereby the full terms and conditions of all of BASAL's relevant regulatory capital instruments and financial disclosure information can be accessed:

<http://investor.bankofamerica.com/phoenix.zhtml?c=71595&p=subsidiaries#fbid=eDBVweHpCCU>

This information is also the closest available alternative to the information which have been the subject of the required disclosures.