

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



## The Bank of East Asia, Limited

東亞銀行有限公司

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

### ANNOUNCEMENT OF 2022 FINAL RESULTS

#### SUMMARY OF RESULTS

The Board of Directors of the Bank is pleased to announce the audited results (Note 1(a)) of the Group for the year ended 31<sup>st</sup> December, 2022. This financial report, which has been reviewed by the Bank's Audit Committee, is prepared on a basis consistent with the accounting policies and methods adopted in the 2022 annual accounts.

#### Consolidated Income Statement

For the year ended 31<sup>st</sup> December, 2022

	Notes	2022 HK\$ Mn	2021 HK\$ Mn
Interest income	4	24,848	18,055
Interest income calculated using the effective interest method		24,871	19,123
Related interest expense		(23)	(1,068)
Interest expense	5	(11,340)	(6,870)
Net interest income		13,508	11,185
Fee and commission income	6	3,372	3,916
Fee and commission expense		(619)	(847)
Net fee and commission income		2,753	3,069
Net trading profit	7	943	879
Net result on financial instruments at FVTPL	8	(68)	234
Net result on financial assets measured at FVOCI	9	175	45
Net loss on sale of investments measured at amortised cost		(6)	(14)
Net hedging profit	10	201	144
Net insurance profit	11(a)	158	411
Other operating income	12	290	330
Non-interest income		4,446	5,098
Operating income		17,954	16,283
Operating expenses	13	(9,224)	(9,321)
Operating profit before impairment losses		8,730	6,962
Impairment losses on financial instruments	14	(5,923)	(1,679)
Impairment losses on assets held for sale		(3)	-
Impairment losses		(5,926)	(1,679)
Operating profit after impairment losses		2,804	5,283
Net profit on sale of assets held for sale	15	1,445	1,042
Net (loss)/profit on disposal of subsidiaries/associates		(1)	181
Net profit/(loss) on disposal of fixed assets	16	17	(4)
Valuation losses on investment properties		(179)	(132)
Share of profits less losses of associates and joint ventures		855	(234)
Profit for the year before taxation		4,941	6,136
Income tax	17	(563)	(823)
Profit for the year		4,378	5,313

## Consolidated Income Statement (Continued)

		<u>2022</u>	<u>2021</u>
	<i>Notes</i>	HK\$ Mn	HK\$ Mn
Attributable to:			
Owners of the parent		4,359	5,270
Non-controlling interests		<u>19</u>	<u>43</u>
Profit for the year		<u><u>4,378</u></u>	<u><u>5,313</u></u>
Earnings per share			
Basic	<i>1(b)</i>	HK\$1.32	HK\$1.53
Diluted	<i>1(b)</i>	HK\$1.32	HK\$1.53
Dividends per share		HK\$0.81	HK\$0.70

## Consolidated Statement of Comprehensive Income

For the year ended 31<sup>st</sup> December, 2022

	<u>2022</u>	<u>2021</u>
	HK\$ Mn	HK\$ Mn
Net profit	<u>4,378</u>	<u>5,313</u>
Other comprehensive income for the year:		
Items that will not be reclassified to income statement:		
Premises:		
- unrealised surplus on revaluation of premises	354	5
- deferred taxes	(4)	6
Fair value reserve (equity instruments):		
- net change in fair value	127	(571)
- deferred taxes	(4)	1
Liability credit reserve:		
- net change in fair value attributable to Group's own credit risk	73	(18)
- deferred taxes	(12)	4
Items that may be reclassified subsequently to income statement:		
Fair value reserve (debt instruments):		
- net change in fair value	(1,849)	735
- amount transferred to income statement on disposal	13	(492)
- deferred taxes	298	(213)
Share of changes in equity of associates and joint ventures	54	(165)
Exchange differences arising from translation of accounts/disposal of overseas branches, subsidiaries, associates and joint ventures	<u>(2,880)</u>	<u>757</u>
Other comprehensive income	<u>(3,830)</u>	<u>49</u>
Total comprehensive income	<u>548</u>	<u>5,362</u>
Total comprehensive income attributable to:		
Owners of the parent	529	5,319
Non-controlling interests	19	43
	<u>548</u>	<u>5,362</u>

## Consolidated Statement of Financial Position

As at 31<sup>st</sup> December, 2022

		2022	2021
	Notes	HK\$ Mn	HK\$ Mn
<b>ASSETS</b>			
Cash and balances with banks		54,579	55,088
Placements with and advances to banks		60,203	74,742
Trade bills		529	10,772
Trading assets	18	1,530	2,483
Derivative assets	24	11,092	3,381
Loans and advances to customers	19	542,394	544,437
Investment securities	20	147,007	147,507
Investments in associates and joint ventures	21	9,061	8,947
Fixed assets		13,476	13,844
- Investment properties		5,166	4,992
- Other properties and equipment		7,593	8,015
- Right-of-use assets		717	837
Goodwill and intangible assets		1,870	1,885
Deferred tax assets		1,849	1,861
Other assets	22	39,235	42,523
<b>Total Assets</b>		<b>882,825</b>	<b>907,470</b>
<b>EQUITY AND LIABILITIES</b>			
Deposits and balances of banks		25,478	31,766
- Designated at fair value through profit or loss		4,545	3,639
- At amortised cost		20,933	28,127
Deposits from customers		648,093	633,505
- Demand deposits and current accounts		65,899	79,657
- Savings deposits		145,107	196,662
- Time, call and notice deposits		437,087	357,186
Trading liabilities		5	5
Derivative liabilities	24	4,145	5,050
Certificates of deposit issued		32,662	64,327
- Designated at fair value through profit or loss		19,001	32,618
- At amortised cost		13,661	31,709
Current taxation		1,252	958
Debt securities issued		2,892	5,847
- Designated at fair value through profit or loss		811	620
- At amortised cost		2,081	5,227
Deferred tax liabilities		226	559
Other liabilities		49,799	42,915
Loan capital – at amortised cost		11,927	6,488
<b>Total Liabilities</b>		<b>776,479</b>	<b>791,420</b>
Share capital	1(c)	41,856	41,645
Reserves	25	54,131	60,133
<b>Total equity attributable to owners of the parent</b>		<b>95,987</b>	<b>101,778</b>
Additional equity instruments		10,090	13,968
Non-controlling interests		269	304
<b>Total Equity</b>		<b>106,346</b>	<b>116,050</b>
<b>Total Equity and Liabilities</b>		<b>882,825</b>	<b>907,470</b>

## Consolidated Statement of Changes in Equity

For the year ended 31<sup>st</sup> December, 2022

	Share capital	General reserve	Revaluation reserve of bank premises	Capital reserve	Exchange revaluation reserve	Capital reserve – staff share options issued	Fair value reserve	Liability credit reserve	Other reserves <sup>3</sup>	Retained profits	Total	Additional equity instruments	Non-controlling interests	Total equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 <sup>st</sup> January, 2022	41,645	13,658	1,905	895	1,058	152	1,925	(46)	5,191	35,395	101,778	13,968	304	116,050
Changes in equity														
Profit for the year	-	-	-	-	-	-	-	-	-	4,359	4,359	-	19	4,378
Other comprehensive income	-	-	350	-	(2,880)	-	(1,415)	61	54	-	(3,830)	-	-	(3,830)
Total comprehensive income	-	-	350	-	(2,880)	-	(1,415)	61	54	4,359	529	-	19	548
Shares issued in lieu of dividend (Note 1(c))	211	-	-	-	-	-	-	-	-	-	211	-	-	211
Equity settled share-based transaction	-	-	-	-	-	22	-	-	-	-	22	-	-	22
Transfer	-	-	-	-	-	(24)	-	-	(140)	164	-	-	-	-
Distribution/Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	(3,455)	(3,455)	-	(48)	(3,503)
Share buy-back <sup>1</sup>	-	-	-	-	-	-	-	-	-	(3,051)	(3,051)	-	-	(3,051)
Redemption of additional equity instruments <sup>2</sup>	-	-	-	-	-	-	-	-	-	(47)	(47)	(3,878)	-	(3,925)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(6)	(6)
At 31 <sup>st</sup> December, 2022	41,856	13,658	2,255	895	(1,822)	150	510	15	5,105	33,365	95,987	10,090	269	106,346
At 1 <sup>st</sup> January, 2021	41,557	13,657	1,895	895	301	157	2,465	(32)	5,138	32,852	98,885	13,968	943	113,796
Changes in equity														
Profit for the year	-	-	-	-	-	-	-	-	-	5,270	5,270	-	43	5,313
Other comprehensive income	-	-	11	-	757	-	(540)	(14)	(165)	-	49	-	-	49
Total comprehensive income	-	-	11	-	757	-	(540)	(14)	(165)	5,270	5,319	-	43	5,362
Shares issued in lieu of dividend (Note 1(c))	88	-	-	-	-	-	-	-	-	-	88	-	-	88
Equity settled share-based transaction	-	-	-	-	-	19	-	-	-	19	-	-	-	19
Transfer	-	1	(1)	-	-	(24)	-	-	218	(194)	-	-	-	-
Distribution/Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	(2,533)	(2,533)	-	(52)	(2,585)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(630)	(630)
At 31 <sup>st</sup> December, 2021	41,645	13,658	1,905	895	1,058	152	1,925	(46)	5,191	35,395	101,778	13,968	304	116,050

1. During the year, the Bank bought back 262 million issued shares at a total consideration of HK\$3,038 million. Together with the direct transaction cost of HK\$13 million, a total amount of HK\$3,051 million were accounted for as a deduction from retained profits. For details of the share buy-back, please refer to Note 1(c).
2. During the year, the Bank redeemed HK\$3,878 million (USD500 million) undated non-cumulative subordinated Additional Tier 1 capital securities issued in 2017.
3. Other reserves include statutory reserve and other reserves.

## Consolidated Cash Flow Statement

For the year ended 31<sup>st</sup> December, 2022

	Notes	2022 HK\$ Mn	2021 HK\$ Mn
<b>OPERATING ACTIVITIES</b>			
Profit for the year before taxation		4,941	6,136
Adjustments for:			
Charge for impairment losses on financial instruments		5,923	1,679
Charge for impairment losses on assets held for sale		3	-
Share of profits less losses of associates and joint ventures		(855)	234
Net loss on sale of investments measured at amortised cost		6	14
Net profit on sale of debt securities measured at FVOCI		(142)	(95)
Net loss/(profit) on disposal of subsidiaries and associates		1	(181)
Net profit on sale of assets held for sale		(1,445)	(1,042)
Net (gain)/loss on disposal of fixed assets		(17)	4
Interest expense on debt securities issued		80	131
Interest expense on loan capital issued		454	368
Interest expense on lease liabilities		28	29
Depreciation on bank premises, furniture, fixtures and equipment	13	567	581
Depreciation on right-of-use assets	13	295	374
Dividend income from equity securities measured at FVOCI	9	(16)	(22)
Amortisation of intangible assets	13	13	14
Amortisation of premium/discount on debt securities and loan capital issued		7	11
Revaluation gains on debt securities and loan capital issued		(298)	(46)
Valuation losses on investment properties		179	132
Equity settled share-based payment expenses	13	22	19
		9,746	8,340
(Increase)/decrease in operating assets:			
Cash and balances with banks with original maturity beyond three months		1,457	1,492
Placements with and advances to banks with original maturity beyond three months		1,618	378
Trade bills		10,244	1,026
Trading assets		2,228	(1,471)
Derivative assets		(7,711)	4,678
Loans and advances to customers		(3,374)	(36,838)
Debt investment securities measured at amortised cost		2,260	(1,602)
Investment securities measured at FVOCI		(2,761)	(5,634)
Debt investment securities mandatorily measured at FVTPL		1,095	180
Non-trading equity securities mandatorily measured at FVTPL		193	135
Other assets		624	(10,684)
Increase/(decrease) in operating liabilities:			
Deposits and balances of banks		(6,288)	623
Deposits from customers		14,588	44,303
Certificates of deposit issued		(31,595)	3,461
Trading liabilities		-	5
Derivative liabilities		(905)	(7,966)
Other liabilities		8,642	9,976
Exchange adjustments		1,476	(383)
<b>NET CASH INFLOW FROM OPERATIONS</b>		<b>1,537</b>	<b>10,019</b>
Income tax paid			
Hong Kong profits tax paid		(199)	(167)
Outside Hong Kong profits tax paid		(244)	(176)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>1,094</b>	<b>9,676</b>

## Consolidated Cash Flow Statement (Continued)

	Notes	2022 HK\$ Mn	2021 HK\$ Mn
<b>INVESTING ACTIVITIES</b>			
Dividends received from associates and joint ventures		209	-
Dividends received from equity securities measured at FVOCI		16	22
Purchase of fixed assets		(555)	(605)
Proceeds from disposal of other properties and equipment		174	113
Proceeds from sale of assets held for sale		2,290	3,135
Returns of investments in associates		-	7
<b>NET CASH GENERATED FROM INVESTING ACTIVITIES</b>		<b>2,134</b>	<b>2,672</b>
<b>FINANCING ACTIVITIES</b>			
Ordinary dividends paid		(2,584)	(1,686)
Distribution to Additional Tier 1 issue holders	2(c)	(708)	(811)
Payment for repurchase of shares		(3,051)	-
Issue of debt securities		388	692
Issue of loan capital		5,793	-
Capital element of lease rentals paid		(274)	(362)
Interest element of lease rentals paid		(28)	(26)
Redemption of debt securities issued		(3,061)	(4)
Redemption of loan capital		-	(3,898)
Redemption of additional equity instruments		(3,925)	-
Interest paid on debt securities issued		(161)	(125)
Interest paid on loan capital		(374)	(391)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(7,985)</b>	<b>(6,611)</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(4,757)</b>	<b>5,737</b>
<b>CASH AND CASH EQUIVALENTS AT 1<sup>ST</sup> JANUARY</b>		<b>120,646</b>	<b>113,702</b>
Effect of foreign exchange rate changes		(3,740)	1,207
<b>CASH AND CASH EQUIVALENTS AT 31<sup>ST</sup> DECEMBER</b>		<b>112,149</b>	<b>120,646</b>
<b>Cash flows from operating activities included:</b>			
Interest received		23,960	17,894
Interest paid		9,079	6,828
Dividend received		34	44

## Notes to the Financial Statements

1. (a) The financial information relating to the years ended 31<sup>st</sup> December, 2022 and 2021 included in this announcement of 2022 final results do not constitute the Group's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31<sup>st</sup> December, 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31<sup>st</sup> December, 2022 in due course.

The Bank's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

- (b) (i) The calculation of basic earnings per share is based on the consolidated profit for the year attributable to owners of the parent of HK\$3,651 million (2021: HK\$4,459 million) after accounting for the distribution of HK\$708 million (2021: HK\$811 million) to Additional Tier 1 issue holders, and on the weighted average of 2,759 million ordinary shares outstanding during the year (2021: 2,919 million).
- (ii) The calculation of diluted earnings per share is based on the consolidated profit for the year attributable to owners of the parent of HK\$3,651 million (2021: HK\$4,459 million) after accounting for the distribution of HK\$708 million (2021: HK\$811 million) to Additional Tier 1 issue holders, and on the weighted average of 2,759 million ordinary shares outstanding during the year (2021: 2,919 million), adjusted for the effects of all dilutive potential shares.

(c) Share capital

Movement of the Bank's ordinary shares is set out below:

	2022		2021	
	No. of shares Million	HK\$ Mn	No. of shares Million	HK\$ Mn
Ordinary shares, issued and fully paid:				
At 1 <sup>st</sup> January	2,923	41,645	2,917	41,557
Shares issued in lieu of dividend	19	211	6	88
Share repurchased and cancelled	(262)	-	-	-
At 31 <sup>st</sup> December	<u>2,680</u>	<u>41,856</u>	<u>2,923</u>	<u>41,645</u>

### Share buy-back

On 28<sup>th</sup> March, 2022, the Bank executed a share buy-back deed with Elliott Investment Management's affiliate entities to repurchase 246,510,173 shares of the Bank. The share buy-back transaction was completed on 11<sup>th</sup> April, 2022 at a consideration of HK\$2,904 million. Together with the direct transaction cost of approximately HK\$12 million, a total amount of HK\$2,916 million was accounted for as deduction from retained profits. The shares repurchased were cancelled on 20<sup>th</sup> April, 2022.

