BEA 東亞銀行

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 2021 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 31st December, 2021. 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 2021 annual accounts.

Consolidated Income Statement

For the year ended 31st December, 2021

	Notes	2021 HK$ Mn	2020 HK$ Mn
Interest income	*4*	18,055	21,107
Interest income calculated using the effective interest method		19,123	21,718
Other interest expense		(1,068)	(611)
Interest expense	*5*	(6,870)	(9,557)
Net interest income		11,185	11,550
Fee and commission income	*6*	3,916	3,714
Fee and commission expense		(847)	(792)
Net fee and commission income		3,069	2,922
Net trading profit	*7*	879	984
Net result on financial instruments at FVTPL	*8*	234	198
Net result on financial assets measured at FVOCI	*9*	45	153
Net loss on sale of investments measured at amortised cost		(14)	(14)
Net hedging profit	*10*	144	62
Net insurance profit	*11(a)*	411	771
Other operating income	*12*	330	684
Non-interest income		5,098	5,760
Operating income		16,283	17,310
Operating expenses	*13*	(9,321)	(8,963)
Operating profit before impairment losses		6,962	8,347
Impairment losses on financial instruments	*14*	(1,679)	(4,674)
Impairment losses on assets held for sale		-	(12)
Impairment losses on intangible assets	*15*	-	(2)
Impairment losses on associate	*22*	-	(402)
Impairment losses		(1,679)	(5,090)
Operating profit after impairment losses		5,283	3,257
Net profit on sale of assets held for sale	*16*	1,042	32
Net profit on disposal of subsidiaries/associates		181	341
Net loss on disposal of fixed assets	*17*	(4)	(33)
Valuation losses on investment properties		(132)	(301)
Share of profits less losses of associates and joint ventures		(234)	310
Profit for the year before taxation		6,136	3,606
Income tax	*18*	(823)	79
Profit for the year		5,313	3,685

Consolidated Income Statement (Continued)

	Notes	2021 HK$ Mn	2020 HK$ Mn
Attributable to:			
Owners of the parent		5,270	3,614
Non-controlling interests		43	71
Profit for the year		5,313	3,685
Earnings per share			
Basic	*1(b)*	HK$1.53	HK$0.97
Diluted	*1(b)*	HK$1.53	HK$0.97
Dividends per share		HK$0.70	HK$0.40

Consolidated Statement of Comprehensive Income
For the year ended 31st December, 2021

	2021	2020
	HK$ Mn	HK$ Mn
Net profit	5,313	3,685
Other comprehensive income for the year:		
Items that will not be reclassified to income statement:		
Premises:		
- unrealised surplus on revaluation of premises	5	57
- deferred taxes	6	(4)
Fair value reserve (equity instruments):		
- net change in fair value	(571)	228
- deferred taxes	1	12
Liability credit reserve:		
- net change in fair value attributable to Group's own credit risk	(18)	(29)
- deferred taxes	4	4
Items that may be reclassified subsequently to income statement:		
Fair value reserve (debt instruments):		
- net change in fair value	735	439
- amount transferred to income statement on disposal	(492)	(618)
- on amortisation	-	(1)
- deferred taxes	(213)	74
Hedging reserve (cash flow hedges):		
- effective portion of changes in fair value of hedging instruments	-	2
- fair value change transferred to income statement	-	(3)
Share of changes in equity of associates and joint ventures	(165)	(17)
Exchange differences arising from translation of accounts/disposal of overseas branches, subsidiaries, associates and joint ventures	757	1,931
Other comprehensive income	49	2,075
Total comprehensive income	5,362	5,760
Total comprehensive income attributable to:		
Owners of the parent	5,319	5,688
Non-controlling interests	43	72
	5,362	5,760

Consolidated Statement of Financial Position
As at 31st December, 2021

	Notes	2021 HK$ Mn	2020 HK$ Mn
ASSETS			
Cash and balances with banks		55,088	56,377
Placements with and advances to banks		74,742	66,849
Trade bills		10,772	11,793
Trading assets	*19*	2,483	1,190
Derivative assets	*25*	3,381	8,059
Loans and advances to customers	*20*	544,437	509,070
Investment securities	*21*	147,507	144,171
Investments in associates and joint ventures	*22*	8,947	9,182
Fixed assets		13,844	14,065
- Investment properties		4,992	4,961
- Other properties and equipment		8,015	8,208
- Right-of-use assets		837	896
Goodwill and intangible assets		1,885	1,912
Deferred tax assets		1,861	2,022
Other assets	*23*	42,523	59,730
- Assets held for sale	*28*	2,264	26,657
- Others		40,259	33,073
Total Assets		907,470	884,420
EQUITY AND LIABILITIES			
Deposits and balances of banks		31,766	31,143
- Designated at fair value through profit or loss		3,639	5,442
- At amortised cost		28,127	25,701
Deposits from customers		633,505	589,202
Trading liabilities		5	-
Derivative liabilities		5,050	13,016
Certificates of deposit issued		64,327	60,852
- Designated at fair value through profit or loss		32,618	24,494
- At amortised cost		31,709	36,358
Current