Pursuant to the general mandate granted to the Board by the Shareholders at the 2022 annual general meeting held on 6<sup>th</sup> May, 2022, the Bank initiated an on-market buy-back of its Shares in an amount of up to HK\$500 million, depending on the then prevailing market conditions. As at 31<sup>st</sup> December, 2022, 15,744,800 shares had been repurchased on the Hong Kong Stock Exchange at a consideration of HK\$134 million. Together with the direct transaction cost of approximately HK\$1 million, a total amount of HK\$135 million was accounted for as deduction from retained profits.

Below table shows the details of the shares repurchased and cancelled during 2022.



## 1. (c) Share capital (Continued)

Month	Number of shares	Highest price paid per share HK\$	Lowest price paid per share HK\$	Average price paid per share HK\$	Aggregate price paid HK\$ Mn
Share repurchased:					
<i>Off-market share buy-back</i>					
- April 2022	246,510,173	n/a	n/a	11.78	2,904
<i>On-market share buy-back</i>					
- October 2022	5,829,200	8.93	7.52	8.28	48
- November 2022	6,194,200	9.03	7.42	8.32	51
- December 2022	3,721,400	9.58	8.91	9.31	35
- Settled	3,525,200				33
- Not yet settled at year end	196,200				2
	15,744,800				134
Share cancelled	261,568,773				

The total numbers of shares repurchased and cancelled in 2022 were 262,254,973 and 261,568,773 respectively, representing 8.97% and 8.95% of the ordinary shares in issue. The remaining 686,200 shares repurchased in 2022 were cancelled on 9<sup>th</sup> January 2023.

### Staff Share Option Schemes

Pursuant to the approved Staff Share Option Schemes (the "Schemes"), options to purchase ordinary shares in the Bank were granted to eligible employees. Except as provided otherwise in the rules of the relevant Scheme(s), share options granted under 2011 Scheme, 2016 Scheme and 2021 Scheme will be exercisable during the period beginning on the Vesting Date and ending on the fifth anniversary of the Vesting Date.

There were no options exercised and shares issued under the Schemes during the year 2022 and 2021.

## 2. Distribution/Dividends

### (a) Dividends attributable to the year

	2022 HK\$ Mn	2021 HK\$ Mn
Interim dividend declared and paid of HK\$0.16 per share on 2,689 million shares (2021: HK\$0.35 per share on 2,919 million shares)	430	1,022
Special dividend declared and paid of HK\$0.48 per share on 2,695 million shares	1,294	-
Second interim dividend of HK\$0.17 per share on 2,680 million shares (2021: HK\$0.35 per share on 2,923 million shares)	456	1,023
	<u>2,180</u>	<u>2,045</u>

The total dividend attributable to the year is HK\$0.81 per share (2021: HK\$0.70 per share). The second interim dividend has not been recognised as a liability at the end of the reporting period.

## 2. Distribution/Dividends (Continued)

(b) Dividends attributable to the previous financial year, approved and paid during the year

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Second interim dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.35 per share on 2,923 million shares (2021: HK\$0.24 per share on 2,917 million shares)	<u>1,023</u>	<u>700</u>

(c) Distribution to holders of Additional Tier 1 capital instruments

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Distribution paid on the Additional Tier 1 capital instruments	<u>708</u>	<u>811</u>

## 3. Changes in Accounting Policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

None of these developments have had a material effect on the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 4. Interest Income

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Loans, placements with banks, and trade bills	20,624	15,595
Investment securities		
- measured at amortised cost or FVOCI	4,076	2,305
- mandatory at FVTPL	120	110
Trading assets	<u>28</u>	<u>45</u>
	<u>24,848</u>	<u>18,055</u>

For the transactions where interest rate risk is hedged, the periodic payments and receipts arising from interest rate contracts which are qualifying hedging instruments for, or individually managed in conjunction with, interest bearing financial assets are first netted together and then combined with the interest income from the corresponding financial assets.

The above included interest income of HK\$24,871 million (2021: HK\$19,123 million), before hedging effect, for financial assets that are not recognised at fair value through profit or loss.

## 5. Interest Expense

	<u>2022</u>	<u>2021</u>
	HK\$ Mn	HK\$ Mn
Customer deposits and deposits of banks		
– at amortised cost	9,713	5,655
– designated at FVTPL	84	9
Certificates of deposit and debt securities issued		
– at amortised cost	511	617
– designated at FVTPL	485	181
Subordinated notes carried at amortised cost	460	377
Lease liabilities	28	29
Other borrowings	59	2
	<u>11,340</u>	<u>6,870</u>

For the transactions where interest rate risk is hedged, the periodic payments and receipts arising from interest rate contracts which are qualifying hedging instruments for, or individually managed in conjunction with, interest bearing financial liabilities are first netted together and then combined with the interest expense from the corresponding financial liabilities.

The above included interest expense of HK\$10,782 million (2021: HK\$6,719 million), before hedging effect, for financial liabilities that are not recognised at fair value through profit or loss.

## 6. Fee and Commission Income

Fee and commission income is disaggregated by services:

	<u>2022</u>	<u>2021</u>
	HK\$ Mn	HK\$ Mn
Loans, overdrafts and guarantees	846	947
Credit cards	692	801
Sale of third party insurance policies	484	296
Trust and other fiduciary activities	224	305
Securities brokerage	203	403
Other retail banking services	197	176
Investment products	195	409
Trade finance	92	90
Others	439	489
Total fee and commission income	<u>3,372</u>	<u>3,916</u>
Net fee income on financial assets and financial liabilities that are not measured at FVTPL (other than those included in determining the effective interest rate)	2,762	3,082
Fee income	3,372	3,916
Fee expenses	(610)	(834)

**7. Net Trading Profit**

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Profit on dealing in foreign currencies and funding swaps	501	436
Loss on trading securities	(124)	(52)
Net gain on derivatives	549	475
Loss on other dealing activities	(1)	(2)
Dividend income from trading equity securities	18	22
	<u>943</u>	<u>879</u>

**8. Net Result on Financial Instruments at FVTPL**

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Net gain from financial instruments designated at FVTPL	292	89
Net (loss)/gain from financial instruments mandatorily measured at FVTPL (other than those included in net trading profit)	(360)	145
	<u>(68)</u>	<u>234</u>

**9. Net Result on Financial Assets Measured at FVOCI**

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Net profit on sale of debt securities	159	23
Dividend income from equity securities	16	22
	<u>175</u>	<u>45</u>

**10. Net Hedging Profit**

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Fair value hedges		
- Net loss on hedged items attributable to the hedged risk	(8,541)	(2,941)
- Net gain on hedging instruments	8,742	3,085
	<u>201</u>	<u>144</u>

## 11. Net Insurance Profit

	2022 HK\$ Mn	2021 HK\$ Mn
(a) Net insurance profit		
Net interest income	18	482
Net trading profit	5	77
Net result on financial instruments at FVTPL	(12)	150
Net (loss)/profit on sale of debt investment securities measured at FVOCI	(17)	72
Net insurance premium	683	4,824
Other operating income	-	3
	<u>677</u>	<u>5,608</u>
Net insurance claims and expenses	(c) <u>(520)</u>	<u>(5,168)</u>
	157	440
Operating expenses	-	(3)
Recovery/(impairment losses) on financial instruments	1	(26)
	<u>158</u>	<u>411</u>
(b) Net insurance premium		
Gross insurance premium income	722	4,894
Reinsurers' share of gross insurance premium income	(39)	(70)
	<u>683</u>	<u>4,824</u>
(c) Net insurance claims and expenses		
Claims, benefits and surrenders paid	585	3,902
Movement in provisions	(128)	1,193
	<u>457</u>	<u>5,095</u>
Reinsurers' share of claim, benefits and surrenders paid	(28)	(36)
Reinsurers' share of movement in provisions	12	(9)
	<u>(16)</u>	<u>(45)</u>
	441	5,050
Net insurance commission expenses	79	118
	<u>520</u>	<u>5,168</u>

## 12. Other Operating Income

	2022 HK\$ Mn	2021 HK\$ Mn
Rental from safe deposit boxes	120	122
Rental income on properties	133	143
Government subsidy – Employment Support Scheme	8	-
Others	29	65
	<u>290</u>	<u>330</u>

### 13. Operating Expenses

	2022 HK\$ Mn	2021 HK\$ Mn
Contributions to defined contribution plan (Note 1)		
- Hong Kong	170	170
- Outside Hong Kong	223	229
Equity settled share-based payment expenses	22	19
Salaries and other staff costs	5,078	5,105
Total staff costs	<u>5,493</u>	<u>5,523</u>
Premises and equipment expenses excluding depreciation		
- Expenses relating to short-term leases	15	20
- Expenses relating to low value assets	6	1
- Variable lease payments not included in the measurement of lease liabilities (Note 2)	(2)	(4)
- Maintenance, repairs and others	702	669
Total premises and equipment expenses excluding depreciation	<u>721</u>	<u>686</u>
Depreciation on		
- Bank premises, furniture, fixtures and equipment	567	581
- Right-of-use assets	295	374
	<u>862</u>	<u>955</u>
Amortisation of intangible assets	<u>13</u>	<u>14</u>
Other operating expenses		
- Internet platform charges	460	482
- Legal and professional fees	423	399
- Advertising expenses	298	224
- Communications, stationery and printing	294	274
- Insurance expenses	141	111
- Stamp duty, withholding taxes and value added taxes	84	72
- Card related expenses	74	119
- Business promotions and business travel	69	66
- Audit fee	20	21
- Others	272	375
Total other operating expenses	<u>2,135</u>	<u>2,143</u>
Total operating expenses (Note 3)	<u>9,224</u>	<u>9,321</u>

Notes:

1. Forfeited contributions totalling HK\$36 million (2021: HK\$35 million) were utilised to reduce the Group's contribution during the year. There were no forfeited contributions available for reducing future contributions at the year end (2021: Nil).
2. Included a credit of HK\$2 million (2021: HK\$5 million) of COVID-19-related rent concessions and a credit of HK\$1 million (2021: Nil) of rent concession during the year for the purpose of entering into a new lease.
3. Included direct operating expenses of HK\$7 million (2021: HK\$8 million) in respect of investment properties which generated rental income during the year.

#### 14. Impairment Losses on Financial Instruments

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Loans and advances to customers	5,416	1,471
Debt securities	345	67
Others	162	141
	<u>5,923</u>	<u>1,679</u>

#### 15. Net Profit on Sale of Assets Held for Sale

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Net (loss)/profit on sale of properties	(1)	140
Net profit on sale of disposal groups	1,446	902
	<u>1,445</u>	<u>1,042</u>

#### 16. Net Profit/(Loss) on Disposal of Fixed Assets

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Net profit/(loss) on disposal of bank premises, furniture, fixtures and equipment	18	(5)
Net (loss)/profit on termination of lease	(1)	1
	<u>17</u>	<u>(4)</u>

#### 17. Income Tax

Taxation in the consolidated income statement represents:

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Current tax – Hong Kong		
Tax for the year	485	514
Over-provision in respect of prior years	(57)	(96)
	<u>428</u>	<u>418</u>
Current tax – outside Hong Kong		
Tax for the year	325	271
Over-provision in respect of prior years	(16)	(18)
	<u>309</u>	<u>253</u>
Deferred tax		
Origination and reversal of temporary differences	(174)	152
	<u>563</u>	<u>823</u>

The provision for Hong Kong profits tax is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the year.

Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

## 18. Trading Assets

	<u>2022</u>	<u>2021</u>
	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	292	-
Debt securities	983	1,632
Equity securities	255	851
	<u>1,530</u>	<u>2,483</u>

## 19. Loans and Advances to Customers

### (a) Loans and advances to customers

	<u>2022</u>	<u>2021</u>
	HK\$ Mn	HK\$ Mn
Loans and advances to customers at amortised cost	549,014	548,808
Less: Impairment allowances	(6,620)	(4,371)
- Stage 1	(1,084)	(667)
- Stage 2	(1,018)	(527)
- Stage 3	(4,518)	(3,177)
	<u>542,394</u>	<u>544,437</u>



## 19. Loans and Advances to Customers (Continued)

### (b) Loans and advances to customers – by industry sectors

The analysis of gross advances to customers and the percentage of secured advances by industry sector is based on the categories and definitions used by the HKMA.

	2022		2021	
	Gross advances HK\$ Mn	% of gross advances covered by collateral %	Gross advances HK\$ Mn	% of gross advances covered by collateral %
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	36,872	59.19	34,103	54.12
- Property investment	52,366	92.57	50,280	91.88
- Financial concerns	14,892	67.56	15,514	50.18
- Stockbrokers	708	99.54	1,957	99.99
- Wholesale and retail trade	6,560	56.18	7,742	47.86
- Manufacturing	4,485	29.00	4,810	32.51
- Transport and transport equipment	5,495	42.22	5,531	46.15
- Recreational activities	347	93.76	304	87.23
- Information technology	1,438	34.22	1,268	2.13
- Others	16,262	49.00	15,365	58.85
Sub-total	139,425	69.69	136,874	66.89
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,200	99.97	1,337	100.00
- Loans for the purchase of other residential properties	91,944	99.95	91,532	100.00
- Credit card advances	4,115	0.00	4,284	0.00
- Others	24,367	55.23	28,182	63.75
Sub-total	121,626	87.61	125,335	88.43
Total loans for use in Hong Kong	261,051	78.07	262,209	77.18
Trade finance	5,110	38.56	6,088	32.92
Loans for use outside Hong Kong (Note)	282,853	35.50	280,511	36.83
Total advances to customers	549,014	55.75	548,808	56.07

Note: Loans for use outside Hong Kong include the following loans for use in Mainland China and loans for use outside Hong Kong and Mainland China.

## 19. Loans and Advances to Customers (Continued)

### (b) Loans and advances to customers – by industry sectors (Continued)

	2022		2021	
	Gross advances HK\$ Mn	% of gross advances covered by collateral %	Gross advances HK\$ Mn	% of gross advances covered by collateral %
Loans for use in Mainland China				
Industrial, commercial and financial				
- Property development	38,339	33.92	44,747	34.37
- Property investment	10,918	76.61	14,134	80.56
- Financial concerns	43,747	0.79	47,765	0.00
- Stockbrokers	678	100.00	-	-
- Wholesale and retail trade	9,331	13.91	10,837	13.94
- Manufacturing	13,291	7.76	11,219	5.76
- Transport and transport equipment	2,077	81.44	811	43.46
- Recreational activities	-	-	25	100.00
- Information technology	1,994	0.27	1,967	0.43
- Others	18,709	11.63	17,618	12.24
Sub-total	<u>139,084</u>	20.56	<u>149,123</u>	21.10
Individuals				
- Loans for the purchase of other residential properties	13,139	100.00	15,762	100.00
- Credit card advances	4,962	0.00	6,370	0.00
- Others	16,340	3.34	12,724	5.28
Sub-total	<u>34,441</u>	39.73	<u>34,856</u>	47.15
Total loans for use in Mainland China	<u>173,525</u>	24.37	<u>183,979</u>	26.03
Loans for use outside Hong Kong and Mainland China				
Industrial, commercial and financial				
- Property development	11,335	56.55	12,478	55.51
- Property investment	40,054	78.58	35,709	86.24
- Financial concerns	3,379	41.54	2,960	53.28
- Wholesale and retail trade	4,184	18.43	4,017	18.08
- Manufacturing	13,440	3.69	8,000	1.09
- Transport and transport equipment	3,069	44.94	3,207	55.06
- Recreational activities	517	94.78	367	92.39
- Information technology	4,063	8.12	3,895	8.57
- Others	25,444	45.35	21,089	37.81
Sub-total	<u>105,485</u>	51.47	<u>91,722</u>	55.20
Individuals				
- Loans for the purchase of other residential properties	3,767	100.00	4,125	99.68
- Credit card advances	2	0.00	2	0.00
- Others	74	87.24	683	97.84
Sub-total	<u>3,843</u>	99.70	<u>4,810</u>	99.37
Total loans for use outside Hong Kong and Mainland China	<u>109,328</u>	53.16	<u>96,532</u>	57.40
Total loans for use outside Hong Kong	<u>282,853</u>	35.50	<u>280,511</u>	36.83

## 19. Loans and Advances to Customers (Continued)

### (b) Loans and advances to customers – by industry sectors (Continued)

Individually impaired loans, as well as relevant information, in respect of industry sectors which constitute 10% or more of total advances to customers are as follows:

	2022	2021
	HK\$ Mn	HK\$ Mn
(i) Property development		
a. Individually impaired loans	8,114	1,009
b. Specific provisions	2,643	326
c. Collective provisions	502	206
d. New provision charged to income statement	2,949	607
e. Written off	659	87
(ii) Property investment		
a. Individually impaired loans	3,325	2,552
b. Specific provisions	956	1,375
c. Collective provisions	286	87
d. New provision charged to income statement	589	1,644
e. Written off	605	12
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	318	270
b. Specific provisions	13	10
c. Collective provisions	40	27
d. New provision charged to income statement	34	146
e. Written off	3	-
(iv) Financial concerns		
a. Individually impaired loans	43	64
b. Specific provisions	27	34
c. Collective provisions	118	43
d. New provision charged to income statement	107	201
e. Written off	-	-

The specific provisions represent lifetime expected credit loss provisions for credited impaired (Stage 3) exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions for non-credit impaired (Stage 1 and Stage 2) exposures.

## 19. Loans and Advances to Customers (Continued)

### (c) Loans and advances to customers – by geographical areas

The information concerning the breakdown of the gross amount of advances to customers by countries or geographical areas is derived according to the location of the counterparties after taking into account any transfer of risk in accordance with the requirements of Banking (Disclosure) Rules. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. The location of a party is determined by its residence which is the economic territory under whose laws the party is incorporated or registered. This requirement is different from the allocation under segment reporting in Note 23 which is prepared in a manner consistent with the way in which information is reported internally to the Group's Senior Management. The specific provisions represent lifetime expected credit loss provisions for credit impaired (Stage 3) exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions for non-credit impaired (Stage 1 and Stage 2) exposures.

	2022				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Specific provisions	Collective provisions
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	270,332	552	1,924	813	450
Mainland China	183,886	4,405	10,824	3,623	1,069
Other Asian Countries and Regions	30,227	48	58	8	109
Others	64,569	-	339	74	474
<b>Total</b>	<b>549,014</b>	<b>5,005</b>	<b>13,145</b>	<b>4,518</b>	<b>2,102</b>

% of total advances to customers 2.39%

	2021				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Specific provisions	Collective provisions
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	264,285	409	1,218	254	136
Mainland China	202,365	2,020	4,589	2,822	755
Other Asian Countries and Regions	28,036	22	164	101	62
Others	54,122	-	6	-	241
<b>Total</b>	<b>548,808</b>	<b>2,451</b>	<b>5,977</b>	<b>3,177</b>	<b>1,194</b>

% of total advances to customers 1.09%

Impaired loans and advances are individually assessed loans with objective evidence of impairment on an individual basis. The above information by countries or geographical areas is derived according to the location of the counterparties after taking into account any transfer of risk.

## 20. Investment Securities

	2022			Total HK\$ Mn
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	
Treasury bills (including Exchange Fund Bills)	-	22,390	2,428	24,818
Certificates of deposits held	-	-	809	809
Debt securities	3,270	105,167	11,225	119,662
Equity securities	37	839	-	876
Investment funds	842	-	-	842
	<u>4,149</u>	<u>128,396</u>	<u>14,462</u>	<u>147,007</u>

	2021			Total HK\$ Mn
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	
Treasury bills (including Exchange Fund Bills)	-	22,844	2,025	24,869
Certificates of deposits held	-	-	646	646
Debt securities	4,365	101,968	13,875	120,208
Equity securities	42	712	-	754
Investment funds	1,030	-	-	1,030
	<u>5,437</u>	<u>125,524</u>	<u>16,546</u>	<u>147,507</u>

### Equity securities designated at FVOCI

	2022		2021	
	Fair value	Dividend income recognised	Fair value	Dividend income recognised
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Equity investments held for long-term strategic purposes	<u>839</u>	<u>16</u>	<u>712</u>	<u>22</u>

As at 31<sup>st</sup> December, 2022, equity securities designated at FVOCI amounting to HK\$839 million (2021: HK\$712 million) were held for long-term strategic purposes, of which HK\$694 million (2021: HK\$588 million) was attributable to the fair value of the Bank's investment in China UnionPay Co., Ltd. None of these strategic investments was disposed of during 2022 and 2021, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

## 21. Investments in Associates and Joint Ventures

	2022 HK\$ Mn	2021 HK\$ Mn
Share of net assets	9,408	9,270
Goodwill	452	476
	9,860	9,746
Less: Impairment allowances	(799)	(799)
	9,061	8,947

At 31<sup>st</sup> December, 2022, the fair value of the Group's investment in AFFIN Bank Berhad ("AFFIN") based on the quoted market price had been persistently below the carrying amount for a period of time. As a result, the Group performed an impairment test on the investment using a value-in-use ("VIU") methodology and this demonstrated that the recoverable amount of the investment was HK\$3,917 million. The recoverable amount was higher than the carrying value of HK\$3,727 million and no further impairment charge was recognised (2021: no impairment charge). The VIU calculation uses discounted cash flow projections based on AFFIN's latest forecast of financial results and estimates made by the Group's management for the next five years and extrapolating in perpetuity using a long-term growth rate of 3% to derive a terminal value. Discount rate of 11.95% (2021: 11.49%), which is based on a Capital Asset Pricing Model calculation for AFFIN, is used in the VIU calculation.

The following table illustrates the impact on VIU of reasonably possible changes to key assumptions. This reflects the sensitivity of the VIU to each key assumption on its own and it is possible that more than one favourable and/or unfavourable change may occur at the same time.

	Favourable change			Unfavourable change		
		Increase in VIU	VIU		Decrease in VIU	VIU
		HK\$ Mn	HK\$ Mn		HK\$ Mn	HK\$ Mn
At 31 <sup>st</sup> December, 2022						
Discount rate	-50 bps	269	4,186	+50 bps	(239)	3,678
Long-term growth rate	+50 bps	36	3,953	-50 bps	(32)	3,885
Expected cash flows	+10%	392	4,309	-10%	(392)	3,525

## 22. Other Assets

	2022 HK\$ Mn	2021 HK\$ Mn
Accrued interest	3,537	2,649
Customer liabilities under acceptances	27,796	28,674
Other accounts	8,094	9,068
Less: Impairment allowances	(219)	(132)
- Stage 1	(15)	(8)
- Stage 2	(10)	(2)
- Stage 3	(194)	(122)
	39,208	40,259
Assets held for sale (Note 27)	27	2,264
	39,235	42,523

## 23. Segment Reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's Senior Management for the purposes of resource allocation and performance assessment, the Group has presented the following nine reportable segments.

### Hong Kong operations

Hong Kong operations include Hong Kong banking business and other business operations, dividing into the following six reportable segments.

- **Personal Banking** includes branch operations, personal internet banking, consumer finance, property loans and credit card business to individual customers in Hong Kong.
- **Wholesale Banking** includes corporate lending and loan syndication, asset based lending, commercial lending, securities lending and trade financing activities with correspondent banks and corporates in Hong Kong.
- **Treasury Markets** include treasury operations and securities dealing in Hong Kong.
- **Wealth management** includes private banking business, investment products & advisory and securities & futures broking in Hong Kong.
- **Centralised operations** include supporting units of banking operations in Hong Kong.
- **Others** mainly include insurance business and trust business carried out by subsidiaries operating in Hong Kong and other supporting units of Hong Kong operations located outside Hong Kong.

### Mainland operations

**Mainland China operations** mainly include the back office unit for Mainland China operations in Hong Kong, all subsidiaries and associates operating in Mainland China, except those subsidiaries carrying out data processing and other back office operations for Hong Kong operations in Mainland China.

### Overseas operations

**Overseas operations** mainly include the back office unit for overseas banking operations in Hong Kong, Macau Branch, Taiwan Branch and all branches, subsidiaries and associates operating overseas.

### Corporate management

**Corporate management** absorbs the regulatory capital cost of loan capital issued by the Bank and receives, from Hong Kong operations, the interest income on business activities funded by capital instruments issued by the Bank.

For the purposes of assessing segment performance and allocating resources among segments, the Group's Senior Management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all assets with the exception of interests in associates and joint ventures and assets held for sale. Segment liabilities include deposits, financial liabilities and other liabilities attributable to the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to interest and fee and commission income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

## 23. Segment Reporting (continued)

	2022												
	Hong Kong operations												
	Hong Kong banking business						Others	Total	Mainland China operations	Overseas operations	Corporate management	Inter-segment elimination	Total
	Personal banking	Wholesale banking	Treasury markets	Wealth management	Centralised operations	Total							
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
Net interest income/(expense)	4,003	2,859	(19)	367	(127)	7,083	25	7,108	3,997	2,177	226	-	13,508
Non-interest income	1,075	625	373	565	249	2,887	549	3,436	860	179	-	(29)	4,446
Operating income	5,078	3,484	354	932	122	9,970	574	10,544	4,857	2,356	226	(29)	17,954
Operating expenses	(1,659)	(476)	(168)	(358)	(2,171)	(4,832)	(308)	(5,140)	(3,374)	(739)	-	29	(9,224)
Operating profit/(loss) before impairment losses	3,419	3,008	186	574	(2,049)	5,138	266	5,404	1,483	1,617	226	-	8,730
(Charge for)/Write back of impairment losses on financial instruments	(127)	(3,258)	(70)	(40)	(1)	(3,496)	1	(3,495)	(2,088)	(340)	-	-	(5,923)
Impairment losses on assets held for sale	-	-	-	-	-	-	-	-	(3)	-	-	-	(3)
Operating profit/(loss) after impairment losses	3,292	(250)	116	534	(2,050)	1,642	267	1,909	(608)	1,277	226	-	2,804
Net profit/(loss) on sale of assets held for sale	-	-	-	-	-	-	1,446	1,446	(1)	-	-	-	1,445
Net loss on disposal of subsidiaries/associates	-	-	-	-	(1)	(1)	-	(1)	-	-	-	-	(1)
Net profit/(loss) on disposal of fixed assets	(16)	-	-	-	-	(16)	-	(16)	34	(1)	-	-	17
Valuation losses on investment properties	-	-	-	-	(148)	(148)	(29)	(177)	-	(2)	-	-	(179)
Share of profits less losses of associates and joint ventures	-	-	-	-	-	-	(9)	(9)	221	643	-	-	855
Profit/(Loss) before taxation	3,276	(250)	116	534	(2,199)	1,477	1,675	3,152	(354)	1,917	226	-	4,941
Depreciation for the year	(243)	(12)	(12)	(7)	(219)	(493)	(27)	(520)	(286)	(56)	-	-	(862)
Segment assets	119,881	163,395	231,299	22,679	9,964	547,218	1,845	549,063	245,349	126,730	-	(47,405)	873,737
Investments in associates and joint ventures	-	-	-	-	-	-	56	56	3,893	5,112	-	-	9,061
Other assets – Assets held for sale	-	-	-	-	15	15	-	15	12	-	-	-	27
Total assets	119,881	163,395	231,299	22,679	9,979	547,233	1,901	549,134	249,254	131,842	-	(47,405)	882,825
Total liabilities	343,056	54,165	51,773	35,141	2,676	486,811	300	487,111	220,008	116,307	-	(46,947)	776,479
Capital expenditure incurred during the year	109	32	63	9	107	320	7	327	442	28	-	-	797



## 23. Segment Reporting (continued)

2021

	Hong Kong operations (Restated) <sup>Note</sup>												
	Hong Kong banking business							Mainland China operations (Restated) <sup>Note</sup>	Overseas operations	Corporate management	Inter-segment elimination	Total	
	Personal banking	Wholesale banking	Treasury markets	Wealth management	Centralised operations	Total	Others						HK\$ Mn
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
Net interest income/(expense)	2,287	2,532	(30)	334	(21)	5,102	70	5,172	3,917	1,775	321	-	11,185
Non-interest income	1,104	642	577	665	294	3,282	801	4,083	840	214	-	(39)	5,098
Operating income	3,391	3,174	547	999	273	8,384	871	9,255	4,757	1,989	321	(39)	16,283
Operating expenses	(1,692)	(394)	(164)	(315)	(2,089)	(4,654)	(437)	(5,091)	(3,516)	(753)	-	39	(9,321)
Operating profit/(loss) before impairment losses	1,699	2,780	383	684	(1,816)	3,730	434	4,164	1,241	1,236	321	-	6,962
(Charge for)/Write back of impairment losses on financial instruments	(103)	(1,009)	(11)	3	-	(1,120)	(5)	(1,125)	(620)	66	-	-	(1,679)
Operating profit/(loss) after impairment losses	1,596	1,771	372	687	(1,816)	2,610	429	3,039	621	1,302	321	-	5,283
Net profit on sale of assets held for sale	-	-	-	-	133	133	902	1,035	7	-	-	-	1,042
Net profit/(loss) on disposal of subsidiaries/associates	-	-	-	-	-	-	-	-	182	(1)	-	-	181
Net profit/(loss) on disposal of fixed assets	(13)	-	-	-	(3)	(16)	-	(16)	14	(2)	-	-	(4)
Valuation losses on investment properties	-	-	-	-	(110)	(110)	(22)	(132)	-	-	-	-	(132)
Share of profits less losses of associates and joint ventures	-	-	-	-	-	-	(10)	(10)	(425)	201	-	-	(234)
Profit/(Loss) before taxation	1,583	1,771	372	687	(1,796)	2,617	1,299	3,916	399	1,500	321	-	6,136
Depreciation for the year	(308)	(8)	(8)	(7)	(226)	(557)	(38)	(595)	(296)	(64)	-	-	(955)
Segment assets	119,858	169,032	229,919	26,605	11,392	556,806	2,185	558,991	262,575	118,789	-	(44,096)	896,259
Investments in associates and joint ventures	-	-	-	-	-	-	66	66	3,983	4,898	-	-	8,947
Other assets – Assets held for sale	-	-	-	-	15	15	2,232	2,247	17	-	-	-	2,264
Total assets	119,858	169,032	229,919	26,605	11,407	556,821	4,483	561,304	266,575	123,687	-	(44,096)	907,470
Segment liabilities	331,601	58,997	65,994	29,886	2,244	488,722	384	489,106	234,937	109,059	-	(43,319)	789,783
Other liabilities – Liabilities held for sale	-	-	-	-	-	-	1,637	1,637	-	-	-	-	1,637
Total liabilities	331,601	58,997	65,994	29,886	2,244	488,722	2,021	490,743	234,937	109,059	-	(43,319)	791,420
Capital expenditure incurred during the year	255	11	32	1	245	544	32	576	301	49	-	-	926

Note: The financials of Hong Kong operations and Mainland China operations have been restated to conform to the current year's presentation that reflected the organisational restructure and other minor reallocations among business segments in 2022. The restructure mainly includes the reorganization of the securities and futures broking businesses from Others segment to Wealth Management segment under Hong Kong operations.

## 24. Off-balance Sheet Exposures

### (a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments and the aggregate credit risk-weighted amount and is prepared with reference to the completion instructions for the HKMA return of capital adequacy ratio.

	2022	2021
	HK\$ Mn	HK\$ Mn
Contingent liabilities		
Direct credit substitutes	4,220	4,664
Transaction-related contingencies	3,846	4,295
Trade-related contingencies	6,143	5,046
	<u>14,209</u>	<u>14,005</u>
Commitments		
Commitments that are unconditionally cancellable without prior notice	303,920	232,146
Other commitments with an original maturity		
- up to 1 year	2,229	3,145
- over 1 year	32,043	28,914
	<u>338,192</u>	<u>264,205</u>
Total	<u>352,401</u>	<u>278,210</u>
Credit risk-weighted amounts	<u>23,651</u>	<u>21,412</u>

### (b) Derivatives

	2022	2021
	HK\$ Mn	HK\$ Mn
Fair value of derivatives		
Assets		
Exchange rate contracts	1,781	1,207
Interest rate contracts	9,220	1,764
Equity contracts	91	410
	<u>11,092</u>	<u>3,381</u>
Liabilities		
Exchange rate contracts	1,749	1,174
Interest rate contracts	2,297	3,548
Equity contracts	99	328
	<u>4,145</u>	<u>5,050</u>
Notional amounts of derivatives		
Exchange rate contracts	292,921	291,721
Interest rate contracts	319,625	403,558
Equity contracts	4,774	8,370
	<u>617,320</u>	<u>703,649</u>

## 25. Reserves

	2022 HK\$ Mn	2021 HK\$ Mn
General reserve	13,658	13,658
Revaluation reserve on bank premises	2,255	1,905
Capital reserve	895	895
Exchange revaluation reserve	(1,822)	1,058
Capital reserve – staff share options issued	150	152
Fair value reserve	510	1,925
Liability credit reserve	15	(46)
Other reserves	5,105	5,191
Retained profits*	33,365	35,395
	<u>54,131</u>	<u>60,133</u>
Dividends declared, not provided for	<u>456</u>	<u>1,023</u>

\* A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the HKMA. As at 31<sup>st</sup> December, 2022, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK\$1,742 million (2021: HK\$2,658 million).

## 26. Comparative Figures

Certain 2021 comparative figures have been restated to conform to current year's presentation. Please refer to Note 23 for the effect of restatement.

## 27. Assets Held for Sale

The assets held for sale and liabilities held for sale after elimination of inter-companies balances are summarised below:

	2022 HK\$ Mn	2021 HK\$ Mn
Assets held for sale (Note 22)		
Disposal groups held for sale (Note)	-	2,232
Other properties	27	32
	<u>27</u>	<u>2,264</u>
Liabilities held for sale		
Disposal groups held for sale (Note)	-	1,637
	<u>-</u>	<u>1,637</u>

Note: 2021- Include Blue Cross (Asia-Pacific) Insurance Limited. On 26<sup>th</sup> August, 2022, the Bank completed the disposal of Blue Cross (Asia-Pacific) Insurance Limited.

## 27. Assets Held for Sale (continued)

There was no disposal group held for sale as at 31<sup>st</sup> December 2022. As at 31<sup>st</sup> December 2021, the assets and liabilities of the disposal groups held for sale after elimination of inter-companies balances are summarised below:

	2021 HK\$ Mn
<b>ASSETS</b>	
Cash and balances with banks	3
Investment securities	1,926
Fixed assets	34
- Other properties and equipment	33
- Right-of-use assets	1
Goodwill	14
Other assets	255
Assets held for sale	<u>2,232</u>
<b>LIABILITIES</b>	
Current taxation	4
Deferred tax liabilities	5
Other liabilities	1,628
Liabilities held for sale	<u>1,637</u>

As at 31<sup>st</sup> December, 2021, the total equity of the disposal groups attributable to the Group was HK\$770 million.

### Investment Securities

	2021			
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Certificates of deposits held	-	690	-	690
Debt securities	26	1,160	-	1,186
Equity securities	50	-	-	50
	<u>76</u>	<u>1,850</u>	<u>-</u>	<u>1,926</u>

The cumulative income recognised in other comprehensive income relating to disposal groups held for sale is as follows:

	2021 HK\$ Mn
Cumulative income recognised in other comprehensive income	<u>(36)</u>

## 28. Exposures to Interbank Offered Rates

Following the decision of global regulators to phase out LIBORs and replace them with risk free rates as alternative reference rates (“ARRs”), LIBORs of CHF, EUR, GBP and JPY were ceased available after 2021. 1-week and 2-month USD LIBORs were also ceased. Other tenors of USD LIBOR will cease available after June 2023.

With the completion of the IBOR Reform Project, the Group has the operational capability to trade in ARR and manage the transition of the aforesaid LIBORs and the remaining demising regional rates that yet to transit to alternative benchmarks which include SG Swap Offer Rate and SIBOR.

The following table shows outstanding amounts of financial instruments referencing the interest rate benchmarks that have yet to transit to alternative benchmark rates as at 31<sup>st</sup> December, 2022, excluding the financial instruments that will expire before the transition date. The amounts of financial assets and liabilities are shown at gross carrying amounts, and derivatives are shown at notional amounts.

	2022			
	Gross Carrying Amount / Notional Amount			
	USD LIBOR	GBP LIBOR	SG Swap	SIBOR
	HK\$ Mn	HK\$ Mn	Offer Rate	HK\$ Mn
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Assets</b>				
Loans and advances to customers	35,270	94	1,743	4,276
Placements with and advances to banks	4,276	-	-	-
Negotiable debt instruments held, including negotiable certificates of deposit	78	-	-	-
<b>Total Asset</b>	<b>39,624</b>	<b>94</b>	<b>1,743</b>	<b>4,276</b>
<b>Liabilities</b>				
Certificate of deposit and debt securities issued	2,715	-	-	-
<b>Total liabilities</b>	<b>2,715</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Derivatives</b>				
Interest rate swaps	53,628	-	-	-
Cross currency swaps	1,515	-	-	-
Other derivatives	156	-	-	-
<b>Gross total derivatives</b>	<b>55,299</b>	<b>-</b>	<b>-</b>	<b>-</b>

The Group has fair value hedge accounting relationships maturing beyond the anticipated cessation date for IBORs. Significant judgement will be required in determining when uncertainty is expected to be resolved and when targeted relief will cease to apply. As at 31<sup>st</sup> December, 2022, the Group believes uncertainty continues to exist as to when and how the replacement may occur with respect to the relevant derivative hedging instruments, and so the targeted reliefs apply to the Group’s hedge accounting relationships that reference benchmarks subject to reform or replacement.

As at 31<sup>st</sup> December, 2022, the details of derivative instruments designated in fair value hedge accounting relationships linked to IBORs, excluding the derivative instruments that will expire before the transition date, are as follows:

	2022	
	Notional designated	Weighted average exposure years
	HK\$ Mn	
Interest rate swaps		
USD LIBOR	44,908	4.29
	<b>44,908</b>	<b>4.29</b>

## **UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION**

### **A. Capital Adequacy**

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Capital base		
- Common Equity Tier 1 capital	81,282	86,487
- Additional Tier 1 capital	10,090	13,968
- Total Tier 1 capital	91,372	100,455
- Tier 2 capital	12,048	9,262
- Total capital	<u>103,420</u>	<u>109,717</u>
Risk-weighted assets by risk type		
- Credit risk	483,104	467,566
- Market risk	4,053	11,788
- Operational risk	30,580	31,054
	<u>517,737</u>	<u>510,408</u>
Less: Deductions	<u>(2,864)</u>	<u>(3,099)</u>
	<u>514,873</u>	<u>507,309</u>
	<u>2022</u>	<u>2021</u>
	%	%
Common Equity Tier 1 capital ratio	15.8	17.0
Tier 1 capital ratio	17.7	19.8
Total capital ratio	20.1	21.6

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules issued by the HKMA. In accordance with the Capital Rules, the Bank has adopted the foundation internal ratings-based approach for the calculation of the risk-weighted assets for credit risk and the internal models approach for the calculation of market risk and standardised approach for operational risk.

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with Section 3C of the Capital Rules. Subsidiaries not included in consolidation for regulatory purposes are non-financial companies and securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Capital Rules and the Banking Ordinance. The Bank's shareholdings in these subsidiaries are deducted from its Tier 1 capital subject to the thresholds as determined in accordance with Part 3 of the Capital Rules.

The Group operates subsidiaries in a number of countries and territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the banking group.

For the purpose of compliance with the Banking (Disclosure) Rules and Part 6 of the Financial Institutions (Resolutions) (Loss-absorbing Capacity Requirements – Banking Sector) Rules, the Group has established a section on the Bank's website. Additional information relating to the Group's regulatory capital and other disclosures can be found in this section of the Bank's website, accessible through the "Regulatory Disclosure" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

## B. Leverage Ratio

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Total Tier 1 capital	91,372	100,455
Exposure measure	935,197	941,722
	<u>%</u>	<u>%</u>
Leverage ratio	9.8	10.7

The disclosure on leverage ratio is effective since 31<sup>st</sup> March, 2015 and is computed on the same consolidated basis as specified in a notice from the HKMA in accordance with section 3C of the Capital Rules. The relevant disclosures can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

## C. Liquidity Position

Liquidity coverage ratio		<u>2022</u> %	<u>2021</u> %
Average liquidity coverage ratio	- First quarter	184.2	189.4
	- Second quarter	187.5	177.3
	- Third quarter	179.1	180.9
	- Fourth quarter	197.7	182.4

The liquidity coverage ratio is calculated in accordance with the Banking (Liquidity) Rules effective from 1<sup>st</sup> January, 2015. The information for the regulatory disclosure can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

The Bank held an amount of HKD-denominated level 1 assets that was not less than 20% of its HKD-denominated total net cash outflows. There is no significant currency mismatch in the Bank's LCR at respective levels of consolidation.

Net stable funding ratio		<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Total available stable funding		568,204	562,512
Total required stable funding		489,801	486,536
		<u>2022</u> %	<u>2021</u> %
Net stable funding ratio		116.0	115.6

The net stable funding ratio is calculated in accordance with the Banking (Liquidity) Rules effective from 1<sup>st</sup> January, 2018. The information for the regulatory disclosure can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

## D. Overdue, Rescheduled and Repossessed Assets

### (a) Overdue and rescheduled advances to customers

	2022		2021	
	HK\$ Mn	% of total advances to customers	HK\$ Mn	% of total advances to customers
Advances to customers overdue for				
- 6 months or less but over 3 months	2,257	0.4	948	0.2
- 1 year or less but over 6 months	1,630	0.3	1,014	0.2
- Over 1 year	1,118	0.2	489	0.1
	<u>5,005</u>	<u>0.9</u>	<u>2,451</u>	<u>0.5</u>
Rescheduled advances to customers	<u>1,193</u>	<u>0.2</u>	<u>262</u>	<u>0.0</u>
Total overdue and rescheduled advances	<u>6,198</u>	<u>1.1</u>	<u>2,713</u>	<u>0.5</u>
Covered portion of overdue advances	<u>2,745</u>	<u>0.5</u>	<u>1,932</u>	<u>0.4</u>
Uncovered portion of overdue advances	<u>2,261</u>	<u>0.4</u>	<u>519</u>	<u>0.1</u>
Current market value of collateral held against the covered portion of overdue advances	<u>5,454</u>		<u>3,518</u>	
Specific provisions made on advances overdue for more than 3 months	<u>1,830</u>		<u>1,310</u>	

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year-end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at year-end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

An asset considered as an eligible collateral should generally satisfy the following:

- The market value of the asset is readily determinable or can be reasonably established and verified;
- The asset is marketable and there exists a readily available secondary market for disposing of the asset;
- The Bank's right to repossess the asset is legally enforceable and without impediment; and
- The Bank is able to secure control over the asset if necessary.

The two main types of "Eligible Collateral" are as follows:

- "Eligible Financial Collateral" mainly comprises cash deposits and shares.
- "Eligible Physical Collateral" mainly comprises land and buildings, vehicles and equipment.

When the Bank's clients face financial difficulties and fail to settle their loans, depending on different situations, the Bank usually takes the following actions to recover the debt:

- Debt rescheduling / restructuring
- Enforcement of security
- Legal action
- Recovery via debt collector



## D. Overdue, Rescheduled and Repossessed Assets (continued)

### (b) Overdue and rescheduled advances to banks

	2022 HK\$ Mn	2021 HK\$ Mn
Advances to banks overdue for		
- 6 months or less but over 3 months	-	-
- 1 year or less but over 6 months	-	-
- Over 1 year	-	-
	-	-
Rescheduled advances to banks	-	-
Total overdue and rescheduled advances	-	-

### (c) Other overdue and rescheduled assets

	2022		
	Accrued interest HK\$ Mn	Debt securities HK\$ Mn	Other assets* HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	31	124	-
- 1 year or less but over 6 months	48	114	-
- Over 1 year	68	-	-
	147	238	-
Rescheduled assets	23	-	-
Total other overdue and rescheduled assets	170	238	-
Specific provisions made on other assets overdue for more than 3 months	78	166	-
	2021		
	Accrued interest HK\$ Mn	Debt securities HK\$ Mn	Other assets* HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	13	-	-
- 1 year or less but over 6 months	17	-	-
- Over 1 year	36	-	-
	66	-	-
Rescheduled assets	3	-	-
Total other overdue and rescheduled assets	69	-	-
Specific provisions made on other assets overdue for more than 3 months	45	-	-

\* Other assets refer to trade bills and receivables.

#### D. Overdue, Rescheduled and Repossessed Assets (continued)

(d) Repossessed assets

	<u>2022</u> HK\$ Mn	<u>2021</u> HK\$ Mn
Reposessed land and buildings <i>(Note)</i>	416	195
Reposessed vehicles and equipment	-	-
Reposessed machines	-	-
Total reposessed assets	<u>416</u>	<u>195</u>

The amount represents the estimated market value of the reposessed assets as at 31<sup>st</sup> December.

*Note: The balance included HK\$26 million (2021: HK\$14 million) relating to properties that were contracted for sale but not yet completed.*

#### E. Banking Disclosure Statement

Additional information disclosures for this year which are prepared in accordance with the Banking (Disclosure) Rules, the disclosure requirements in Part 6 of Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules and disclosure templates issued by the HKMA can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at [www.hkbea.com](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

## STATEMENT OF COMPLIANCE

- (1) In preparing the accounts for 2022, the Bank has fully complied with the Banking (Disclosure) Rules and the disclosure requirements in Part 6 of Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules.
- (2) The Group is committed to maintaining high standards of corporate governance and considers such commitment essential in balancing the interests of shareholders, customers, employees and other relevant stakeholders; and in upholding accountability and transparency.
- (3) During the financial year ended 31<sup>st</sup> December, 2022, the Bank has complied with all Code Provisions set out in the CG Code.
- (4) During the financial year ended 31<sup>st</sup> December, 2022, the Bank has followed the modules on CG-1, CG-5, Guidance on Empowerment of INEDs and the circular on Bank Culture Reform.

## PAYMENT OF SECOND INTERIM DIVIDEND FOR 2022

The Board has declared a second interim dividend for the year ended 31<sup>st</sup> December, 2022 (“2022 Second Interim Dividend”) of HK\$0.17 per Share (2021 Second Interim Dividend: HK\$0.35 per Share) which, together with the 2022 interim dividend of HK\$0.16 per Share paid in September 2022 and the special dividend of HK\$0.48 per Share paid in October 2022, will constitute a total dividend of HK\$0.81 per Share (2021 total dividend: HK\$0.70 per Share) for the full year. The 2022 Second Interim Dividend will be paid on or about Wednesday, 29<sup>th</sup> March, 2023 in cash with an option to receive new, fully paid Shares in lieu of cash (“Scrip Dividend Scheme”), to shareholders whose names appear on the Register of Members of the Bank at the close of business on Wednesday, 8<sup>th</sup> March, 2023. For the purpose of calculating the number of new Shares to be allotted under the Scrip Dividend Scheme, the market value of the new Shares means the average closing price of the Shares on the Stock Exchange from Thursday, 2<sup>nd</sup> March, 2023 (being the first day that the Shares will be traded ex-dividend) to Wednesday, 8<sup>th</sup> March, 2023 (both days inclusive). Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Wednesday, 8<sup>th</sup> March, 2023.

The Scrip Dividend Scheme is conditional upon the Stock Exchange granting the listing of and permission to deal in the new Shares to be issued under the Scrip Dividend Scheme. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Wednesday, 29<sup>th</sup> March, 2023.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed for the following periods:

- a) For the purpose of determining shareholders who qualify for the 2022 Second Interim Dividend, the Register of Members of the Bank will be closed from Monday, 6<sup>th</sup> March, 2023 to Wednesday, 8<sup>th</sup> March, 2023 (both days inclusive). In order to qualify for the 2022 Second Interim Dividend, all transfer documents accompanied by the relevant share certificates should be lodged for registration with Tricor Standard Limited (Address: 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong) by 4:00 p.m. on Friday, 3<sup>rd</sup> March, 2023.
- b) For the purpose of determining shareholders who are entitled to attend and vote at the 2023 AGM, the Register of Members of the Bank will be closed from Monday, 8<sup>th</sup> May, 2023 to Thursday, 11<sup>th</sup> May, 2023 (both days inclusive). In order to qualify for attending and voting at the 2023 AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with Tricor Standard Limited (Address: 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong) by 4:00 p.m. on Friday, 5<sup>th</sup> May, 2023.

## PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

### Off-market Share Buy-back

Following the passing of the special resolution at the extraordinary general meeting of the Bank held on 28<sup>th</sup> March, 2022 (the "EGM"), a buy-back Deed was executed between Elliott International, L.P., The Liverpool Limited Partnership, Wakeland Securities L.P., Artan Investments Limited, Frasco Investments Limited, Milton Investments Limited, Parlan Investments Limited and Trevet Investments Limited (together, the "Elliott Parties") and the Bank immediately after the conclusion of the EGM on 28<sup>th</sup> March, 2022 in relation to an off-market share buy-back by the Bank of a total of 246,510,173 ordinary shares of the Bank (the "Buy-back Shares") held by the Elliott Parties (the "Share Buy-back"). The Share Buy-back was completed on 11<sup>th</sup> April, 2022 and the Buy-back Shares were cancelled on 20<sup>th</sup> April, 2022.

The price paid for each Buy-back Share was HK\$11.78. The aggregate consideration (before expenses) for the Share Buy-back was approximately HK\$2,904 million. Details of the Share Buy-back are set out in the Bank's announcements dated 28<sup>th</sup> January, 2022, 9<sup>th</sup> February, 2022, 10<sup>th</sup> February, 2022, 18<sup>th</sup> February, 2022, 8<sup>th</sup> March, 2022, 9<sup>th</sup> March, 2022, 11<sup>th</sup> April, 2022 and the Bank's circular to shareholders dated 9<sup>th</sup> March, 2022, respectively.

### On-market Share Buy-back

During the year, the Bank bought back a total of 15,744,800 Shares on the Stock Exchange at an aggregate consideration (excluding expenses) of approximately HK\$134.47 million. Details of the Shares bought back are set out below:

Month (2022)	No. of Shares bought back	Purchase price per Share		Aggregate consideration (excluding expenses) (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
October	5,829,200	8.93	7.52	48,286,824
November	6,194,200	9.03	7.42	51,537,088
December	3,721,400	9.58	8.91	34,642,632
<b>Total</b>	<b>15,744,800</b>			<b>134,466,544</b>

Out of the 15,744,800 Shares bought back, a total of 15,058,600 Shares were cancelled prior to the end of the year 2022, and the remaining 686,200 Shares were cancelled on 9<sup>th</sup> January, 2023. The on-market share buy-backs were carried out pursuant to the general mandate granted by the shareholders at the 2022 AGM held on 6<sup>th</sup> May, 2022 and were conducted in the interest of the Bank and the shareholders as a whole.

### Redemption of Capital Securities

On 18<sup>th</sup> May, 2022, the Bank completed the redemption of a face value of US\$500 million of 5.625% Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the "Capital Securities") on the First Call Date. The Capital Securities were issued in 2017 under the Bank's Medium Term Note Programme and listed on the Stock Exchange.

Save for the off-market and on-market share buy-backs and the redemption of the Capital Securities as disclosed herein, there was no purchase, sale or redemption by the Bank or any of its subsidiaries, of the listed securities of the Bank during the year ended 31<sup>st</sup> December, 2022.

## **EXECUTIVE CHAIRMAN'S STATEMENT**

Growth in Hong Kong and the Mainland slowed dramatically in 2022, impacted by a range of factors including strict anti-COVID controls, Mainland regulatory action to address imbalances in the economy and a sharp fall-off in exports due to weak consumer demand as central banks across the globe raised interest rates at the fastest pace in several decades.

Despite this extremely unfavourable operating environment, The Bank of East Asia delivered healthy top-line growth in 2022, with pre-provision operating profit up by 25.4% year-on-year. Group net interest income surged by 20.8%, as rising interest rates contributed to a widening of net interest margins.

Regulatory action hit the Mainland property sector particularly hard in 2022. Noting the growing concern of Mainland regulators in recent years regarding the debt load across the Mainland property sector, since 2021 we have reduced our exposure to commercial real estate and worked closely with our clients in the sector to reduce risk. Nonetheless, many developers faced liquidity issues in 2022 and, as a result, we have significantly increased provisions for loans to this sector. Largely due to this provisioning, our profit attributable to shareholders fell by 17.3% year-on-year.

Despite this reversal, we remain upbeat, particularly in light of the dismantling of COVID controls in Hong Kong and on the Mainland at the end of 2022, recent more supportive government measures toward the Mainland property market and the reopening of the Hong Kong-Mainland boundary in early 2023. We expect a strong rebound in the Hong Kong and Mainland economies and in business prospects in the Greater China region in the year ahead.

### **Strategic Priorities**

Throughout the past year, we have continued to pursue our long-term strategic objectives, focussing on our customers, pushing ahead with digital transformation, aligning our business with our ESG goals and proactively maintaining robust liquidity and balance sheet positions.

Following the sale of our life insurance business to AIA Group Limited in 2021, we partnered with AIA Group again in 2022 on the sale of Blue Cross (Asia-Pacific) Insurance Limited and Blue Care JV (BVI) Holdings Limited. Through our 15-year exclusive bancassurance partnership with AIA, we now offer a full range of AIA insurance products to our clients, generating a strong new revenue stream for the Bank.

With the completion of the sale, the Bank announced a special dividend to shareholders, allowing our shareholders to realise the value that our insurance businesses had created.

Earlier in the year, we sought and won shareholder approval for an off-market share buy-back of 8.43% of the Bank's issued shares. This meaningful transaction was beneficial to all shareholders, and we were extremely gratified to receive strong support for the measure.

As reported last year, we have embarked on a thorough digital transformation journey, remaking the way that we deliver our services to enhance both efficiency and the customer experience. To highlight the benefits of this transformation journey for our clients, we launched the One Bank initiative in 2022. With our growing digital capabilities, we strive to ensure that our customers have one consistent experience across BEA's network worldwide.

At the same time, we are strengthening our customer relationship team, in order to ensure a personalised service to affluent clients who are looking for more from their bank. We expanded the number of relationship managers during the past year, even as our overall headcount declined.

With the reopening of the Hong Kong-Mainland boundary, we will step up our cross-boundary services across the GBA and beyond in 2023. Although the boundary was largely closed for the past three years, we have been preparing for the eventual reopening by investing in our service platform and training our staff to offer an optimised cross-boundary service experience.

To address major societal and environmental issues, including climate change, we have developed and implemented roadmaps to achieve net zero in our own operations by 2030, and in our business activities by 2050. Achieving net zero in our financed emissions will not be easy, and we have proactively addressed this challenge by adopting green and sustainable finance policies that now guide our lending.

Our ability to serve our customers well depends on our ability to attract the best talent and provide an environment that allows talented individuals to grow and prosper together with the Bank. It is a fact that Hong Kong faces a severe shortage of financial and banking industry talent. We are committed to providing comprehensive training, ample opportunities and commensurate rewards to support and motivate our staff and help them to serve our customers better.

## **Outlook**

While the dismantling of COVID restrictions worldwide will be positive for the global economy, many challenges remain, from geopolitical tensions, to the threat of recession and the restructuring of supply chains.

However, in the Greater China region, there is good reason to be hopeful that 2023 will be a better year. Broad policy support for the orderly development of the property market and the easing of regulatory pressure on private enterprise including the tech sector will re-ignite growth in these sectors. Hong Kong's economy is likely to recover with China's reopening, with expectations of an inflow of capital and a rebound in tourism and trade.

The current high-interest-rate environment is expected to continue throughout 2023 and beyond, and the Bank is focused on serving our customers well through responsible lending and proactive risk monitoring. In parallel, we will continue to enhance our ability to earn sustainable fee and commission income.

With the rebound of the Hong Kong and Mainland stock markets at the beginning of 2023, retail investors are returning after shunning the markets in 2022, boding well for the sale of investment products. Recent improvements to the stock connect and bond connect cross-boundary investment programmes will further stimulate demand from investors and, with our past investments in people and technology, we are well prepared to serve this demand.

As I look back on 2022, I am reminded of the many macroeconomic and operational challenges that BEA had to navigate. That we have emerged even-keeled and on course to achieve our strategic goals is testament to my colleagues' perseverance and commitment. Many team members throughout the Group went through lengthy travel quarantines, faced lockdowns and had to do double-duty when their colleagues fell ill. When the challenges of 2022 threatened delays to our digital programmes, the teams rose to the challenge and kept our programmes on course.

I take pleasure in thanking our Bank's Board of Directors and the directors of our subsidiaries and associated companies for their invaluable advice and support during the past year. I also thank the management and staff of BEA for their commitment, which is all the more important now as we carry out our bank transformation programmes.

BEA's distinct identity and core strengths are built on our seamless service capability across Hong Kong and Mainland China, complimented by a well-honed international network and close strategic partnerships. I would in particular like to express my sincere gratitude and appreciation to Criteria Caixa S.A. and Sumitomo Mitsui Banking Corporation for the excellent working relationships that we enjoy with them.

We recognise that we must earn the support and loyalty of our shareholders, and deliver a sustainable return on investment as we execute our long-term strategic plans. We are very grateful to our many shareholders, large and small, for their confidence in BEA.

We also recognise that we are only successful if our customers are successful, and we approach each relationship with this truth firmly in mind. We deeply appreciate the trust that our customers place in us every time they choose us as their banking partner, and we thank them for their business.

**David LI Kwok-po**  
*Executive Chairman*

Hong Kong, 16<sup>th</sup> February, 2023

## REPORT OF THE CO-CHIEF EXECUTIVES

### FINANCIAL REVIEW

#### Financial Performance

In 2022, BEA and its subsidiaries earned a profit attributable to owners of the parent of HK\$4,359 million.

Basic earnings per share were HK\$1.32 for the year. The return on average assets was 0.4%, while return on average equity was 3.7%.

Profitability declined compared to 2021 as a result of a deterioration in asset quality. Continued difficulties for the Mainland property sector resulted in downgrades being made to sizeable accounts, and the Bank made appropriate provisions to cover this exposure.

In face of external challenges, BEA's operations were resilient. Operating profit before impairment losses stood at HK\$8,730 million, an increase of 25.4% compared to 2021, with core profitability showing an improvement across the Bank's Hong Kong, Mainland China and overseas operations.

Net interest income increased by 20.8% to HK\$13,508 million. With interest rates rising in Hong Kong and overseas, net interest margin widened by 28 basis points to 1.65%. This more than offset a drop in non-interest income to HK\$4,446 million under weak market conditions.

Net fee and commission income fell by 10.3% to HK\$2,753 million. Investment sentiment was impacted by the spread of Omicron and macroeconomic conditions, resulting in a decrease in net commission income from sales of investment products and securities brokerage. This was partially offset by a growing contribution from bancassurance, which has become a strong revenue stream for the Bank.

Net insurance profit was impacted by the disposal of BEA Life Limited ("BEA Life") in September 2021 and Blue Cross (Asia-Pacific) Insurance Limited ("Blue Cross") in August 2022.

Taken together, net trading and hedging results and net results from other financial instruments amounted to HK\$1,245 million.

Overall, total operating income rose by 10.3% to HK\$17,954 million.

Total operating expenses were reduced by 1.0% to HK\$9,224 million. Expenses were held flat, despite continued investment in the Bank's talent, digital and data analytics capabilities, as a result of efficiency gains. The cost-to-income ratio for 2022 improved by 5.8 percentage points to 51.4%.

Impairment losses on financial instruments rose from HK\$1,679 million in 2021 to HK\$5,923 million in 2022. The Group's impaired loan ratio increased from 1.09% at the end of December 2021 to 2.39% at the end of December 2022.

Net profit on sale of assets held for sale grew by HK\$403 million to HK\$1,445 million, mainly as a result of the HK\$1,446 million gained upon disposal of Blue Cross and Blue Care JV (BVI) Holdings Limited in 2022, compared to HK\$902 million from the disposal of BEA Life in 2021.

The Group's share of after-tax profits less losses from associates and joint ventures went up by HK\$1,089 million to a profit of HK\$855 million, mainly contributed by associates operating in Malaysia and Mainland China.

#### Financial Position

Total consolidated assets of the Group stood at HK\$882,825 million at the end of December 2022.

Gross advances to customers remained stable at HK\$549,014 million.

Total deposits from customers increased by 2.3% to HK\$648,093 million. Of the total, demand deposits and current account balances decreased by 17.3%; savings deposits fell by 26.2%; and time deposits rose by 22.4%. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, amounted to HK\$680,755 million.

The loan-to-deposit ratio stood at 80.6% at the end of December 2022, compared to 78.6% at the end of 2021.

Total equity attributable to owners of the parent was HK\$95,987 million.

The Bank's strong capital position enabled a series of corporate actions in 2022 while providing a buffer against external impacts. During the reporting year, the Bank completed an off-market share buy-back transaction with a total consideration of HK\$2,904 million in April 2022 and commenced a general buy-back on-market in October 2022. As at 31<sup>st</sup> December, 2022, the Bank had repurchased 15,744,800 Shares on the Stock Exchange at a total consideration of HK\$134 million, representing 0.54% of the Shares in issue.

As at 31<sup>st</sup> December, 2022, the total capital ratio, tier 1 capital ratio, and common equity tier 1 capital ratio were 20.1%, 17.7%, and 15.8%, respectively. The average liquidity coverage ratio for the quarter ended 31<sup>st</sup> December 2022 was 197.7%, well above the statutory minimum of 100%.

## RATINGS

### S&P Global Ratings

*The Bank of East Asia, Limited*

Long-term Counterparty Credit (local and foreign currency)	A-
Short-term Counterparty Credit (local and foreign currency)	A-2
Outlook	Stable

### Moody's Investor Service

*The Bank of East Asia, Limited*

Long-term Bank Deposit (local and foreign currency)	A3
Short-term Bank Deposit (local and foreign currency)	Prime-2
Outlook	Stable

## MAJOR RECOGNITION – BUSINESS

### The Bank of East Asia, Limited

“Outstanding Award for Green and Sustainable Loan Facilitator (Printing & Communication Industry) – Visionary Sustainability-linked Loan Performance Metrics”  
in the Hong Kong Green and Sustainable Finance Awards 2022  
*Hong Kong Quality Assurance Agency*

“Best SME's Partner Gold Award” (for the 5<sup>th</sup> consecutive year)  
in the 2022 Best SME's Partner Award  
*The Hong Kong General Chamber of Small and Medium Business*

“Best for HNW in Hong Kong 2022”  
“Highly Regarded Domestic Private Bank in Hong Kong 2022”  
in the Asiamoney Private Banking Awards 2022  
*Asiamoney*

“Domestic Retail Bank of the Year – Hong Kong”  
in the ABF Retail Banking Awards 2022  
*Asian Banking and Finance Magazine*



“Retail Bank of the Year – Outstanding Achievement”  
“Premium Segment Client Service - Outstanding Achievement”  
“Client Service/Customer Engagement - Outstanding Achievement”  
“Digital Transformation Strategy - Outstanding Achievement”  
in the Financial Institution Awards 2022  
*Bloomberg Businessweek (Chinese Edition)*

### **The Bank of East Asia (China) Limited**

“The Best Banking News Stories on Safeguarding People’s Livelihood of 2021”  
The Best Banking News Stories Selection 2021  
*China Banking Association*

“Best Practice Award in Data Governance”  
in 2022 DAMA China Data Management Summit  
*DAMA China*

### **Bank of East Asia (Trustees) Limited**

“Gold Ratings – BEA (MPF) Value Scheme”  
MPF Ratings’ 2022 MPF Scheme Ratings and Awards  
*MPF Ratings Limited*

### **BEA Union Investment Management Limited**

“Best of the Best Performance Awards: China A-Share Equity (10 Years)”  
2022 Best of the Best Awards  
*Asia Asset Management*

“Top Investment House in Asian G3 Bond (Hong Kong, China), Ranked 3rd”  
The Asset Benchmark Research Awards 2022  
*The Asset*

## **BUSINESS REVIEW**

### **Economic Review**

2022 was an eventful year. The global economy, in particular in advanced economies, initially posted above-trend growth boosted by post-pandemic consumption and highly accommodative fiscal and monetary policies.

However, geopolitical tensions, the Russia-Ukraine conflict, and spiking energy costs soon pushed inflation rates in Europe and the United States to multi-decade highs. This prompted their respective central banks to raise rates at a rapid pace, triggering a downturn in global financial and real estate markets.

Against this backdrop, the International Monetary Fund revised down its 2022 global economic growth forecast from 4.4% in January 2022 to its most recent estimate of 3.4%, while inflation was revised up from 5.0% to 8.8%.

In Mainland China, the economy was weighed down by stringent pandemic controls and regulatory clampdowns on the real estate, internet, and financial sectors. Mainland authorities introduced a number of targeted policies to address highly specific challenges throughout the year. Consequently, after expanding 8.4% in 2021, the Mainland China economy grew by 3.0% in 2022.

In Hong Kong, although pandemic control measures were gradually relaxed, quarantine-free and restriction-free travel for overseas visitors were only allowed in September and December 2022 respectively. Local interest rates rose following hikes in the United States in 2022. Together with the uncertain global economic outlook and tightened monetary conditions, the Hong Kong economy recorded another year of contraction in 2022.

Looking forward to 2023, the global economic outlook is clouded by geopolitical tensions, high inflation and interest rates. However, regional prospects for growth are more promising.

Since November 2022, Mainland authorities have taken an increasingly accommodative and stimulative stance. They have made substantive changes to loosen pandemic rules, and introduced sweeping measures to shore up confidence in the property sector. Early mobility and sentiment indicators have shown a notable recovery in economic activity, and an improving outlook. Given that Mainland China has ample fiscal and monetary policy room to stimulate the economy, we forecast that GDP will grow by 5.7% in 2023, with inflation remaining moderate at around 2.2%.

For Hong Kong, quarantine-free travel with Mainland China and the rest of the world could herald a massive flow of people, goods, and capital. A robust catch up in tourism-related sectors will reinvigorate demand for services, including financial and professional services. Alongside the Mainland's accelerating economic recovery, this will drive a strong rebound for local consumption and investment activity. By dovetailing national strategies, Hong Kong can expect to capture a sizeable share of the economic resources that are being shepherded into strategic industries and the Greater Bay Area. As a result, we have recently upgraded Hong Kong's GDP growth forecast to around 5.0% in 2023, with inflation of 1.9%.

## **Business – Hong Kong**

The external headwinds facing the Bank's Hong Kong operations began to dissipate in the fourth quarter of 2022. Business picked up as COVID-19 restrictions were eased both locally and in Mainland China, and the Bank further benefitted from widened margins under the rising interest rate environment.

However, performance for the full year was affected by weak market sentiment, as well as persistent liquidity issues for clients in the Chinese commercial real estate sector. Against this backdrop, profit before tax for Hong Kong operations declined by 19.5% year-on-year.

Repayment difficulties for Mainland property developers have been particularly acute for offshore lending. Additional downgrades were made on certain sizeable accounts in the fourth quarter, and the Bank made appropriate provisions to cover the related exposure. As a result, impairment losses rose by HK\$2,370 million to HK\$3,495 million.

The Bank maintained a prudent approach to new business, focussing on risk mitigation and portfolio diversification. Overall, customer loans in Hong Kong fell by 2.2% to HK\$298,550 million, while total deposits grew by 2.6% to HK\$422,700 million.

Despite the challenging external conditions, pre-provision operating profit increased by 29.8%, driven by 37.4% growth in net interest income. Net interest margin expanded by 37 basis points on the back of a significant rise in interbank rates.

Wealth management activities were particularly affected by lingering COVID-19 restrictions as well as a general downturn in investor sentiment. Net fee and commission income fell by 9.5%, with strong bancassurance sales partially offsetting the decline in income from investment product sales and stock broking.

Operating expenses were held flat as efficiency gains from BEA's digitalisation and transformation programmes were realised. The Bank made further progress in optimising its physical presence, reducing the number of branches while establishing new centralised workspaces that enable relationship managers to meet customers at their convenience.

BEA has continued to upgrade capabilities to future-proof its business and grasp opportunities arising from the post-COVID recovery. Investments have been made to digitalise operations, implement advanced data analytics and develop new service platforms to further enhance the customer experience. At the same time, additional frontline sales staff have been hired to handle the anticipated growth in business from individual, corporate and high-net-worth clients following the reopening of the border with Mainland China.

## **Retail Banking**

The Bank's retail operations recorded significant year-on-year growth in 2022, with net profit rising by 107.1%. Performance was driven by sustained customer acquisition in target segments, as well as an improved spread on deposits.

Net interest income increased by 75.0%. Net interest on loans was lower due to higher funding costs. Nevertheless, this was more than offset by higher income from deposits resulting from balance growth and widened margins.

With weak market sentiment, non-interest income recorded a drop of 2.6%. As mentioned above, fees and commissions from investment product sales and brokerage activity were lower throughout the year. This was partially mitigated by strong growth in income from sales of insurance.

The Bank's mobile and online platforms assured business momentum and service continuity, particularly during temporary branch closures under the fifth wave of COVID-19. Customer digital adoption has steadily increased, with financial transactions made via mobile up by 29%.

Overall, operating income rose by 49.8%. With synergies arising from the Bank's cost rationalisation programmes, operating expenses were 2.0% lower.

Regarding segment performance, new client intake for BEA's premium wealth management service, SupremeGold Private, was strong, bringing in meaningful assets under management. The SupremeGold all-in-one account also maintained double-digit growth. Meanwhile, the uptake of BEA's new digital account, BEA GOAL, has exceeded expectations since its launch, successfully attracting a new generation of customers.

Throughout 2022, the Bank enhanced service levels in various aspects, covering mobile account opening, straight-through digital mortgage application, online buy-now-pay-later and virtual credit cards. More products and services will be upgraded with the launch of BEA's new mobile banking platform in 2023.

### **Wholesale Banking**

The result for Wholesale Banking has been severely impacted by the problems facing the Mainland commercial real estate sector, which persisted throughout the year under review. With some substantial clients facing continued repayment difficulties, BEA made sizeable provisions in Hong Kong with regard to offshore lending.

As a result, the Bank adopted a more prudent approach, leading to a mild drop in the corporate loan balance. Despite this, underlying business was sound. Operating income increased by 9.8% year-on-year, with net interest income growing by 12.9% on the back of rising interest rates. Meanwhile, lower fees from lending and fixed income activity were countered by higher commissions from treasury and investment sales.

BEA's wholesale banking team in Hong Kong have worked closely with their Mainland counterparts to ensure a seamless One Bank experience for cross-border customers. The Bank will further enhance its Global Relationship Managers service model and digital channels to capture new business from across the Greater China region, as well as to serve customers' needs in other geographies.

BEA is also committed to the development of green and sustainable finance. The proportion of green lending and bond investments in the Bank's total portfolio rose by 6.5 percentage points year-on-year as BEA worked with clients to fund sustainability-linked projects and reduce carbon emissions. The Bank will continue to diversify its portfolio into new sectors and industries to deliver sustainable long-term growth.

### **Wealth Management**

For Private Banking, performance was constrained by market conditions. Amid continued uncertainty over geopolitical tensions, rising inflation and lingering COVID-19 restrictions, investor sentiment remained weak globally in 2022. As a result, investment AUM and loans declined as asset prices fell and customers sought to de-risk their portfolios.

Despite these challenges, there were positive signs for the wealth management business. Increased income from foreign-exchange related instruments and structured products largely offset a decline from mutual funds and brokerage activity. With a higher average deposit balance and improved margins, net interest income grew by 11.0%.

The Bank continued to increase its salesforce and improve customer acquisition. The number of Private Banking relationship managers and investment consultants increased by almost 30%, and AUM from new-to-bank customers rose by more than threefold even as total balances declined.

Digitalisation has been key to efforts to provide value-added services and grow the customer base, particularly amongst the younger generation. An innovative Fund Portfolio Builder was launched in May, enabling retail clients to build customised portfolios based on their preferences. Additional digital services covering investment trading and more will be launched in 2023.

Business is expected to pick up strongly in the year ahead as the Mainland optimises anti-pandemic measures and re-opens its borders. With government policies expected to support the development of the family office industry in Hong Kong, BEA is also expanding its capabilities in family governance, impact management and succession planning. The Bank will continue to broaden the scope of its wealth management and investment product offerings to serve cross-border and professional investors.

### **Insurance and MPF Services**

BEA's life insurance bancassurance partnership with AIA celebrated its first anniversary in July 2022. Results to date have been positive, with a strong performance in annualised new premiums and value of new business. The bancassurance model is successfully leveraging the Bank's strengths in distribution to generate cross-selling opportunities and build a sustainable platform for fee income growth.

In 2022 the scope of BEA's partnership with AIA was expanded to include general insurance. The sale of Blue Cross, as well as the Bank's 80% stake in healthcare service provider Blue Care JV (BVI) Holdings Limited, to AIA was completed in August. Following this transaction, Blue Cross has become the exclusive provider of non-life insurance products for BEA's personal banking customers in Hong Kong. The Bank has continued to explore new areas for cooperation with AIA, including a co-branded credit card which was launched in November.

Total membership of BEA's MPF schemes grew by 3.3% to 879,000 at the end of December 2022. AUM declined by 13.2% as portfolio valuations dropped in the volatile market environment.

BEA has maintained its position as the leading Industry Scheme provider. With significant annual expenditure expected on infrastructure and other construction works in Hong Kong, the Bank is well-placed to capture new business from major contractors.

Going forward, the Bank will continue to leverage its branch and sales networks to manage the comprehensive retirement needs of individual customers, and prepare for future industry reforms including full portability of benefits.

### **Business – Mainland China**

It was a challenging year for the Mainland economy with the pandemic, property market downturn, a worsening global economic outlook, and escalating geopolitical tensions weighing on economic activity and consumer sentiment. GDP growth slowed to 3.0% year-on-year, the lowest since the Global Financial Crisis of 2007-2008.

Recurrent COVID-19 outbreaks also created disturbances to local branch services of BEA China, although the Bank remained resilient and provided largely uninterrupted services.

Despite the complex operating environment, BEA's China banking operations generated a strong pre-provision operating profit of HK\$ 1,538 million in 2022, up 17.5% year-on-year. Factoring in the Renminbi's depreciation against the Hong Kong dollar, on a constant currency basis the rise was 22%. The increase was mainly contributed by steady growth in the loan book as BEA China continues its diversification efforts, and a return to growth for net interest income due to the development in the wholesale loan and consumer finance portfolio. Non-interest income also increased year-on-year due to revaluation gains from US dollar appreciation and growth in trading income primarily driven by an active foreign exchange market.

The real estate sector remained under pressure during the year, with growing defaults from Mainland based developers. This led BEA China to downgrade a number of real estate accounts. The impaired loan ratio increased to 2.75%, up by 1.21 percentage points from the end of December 2021 whereas impairment losses on financial instruments rose by 237.8% year-on-year to HK\$2,088 million. As a

result, BEA's China banking operations recorded a net loss of HK\$424 million for 2022, compared to a profit in the previous year. During the year, BEA China took a number of proactive steps to manage its loan portfolio, including continuously reducing exposure to the property sector, seeking early repayment, strengthening our lending position by asking for additional collateral coverage, and stepping up efforts in problem loan recoveries.

On wholesale banking, BEA China continued to focus on growing its non-property related loan portfolio, which accounts for 72.6% of its total wholesale banking portfolio. Good progress was recorded in growing credit exposure to selected strategic sectors, including technology-media-telecom, medicine and health, fast moving consumer goods, and automobiles and parts. Moreover, BEA China responded swiftly to new opportunities arising from green finance. During the year, BEA China arranged its first dual-structure ESG syndicated loan in the Mainland and grew its green credit exposure by over 90% year-on-year. BEA China was also a major contributor to the Group's One Bank strategy, managing 60% of the Bank's top cross-boundary customer groups.

Overall, operating income from wholesale banking achieved moderate growth compared to the previous year. Net interest income from wholesale banking grew by 10% year-on-year, which equates to 14.2% on a constant currency basis. The impact of thinner margins due to targeting quality customers was minimised by efforts in managing down the deposit cost. Non-interest income from wholesale banking fell as the outbreaks of COVID-19 suppressed business activities.

On the personal banking side, total operating income remained flat compared to the previous year as growth in net interest income offset a decrease in non-interest income. Net interest income from personal banking grew by 0.3% year-on-year (4.1% on a constant currency basis), driven by growth in the high-margin consumer finance portfolio; this portfolio is now supported by enhanced risk analytics offered by ecosystem partners. At the same time, BEA China proactively decreases its credit card and mortgage portfolio in order to better optimise the risk-weighted return for its retail loan portfolio.

Non-interest income from personal banking fell as the risk appetites of investors were limited amid volatile market conditions, and COVID-19 control measures hindered face-to-face wealth management services. During the year, BEA China repositioned its personal banking business to focus on the affluent segment in Beijing, Shanghai and the GBA, and has in particular strengthened its cross-boundary propositions such as with Wealth Management Connect and remote account opening services.

Despite the inflationary environment, underlying operating expenses for BEA's China operations in 2022 were flat year-on-year and the cost-to-income ratio improved by 420 basis points, demonstrating its strong discipline in cost control.

BEA China is accelerating its digital transformation by cultivating a data-driven organisation supported by IT investments and extensive staff training. In December 2022, BEA China was presented with the "Best Practices of Data Governance" award by the Data Management Association China, the first foreign bank in Mainland China to win this award. Riding on a stronger data and digital infrastructure, BEA China is implementing various projects in Robotic Process Automation and customer journey enhancements to further improve operational efficiency and customer experience.

As of 31<sup>st</sup> December, 2022, BEA China has 30 branches and 35 sub-branches covering 38 cities on the Mainland. In the GBA, BEA China operated one of the most extensive networks among foreign banks, with 20 outlets covering all the cities in the region. In the third quarter of 2022, the construction was completed on the BEA Tower in Qianhai which is where the BEA GBA Office, BEA China Innovation Lab, BEA China Shenzhen Branch and East Asia Qianhai Securities Company will reside. This will facilitate BEA to further its GBA aspiration through establishing a more substantial presence in the region and promoting intragroup synergies.

## **Business – International, Macau and Taiwan**

In 2022, the performance of the Bank's overseas operations remained resilient, despite the challenging operating environment stemming from elevated geopolitical tensions, high inflationary pressures, and monetary policy tightening by major central banks.

During the period under review, pre-provision operating profit for overseas branches soared 34.9% year-on-year to HK\$1.65 billion, boosted by higher net interest margins and customer advances as well as good cost discipline.

Net profit after tax remained flat at HK\$1.06 billion, notwithstanding an increase in impairment losses, compared to a net release in the prior year. This reflects the effects of heightened economic uncertainties in the forward economic outlook, especially in the United States and United Kingdom, and the deterioration in the financial metrics of some borrowers.

Despite the increased impairment losses, asset quality nonetheless remained sound, and the impaired loan ratio was 0.38% at the end of December 2022. Our overseas operations continue to be alert to volatile and challenging market conditions.

The strict cost management and higher revenue both contributed to reducing the cost-to-income ratio to 29.9% compared with 37.0% a year earlier.

The Bank's United Kingdom operations posted sustained growth in pre-provision operating profit, attributable to loan growth and NIM expansion. BEA United Kingdom also continued to reduce its exposure to the property sector and expand its green and sustainability-linked financing portfolio. BEA's operations in the United States also delivered outstanding results on the back of stronger profitability, driven by loan growth and higher NIM. In light of the increasing recessionary pressures in the western markets, both the United Kingdom and United States operations will manage their portfolios vigilantly and proactively recycle their risk-weighted assets with higher quality credits and decent returns.

In Asia (excluding Hong Kong and Mainland China), since the completion of the strategic repositioning exercise and network rationalisation initiative in 2021, both Singapore and Macau branches showed remarkable improvements in pre-provision operating profits and cost-to-income ratios for 2022. The two branches will continue to focus on wholesale banking business and maintain tight cost control. Meanwhile, branch operations in Taiwan have been taking a reasonably prudent stance in business expansion in light of the prevailing economic headwinds faced by the island.

In pursuit of the "One Bank" strategy, overseas branches are leveraging their local expertise to enhance collaboration with other business units to deliver a seamless banking experience to customers and enhance the customers' total value to the Bank.

In addition, BEA's overseas operations are actively participating in the Bank's transformation journey through increased investment in digital initiatives designed to improve customer experiences and enhance operational efficiency. United Kingdom operations have introduced digital solutions for financial data management and analytics. Singapore Branch, in line with its business repositioning strategy, is about to complete the revitalisation of its corporate Cyberbanking platform with expanded online functionalities for corporate customers. Meanwhile, the Taiwan Branch is in the process of replacing its core banking system to accommodate advancements in technology and automation to boost operational efficiency.

Sustainability is also one of the Bank's key priorities and overseas branches have been actively exploring green and sustainable financing opportunities in line with the Bank's ESG strategies. As at the end of 2022, green and sustainability-linked loans accounted for 17.9% of the total loan portfolio. The respective loan balances increased by 117.6% from the previous year.

Looking ahead, given the uncertain business landscape, overseas operations will prioritise asset quality over loan growth, optimise risk-weighted assets, and increase returns. Prudent cost management will also remain a focus. We will invest in new technologies that help to meet regulatory requirements and further streamline business processes.

### **BEA Union Investment Management Limited**

In 2022, BEA Union Investment Management Limited ("BEA Union Investment") remained resilient amidst turbulent global markets. Assets under management and advisory as at 31<sup>st</sup> December, 2022 were US\$7.3 billion, versus US\$8.8 billion as at 31<sup>st</sup> December, 2021.

Despite the challenging market conditions, BEA Union Investment stayed focused on its core capabilities, putting the company in a competitive position to tap into future opportunities as the markets improve. The company's efforts and strengths were recognised through a number of key industry awards in the year.

BEA Union Investment is a signatory of the United Nations Principles for Responsible Investment. As part of the Bank's commitment to sustainability, BEA Union Investment established a comprehensive ESG policy and integrated the policy in the investment process across all funds.

Looking forward, BEA Union Investment will continue to partner with clients on their journey for the optimal investment solution through further developing its investment strategies and products in Asia.

## Our People

As of 31<sup>st</sup> December, 2022, the BEA Group employed 8,453 people:

	As of 31 <sup>st</sup> December, 2022	As of 31 <sup>st</sup> December, 2021
Hong Kong	4,833	5,057
Mainland China	3,060	3,211
Macau and Taiwan	130	130
Overseas	430	426
<b>Total</b>	<b>8,453</b>	<b>8,824</b>

While 2022 posed operational challenges to our Bank, it also posed personal difficulties to our staff. Whether through travel quarantines, lockdowns, covering shifts for sick colleagues or falling ill themselves, our employees faced a range of hardships. That we came together as a Bank to meet these challenges is a testament to the strength and dedication of our employees.

Our people lie at the heart of the Bank's transformation. Our orchestrated efforts have helped colleagues acquire new skills and foster an agile learning culture, creating a workforce that is change-oriented, digital-ready and data-literate. This year, both our Growth Mindset Training and Data Literacy Empowerment programmes were attended by more than half of bank staff in Hong Kong, forming a critical mass that can create change and drive sustainable growth.

As part of our long-term strategy to harness the future of banking, we selected data champions from different business units for additional training, while our senior leaders strengthened their leadership mindset to nurture a culture of innovation. Further, we have equipped all staff with essential knowledge of fintech through a brand new mobile micro-learning programme. Our employees are also encouraged to pursue continuous professional development through externally provided courses. This year, for the first time, the Bank subsidised a group of employees to attain HKMA's new Enhanced Competency Framework (ECF)-Fintech certification.

In another sign of our commitment to building strong leadership and talent pipelines, we extended our high-potential executives ("HIPOs") programme to include newly identified HIPOs from Hong Kong and overseas branches in Malaysia, the United Kingdom and the United States, and we enhanced our Future Leader Accelerated Programme to support diversity and engagement of HIPOs across regions. We also believe in investing in our young talents and providing our graduate trainees with career development opportunities. One such example is this year's cohort of Personal Banking Relationship Manager Trainees who were trained and mobilised to run our newly launched Mobile RM Hub in Central.

During the pandemic, workplace engagement took on new significance. Our new "Bright Ideas, Big Impact Programme", where winning ideas from two rounds of submissions will be adopted and implemented as appropriate, attracted an overwhelming response from colleagues. Similarly, our full-scale employee survey in September generated a 95% response rate. We saw a strong buy-in for our transformation and green agenda, with 80% and 86% favourable respectively. Employees also appreciate the enhanced efforts in communications, a marked 10% increase in favourable responses from our 2021 pulse survey. Based on the survey results, the Bank will devise division-specific plans in 2023. In addition, we will continue to monitor human rights breaches, which was incorporated into the Bank Culture Dashboard in 2022.

At all times, we factor in employee wellbeing. From 1<sup>st</sup> January, 2023, staff will have greater flexibility in arranging their annual leave and their monthly wellbeing leave will be doubled from 2 hours to 4 hours. To promote a healthy lifestyle, the Bank's Staff Sports and Recreation Club operates a gym for employees and, working within Government guidelines, organised 78 programmes in 2022, attracting more than 5,900 participations from employees and their family members. These included 46 sports, wellness, and fitness-orientated programmes; 21 recreational courses; and 7 charitable and fundraising activities.

Aside from wellbeing, the Bank fosters social connections and promotes a caring community. The “Join Hands, Reach Further!” programme launched in the second quarter of 2022 directs volunteer efforts towards the Bank’s key community service programmes, namely BEA Upcycles, BEA Golden Adventures and BEA Festival (Beyond Environmental Arts Festival), as well as other outreach opportunities. Through 65 programmes, we gave close to 3,700 volunteer hours to the communities we serve.

Health and safety of staff and the public have long been a focus of BEA, but they came to the fore under the severe fifth wave of COVID-19 in the first half of 2022. The Bank quickly distributed Rapid Antigen Test kits to all staff and provided flexible work arrangements, as well as additional leave days for employees to get vaccinated. As we move beyond the pandemic, we are renewing connections with our Mainland China and overseas employees, and focusing our efforts to create an agile workforce, improve business continuity, and increase productivity.

## **SUSTAINABILITY**

Guided by our vision to be the sustainability leader among financial institutions in Greater China and beyond and informed by our ESG strategy framework, BEA integrates sustainability principles into our business and operations across the Group.

Reflecting our commitment to sustainability, in 2022, BEA upgraded its sustainability function into a department and renamed its Human Resources & Corporate Communications Division to People & Sustainability Division. On the Mainland, BEA China established its own 3-tiered ESG governance structure and Sustainability Section, which drive the subsidiary’s sustainability efforts and ensure alignment with other Group members.

### **Growing Our Business Responsibly**

The green and sustainable finance (“GSF”) framework introduced in 2022 will crystallise the Group’s progress in meeting its net zero targets and better enable its business and treasury units to identify opportunities for green lending and ESG bond investment to support the transition to a low carbon economy.

In February, the Bank strengthened its list of prohibited lending and ESG checklists for credit approval. To ensure related units across the Group work towards the same sustainability objective, extensive training was provided to over 600 relationship managers and related staff. The 2022 target set for total GSF loans and ESG bonds as a percentage of total corporate loan and investment assets was achieved.

In May, BEA was the first bank headquartered in Hong Kong to become a signatory to the Partnership for Carbon Accounting Financials, joining like-minded leaders of the financial industry in promoting effective communication and cooperation regarding climate action.

Passionate about supporting innovation and the local fintech ecosystem we introduced **BEAST** (“BEA + Startups”), a co-working space that serves as an access point for startups into the established finance industry and enables them to develop their innovative products. To date, the Bank has supported more than 80 ongoing projects co-developed with local startups, industry players, and fintech community partners.

### **Operating Our Business Responsibly**

BEA is committed to achieving net zero financed emissions by 2050. As part of the net zero goal on the Bank-wide scorecard for 2022, BEA established a roadmap for reducing the Bank’s operational emissions, which was approved by the Board ESG Committee in November. It was also determined that the Group’s corporate loan and bond investment portfolios account for over 90% of BEA’s financed emissions, a significant component of BEA’s Scope 3 emissions.

In the year under review, we also committed to achieving net zero operational emissions by 2030. To this end, we revised the Group’s target for Scopes 1 & 2 set in 2020 in order to align with the Science Based Targets Initiative and the Paris Agreement goal of limiting global warming to 1.5°C compared to pre-industrial levels. Going forward, BEA plans to establish a Sustainable Building Policy and deployment plan to facilitate implementation. The Group also aims to reduce paper consumption by 70% over a 3-year period.



To foster a greater understanding of sustainability topics that are material to the Group, BEA is set to publish a Sustainable Procurement Policy in the first quarter of 2023 to guide all relevant departments and encourage suppliers to adopt best practices and operate sustainably and responsibly. All staff also received a sustainability refresher course for the second consecutive year in 2022. It was encouraging to see in the Employee Survey conducted in September that 85% of our staff believe that their division or branch can have a clear impact on the Group's ESG performance while 90% believe that BEA is dedicated to improving its ESG performance.

### **Serving Our Community Responsibly**

BEA's community investment programme is built on the three pillars of education, social welfare, and environmental protection. In March, The Bank of East Asia Charitable Foundation donated anti-epidemic supplies worth HK\$3 million to over 43,000 people and created short-term packing jobs for the unemployed. Then in May, BEA launched the "Join Hands, Reach Further!" volunteer campaign through which some 800 staff contributed close to 3,700 hours across 65 activities and served more than 8,700 beneficiaries.

2022 was also the year we launched a new flagship programme – Beyond Environmental Arts Festival (BEA Festival) – in partnership with Hong Kong Youth Arts Foundation to provide environmental education through a series of interactive events. Activities this year included an original theatrical performance, creative art workshops and installation art exhibitions, which enlisted the help of young local artists and volunteers. Continuing efforts to raise awareness of green living, BEA joined hands with St. James' Settlement to organise "BEA Upcycles". Persons with disabilities took part as workshop instructors at Cityplaza, teaching the public ways to integrate sustainability into daily routines.

Caring for the elderly has long been a focus of BEA's social welfare efforts. Through the "BEA Golden Adventures" campaign, 175 volunteers conducted home-improvement projects and short exercise sessions for elderlies. A mural painted by BEA volunteers, youths, elderly residents, and people with disabilities also brightened up the community with messages of the importance of social inclusion.

On the Mainland, BEA China donated over HK\$230,000 to the Shanghai Children's Medical Centre to establish the Mental Health for Medical Professionals Project. The programme was designed to help promote the physical and mental wellbeing of medical workers, especially those in the paediatric field, who have stood on the frontline in the fight against the COVID-19 pandemic since 2020.

## **RISK MANAGEMENT**

### **Approach to Risk**

The Group recognises that a sound risk culture is the very foundation of its strength. To this end, the Group maintains a prudent and proactive risk management framework that supports risk awareness, proper behaviour, and sound judgement in relation to risk-taking. All employees are responsible for the management of risk.

The following principles guide the Group's risk appetite and determine how its business and risks are managed. Further details on the Group's management of principal risks are set out in Note 43 of "Notes to the Financial Statements".

### **Risk and Return**

The Group's risk appetite is used to guide its business plan. The level of return generated through business activities is in line with the risk taken and in alignment with strategic plans, business outlooks, and risk management policies, with an aim to generate sustainable earnings.

### **Capital Adequacy**

The Group is committed to maintaining a sound capital position defined by regulatory and internal capital ratios after taking into account the Bank's dividend policy and the need to meet capital requirements. The Group, and each of its members, expect to maintain a robust capital adequacy position that supports the growth of business activities.

## **Liquidity & Funding Management**

The Group is committed to having sufficient funds to continue business and operations under crisis scenarios on a Group basis, with the ability to meet all obligations as they come due.

## **Regulatory Compliance**

The Group strives to deliver fair treatment to customers and ensures that operations are conducted with integrity and in compliance with all applicable legal and regulatory requirements. The Group will not tolerate negative conduct risk outcomes that go against the spirit of the law and regulatory requirements, and is committed to developing and promoting a sound corporate culture and incentivising proper staff behaviour.

## **Cyber Security**

The Group strives to adapt to the rapid pace of technological change to improve the Bank's services for clients and enhance customer experience and is committed to continually strengthening cyber security capabilities including identification, prevention, detection, and response to address the ever-evolving cyber threat landscape, and protect our critical information assets and systems from external malicious attacks.

## **Reputation**

The Group does not tolerate any controllable activity that could cause material damage to its reputation, and protects its reputation with an established process of managing reputation risk and by dealing with potential threats to its reputation proactively and minimising the effects of reputation risk events.

## **ESG Risks Including Climate Risk**

The Group recognises the importance of sustainability to long-term business success, and therefore considers environmental and social concerns when extending financing to customers, making investments and conducting operations. This strategic direction guides the Group towards supporting companies and projects that positively impact the environment and society, while complying with local regulations and standards of governance. The Group is committed to managing and mitigating environmental, social, and governance risks, including climate risk, in a manner that is strategically aligned with its Sustainability Vision and Mission Statements, and reducing carbon emissions in its business and operations.

## **Risk Management Framework**

The Group has established a robust risk governance and management framework that ensures appropriate oversight of, and accountability for, the effective management of risk.

This framework enables the Board and Senior Management to administer risk management-related responsibilities with appropriate delegation, checks and balances.

The key aspects of the framework, principal risks and principal uncertainties are outlined below.

## **Enterprise Risk Management**

The Group manages risk on a Group-wide basis within an Enterprise Risk Management ("ERM") framework. The ERM framework spans multiple risk types and focuses on optimising the balance and interaction of the different types of risk, and the balance between risk and return.

The ERM framework provides an effective and efficient approach to governance and oversight within the organisation, and helps the Group monitor and mitigate risk during the course of carrying out the Group's strategies.

Further, the ERM framework promotes risk awareness throughout the organisation and facilitates better operational and strategic decision-making, promoting a strong risk culture and ensuring that operations are compatible with the nature and level of risk that stakeholders are willing to take.

## Risk Governance

The Board of Directors has ultimate responsibility for the effective management of risk. It approves risk appetite, risk policies that govern the execution of strategies, procedures and limits.

The Risk Committee stands at the highest level of the Group's risk governance structure under the Board. It provides direct oversight of the formulation of the Group's risk appetite and ensures that the Group's risk appetite is reflected in the policies and procedures that Senior Management adopts to execute business functions.

Risk management committees have been established throughout the Group, and with the assistance of these committees the Risk Committee regularly reviews the Group's ERM framework and ensures that all important risk-related tasks are performed according to established policies and with appropriate resources.

## Three Lines of Defence

The Group has adopted the "Three Lines of Defence" risk management structure to ensure that roles and responsibilities with regard to risk management within the Group are clearly defined. The "Three Lines of Defence" model is summarised below.

<b>The First Line of Defence</b>	Comprises the Risk Owners, who are heads of business units or support units of the Bank Group, together with staff under their purview.  They are responsible for the day-to-day management of risk within their units, including establishing and executing specific risk-control mechanisms and detailed procedures.
<b>The Second Line of Defence</b>	Consists of the Risk Controllers, who are designated staff responsible for setting out a risk management governance framework, monitoring risks independently, and supporting the management committees in their oversight of risk management for the Bank Group.
<b>The Third Line of Defence</b>	Internal Audit Division, which is responsible for providing assurance as to the effectiveness of the Group's risk management framework, including risk-governance arrangements.

The Group Chief Risk Officer leads and coordinates all the Group's risk management-related matters, works closely with the Risk Controllers on the formulation of risk management policies, and exercises risk oversight at the Group level through a functional working relationship with all Risk Controllers and Risk Owners.

## Principal Risks

The Group faces a variety of risks that could affect its franchise, operations, and financial health. The principal risks that have been identified under the ERM framework and how they are managed are set out in the following table.

<b>Principal risk type</b>	<b>How it is managed</b>
<b>Credit Risk</b>	The Group has established control limits, delegated lending authorities, underwriting criteria, monitoring processes, internal rating structures, recovery procedures and provisioning policies, and these are set out in the Group's policies, guidelines and manuals in line with regulatory requirements.
<b>Interest Rate Risk</b>	The Group has established control limits and assesses the gap risk, basis risk and options risk primarily through the monitoring of repricing mismatches and the impact of changes in interest rates on earnings and economic value.
<b>Market Risk</b>	The Group measures and monitors potential loss due to adverse price movements and market volatility in accordance with the control limits set out in the Group's policies, guidelines and manuals.

<b>Liquidity Risk</b>	The Group conducts cash-flow analysis to monitor funding needs and has a contingency funding plan in place that clearly stipulates the procedures and mitigating actions required to meet liquidity needs in crisis situations.
<b>Operational Risk</b>	The Group has established and implemented a framework that defines the standards, processes and internal controls for managing operational risks against risk appetite through various tools and systems in a cost-effective manner.
<b>Reputation Risk</b>	The Group identifies, assesses, monitors, mitigates and controls reputation risk systematically. Specific procedures and guidelines are in place to facilitate timely and effective communication with various stakeholders in order to defuse any potential reputation-risk incidents.
<b>Strategic Risk</b>	The Group formulates and updates its strategic plan (covering a period of five years) annually to set strategic goals and objectives, evaluate strategic positions and develop appropriate strategies according to the changing external environment and internal capabilities.
<b>Legal Risk</b>	The Group has adopted comprehensive policies, guidelines and manuals. Qualified internal personnel and/or external professionals are engaged to provide advice and training courses.
<b>Compliance Risk</b>	The Group has established various policies, guidelines and manuals to ensure compliance with legal and regulatory requirements. A risk-based approach is in place to complement the management of compliance risk.
<b>Technology Risk</b>	The Group strengthens cyber-security awareness of all staff through comprehensive training programmes and further mitigates technology risk by implementing a range of control measures.

### **Risk Appetite**

Risk Appetite is set by the Board, and defines the accepted and tolerated levels of risk and return from an enterprise-wide perspective. The Risk Appetite Statement consists of qualitative statements and quantitative metrics, covering income-generating risks and non-income-generating risks.

### **Risk Profile**

The Risk Profile report provides both a point-in-time view and a forward-looking assessment of the suite of risk categories, as well as an assessment of their potential impact on the Group's financial results, reputation and business sustainability.

### **Key Developments**

In 2022, the business environment of the Group faced multiple headwinds and challenges including troubled property developers amid the struggling real estate sector in Mainland China, prolonged negative impact attributable to COVID-19, and the impasse Russia-Ukraine conflict, all against the backdrop of global economic uncertainties under hiking interest rates and inflationary pressures.

To this end, the Group has actively managed the associated risks. Specifically, the Group has enhanced its risk management in the following areas in 2022:

- Additional resources have been allocated for management of special assets and credit monitoring so as to proactively identify risk in the loan book and mitigate risks in a timely manner. In addition to enhanced credit control, thematic reviews are regularly conducted on high-risk sectors and loan exposures that are most susceptible to the current challenges, including the COVID-19 pandemic, citywide lockdowns in Mainland China, the Russia-Ukraine conflict, and interest rate hikes.
- The Group continues to constantly review the operational risk management framework to keep abreast of regulatory and industry developments. Major enhancements include refining the Incident and Issue Management framework to manage material risks proactively and to assure sustainability; sharpening of anti-fraud control measures; and updating the third-party risk management framework to align with regulatory expectations. The Group is also committed to further investing and strengthening the Operational Resilience Framework to reinforce the agility of the business and safeguard business stability.

- The Group recognises the importance of sustainability for the environment, society, and for the long-term business success of the Group, and the risk appetite statement on ESG risks aligns strategically with the Group's Sustainability Vision and Mission Statements. In order to incorporate sustainable practices into all business and operational initiatives, the Group launched the Green and Sustainable Finance Framework and enhanced the ESG risk-rating mechanism and tool that enables systematic assessment of customers' ESG performance and vulnerability to climate-related risk. Furthermore, the Group has upgraded the risk management infrastructure by developing sector policies for several high carbon-emitting industries, an internal green and brown taxonomy, an internal green and sustainable finance certification standard, and key ESG risk indicators to support customers' transition to a low-carbon economy. The Group has also developed green finance, incorporated climate risk considerations into strategy formulation, and controlled risk exposure to extreme climate events.
- The Group is also aware of the benefits of automation and digitalisation. The Bank implemented a new workflow system and has adopted the latest technologies to improve the daily risk management processes, data capture capabilities and accuracies, and manpower allocation efficiencies.

### Principal Uncertainties

The key uncertainties currently facing the Group and the mitigating measures implemented are set out below.

Principal Uncertainties	Mitigating Measures
<p><b>Macro-economy</b></p> <p>The global economy is still reeling from the effects of the COVID-19 pandemic and Russia-Ukraine conflict, and is facing an increasingly murky and uncertain outlook.</p> <p>Heightened geopolitical tensions have impeded global trade and caused a global slowdown, while inflation remains stubbornly high due to rising energy and food prices, as well as supply-demand imbalances. Higher-than-expected inflation, especially in the United States and European economies, led to rapid monetary tightening unseen in the past few decades. Considering the multiple headwinds and challenges, the world may soon be teetering on the edge of a global recession.</p> <p>In particular, Mainland China's growth has been suppressed by the evolving pandemic conditions and credit crunch in the property sector. The path to a full economic rebound may be bumpy despite the relaxation of COVID-19 control measures and stimulus measures to support the crisis-stricken sectors.</p> <p>In Hong Kong, the economy showed a widened contraction amid deteriorating external and swiftly tightening monetary environments, which have posed immense pressure on its export performance and raised the risk of property and stock market consolidation.</p>	<p>The Group will continue to monitor the market situation and its portfolios closely in order to manage risk exposure.</p> <p>From a credit risk perspective, the Bank continues to identify potential adverse events and devise ways to mitigate any impact on its capital adequacy and asset quality. Such measures include enhanced credit control on loan exposures most susceptible to the COVID-19 pandemic and the Russia-Ukraine conflict, thematic reviews on high-risk sectors, and stress testing on capital adequacy and loan-loss allowances. In response to the uncertainties arising from the liquidity and refinancing risk of the Mainland property sector, the Group is taking a conservative approach, with accounts being monitored closely. Overall credit exposure to the sector is being reduced amidst the Group's broader diversification strategy. The Bank remains alert to the development of the Mainland property market, and lending appetite has become highly selective, with prudent and proactive credit risk management adopted to control loan asset quality.</p> <p>From a market and interest rate risk perspective, the Bank continues to assess trends, manage exposures, review its risk-taking strategy, and formulate mitigation actions as necessary.</p> <p>From a compliance risk perspective, the Bank continues to track the development of relevant sanctioned regimes and mitigate risk exposure where appropriate.</p>

---

## Cyber-Security Risk

---

Cyber-security risk is a key focus area for regulators and the banking industry, as these risks evolve rapidly. Attackers are constantly seeking more sophisticated and efficient ways to undermine banks' cyber security and operations.

The Group takes a multi-pronged approach to tackle cyber-security risk and improve cyber resilience:

- Engage external consultants to assess the Group's cyber-security controls against relevant information-security standards and emerging risks to identify and implement necessary improvements
  - Analyse different intelligence sources to monitor the latest worldwide threats and establish industry-wide collaborations on sharing of cyber threat intelligence
  - Maintain a proper incident response management process including cyber-security insurance policy
  - Enhance cyber and information-security training programmes including periodic phishing e-mail tests to promote security awareness among staff and improve security practices
  - Cyber and information security risks and controls are regularly reviewed and reported to directors in Risk Committee meetings quarterly
- 

## ESG

---

Climate change poses both short and long-term risks to the banking industry. "Physical risk" refers to the impacts of weather and climate-related events, which could lead to disruptions to the business and operations of banks and their clients. "Transition risk" refers to the risk related to the process of adjustment towards a low-carbon economy, which can be prompted by policy, legal, technology and market changes as climate-change mitigation and adaptation measures are adopted.

To manage the potential risks from ESG and cultivate ESG consciousness throughout the Group, BEA has:

- Developed a Green and Sustainable Finance Framework and sector policies for several high carbon-emitting industries to control the Group's risk exposure to "brown sectors" and support customers' transition to a low-carbon economy
  - Formulated an Internal Green and Brown Taxonomy, with reference to the EU Taxonomy for Sustainable Activities and China's Green Bond Endorsed Projects Catalogue, to assist business units in developing and identifying green and sustainable finance opportunities and controlling risk exposure to "brown sectors"
  - Designed an Internal Green and Sustainable Finance Certification Standard and a list of external reviewer to ensure green and sustainable finance applications are aligned with international standards and qualified as green finance
  - Incorporated climate risk considerations in the screening and assessment of credit applications
  - Expanded the prohibited lending list to include wider business activities that create material negative environmental or social impacts
  - Disclosed the Bank's ESG / climate risks and opportunities in the Group's 2021 ESG Report in accordance with the Task Force on Climate-related Financial Disclosures framework
  - Promoted ESG awareness and capacity building among staff members through external and internal events including industry webinars, mandatory training, and internal communications
  - Introduced quantitative metrics to complement the qualitative risk appetite statement on ESG / climate risk
-

## COMPLIANCE

Compliance is an integral part of the Group's corporate governance regime, and the Group is committed to upholding the highest standards in all jurisdictions in which it operates.

The Compliance Division is responsible for overseeing the regulatory compliance framework and monitoring compliance risks for the Group; communicating new regulatory requirements to relevant units; delivering compliance advice on the implementation of regulations; conducting regulatory compliance reviews using a risk-based approach; and regularly reporting compliance matters to the Group's management committees.

Any significant compliance issues, including those related to anti-money laundering ("AML") and counter-financing of terrorism ("CFT"), are also reported to the Risk Committee and the Board of Directors via the management committees. Through the support of the risk and compliance function established in the Bank's business and support units – which act as the first line of defence against regulatory non-compliance – a comprehensive and efficient compliance risk management framework is maintained.

The Group is fully prepared to meet the demands of the evolving regulatory environment – including those related to AML and CFT; international standards and regulatory changes in jurisdictions where the Group has a presence; cross-boundary business; investment and insurance products sales practices; customer protection, particularly in a digitalised environment; personal data protection; and all other relevant requirements.

By order of the Board

**Adrian David LI Man-kiu**  
*Co-Chief Executive*

**Brian David LI Man-bun**  
*Co-Chief Executive*

Hong Kong, 16<sup>th</sup> February, 2023

*As at the date of this announcement, the Board of Directors of the Bank comprises Dr. the Hon. Sir David LI Kwok-po<sup>#</sup> (Executive Chairman), Professor Arthur LI Kwok-cheung\* (Deputy Chairman), Dr. Allan WONG Chi-yun\*\* (Deputy Chairman), Mr. Aubrey LI Kwok-sing\*, Mr. Winston LO Yau-lai\*, Mr. Stephen Charles LI Kwok-sze\*, Mr. Adrian David LI Man-kiu<sup>#</sup> (Co-Chief Executive), Mr. Brian David LI Man-bun<sup>#</sup> (Co-Chief Executive), Dr. Daryl NG Win-kong\*, Mr. Masayuki OKU\*, Dr. the Hon. Rita FAN HSU Lai-tai\*\*, Mr. Meocre LI Kwok-wing\*\*, Dr. the Hon. Henry TANG Ying-yen\*\*, Dr. Delman LEE\*\*, Mr. William Junior Guilherme DOO\*\*, Dr. David MONG Tak-yeung\*\* and Dr. Francisco Javier SERRADO TREPAT\*.*

<sup>#</sup> *Executive Director*

<sup>\*</sup> *Non-executive Director*

<sup>\*\*</sup> *Independent Non-executive Director*

## GLOSSARY

### 詞彙

2022 AGM 「2022 股東周年常會」	An AGM of the Bank held in the Grand Ballroom, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Friday, 6 <sup>th</sup> May, 2022 at 11:30 a.m. 本行於 2022 年 5 月 6 日星期五上午 11 時 30 分在香港中環金融街 8 號四季酒店大禮堂舉行的股東周年常會
2023 AGM 「2023 股東周年常會」	An AGM of the Bank to be held in the Grand Ballroom, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Thursday, 11 <sup>th</sup> May, 2023 at 10:30 a.m. or any adjournment thereof 本行將於 2023 年 5 月 11 日星期四上午 10 時 30 分在香港中環金融街 8 號四季酒店大禮堂舉行的股東周年常會，或其任何續會
AGM 「股東周年常會」	An Annual General Meeting of the Bank 本行的股東周年常會
AUM 「管理資產」	Assets under management 管理資產
Bank Group or BEA Group or Group 「集團」或「本集團」	The Bank and its subsidiaries 東亞銀行及其附屬公司
Bank or BEA 「本行」或「東亞銀行」	The Bank of East Asia, Limited, a limited liability company incorporated in Hong Kong 東亞銀行有限公司，於香港註冊成立的有限公司
Bank Culture Reform 「銀行企業文化改革」	The circular in respect of Bank Culture Reform, issued by the HKMA on 2 <sup>nd</sup> March, 2017 金管局於 2017 年 3 月 2 日發出之銀行企業文化改革通告
Banking Ordinance 「《銀行業條例》」	The Banking Ordinance (Chapter 155 of the Laws of Hong Kong) 《銀行業條例》（香港法例第 155 章）
BEA China 「東亞中國」	The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank 東亞銀行（中國）有限公司，本行的全資附屬公司
Board 「董事會」	Board of Directors of the Bank 本行的董事會
Capital Rules 「《資本規則》」	Banking (Capital) Rules issued by the HKMA 金管局頒布的《銀行業（資本規則）》
CG Code 「《企業管治守則》」	Corporate Governance Code, Appendix 14 to the Listing Rules 《上市規則》附錄 14 內所載的《企業管治守則》
CG-1 「CG-1」	Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorized Institutions, issued by the HKMA 金管局頒布之監管政策手冊 CG-1 內有關《本地註冊認可機構的企業管治》
CG-5 「CG-5」	Supervisory Policy Manual CG-5 on Guideline on a Sound Remuneration System, issued by the HKMA 金管局頒布之監管政策手冊 CG-5 內有關《穩健的薪酬制度指引》
CHF 「瑞士法郎」	Swiss franc, the lawful currency of Switzerland 瑞士法定貨幣
China, Mainland, Mainland China, or PRC 「中國」或「內地」	People's Republic of China 中華人民共和國
CNY 「人民幣」	Chinese yuan, the lawful currency of the PRC 中國法定貨幣



Companies Ordinance 「《公司條例》」	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong) 《公司條例》（香港法例第 622 章）
Director(s) 「董事」	Includes any person who occupies the position of a director, by whatever name called, of the Bank or otherwise as the context may require 包括任何任職本行董事職位的人士（不論其職銜如何），或文義另有所指的人士
ESG 「環境、社會及管治」	Environmental, social, and governance 環境、社會及管治
EUR 「歐羅」	Euro, the lawful currency of 20 of the 27 member states of the European Union 歐洲聯盟 27 個成員國內，其中 20 個成員國採納的法定貨幣
GBA 「大灣區」	Guangdong-Hong Kong-Macao Greater Bay Area 粵港澳大灣區
GBP 「英鎊」	Pound sterling, the lawful currency of the United Kingdom 英國法定貨幣
Guidance on Empowerment of INEDs 「提升獨立非執行董事的專業能力指引」	The guidance on Empowerment of Independent Non-Executive Directors (INEDs) in the Banking Industry in Hong Kong, issued by the HKMA 金管局頒布之提升香港銀行業獨立非執行董事的專業能力指引
HK\$ or HKD 「港幣」	Hong Kong dollar, the lawful currency of Hong Kong 香港法定貨幣
HK\$ Mn 「港幣百萬元」	HK\$ Million 港幣百萬元
HKFRS 「香港財務報告準則」	Hong Kong Financial Reporting Standards 香港財務報告準則
HKMA 「金管局」	Hong Kong Monetary Authority 香港金融管理局
HKICPA 「會計師公會」	Hong Kong Institute of Certified Public Accountants 香港會計師公會
Hong Kong or HK 「香港」	Hong Kong Special Administrative Region of PRC 中華人民共和國香港特別行政區
IBOR 「銀行同業拆借利率」	Interbank Offered Rate 銀行同業拆借利率
JPY 「日圓」	Japanese yen, the lawful currency of Japan 日本法定貨幣
LIBOR 「倫敦銀行同業拆借利率」	London Interbank Offered Rate 倫敦銀行同業拆借利率
Listing Rules 「《上市規則》」	The Rules Governing the Listing of Securities on the Stock Exchange (as amended, modified or otherwise supplemented from time to time) 聯交所《證券上市規則》，經不時修訂、修改或以其他方式補充
MPF 「強積金」	Mandatory Provident Fund 強制性公積金
NIM 「淨息差」	Net interest margin 淨息差
Senior Management 「高層管理人員」	The Co-Chief Executives and Deputy Chief Executives of the Bank 本行的聯席行政總裁及副行政總裁

Share(s) 「股」或「股份」	Ordinary share(s) of the Bank 本行普通股
SIBOR 「新加坡銀行同業拆借利率」	Singapore Interbank Offered Rate 新加坡銀行同業拆借利率
Stock Exchange 「聯交所」	The Stock Exchange of Hong Kong Limited 香港聯合交易所有限公司
US\$ or USD 「美元」	United States dollar, the lawful currency of the United States of America 美國法定貨幣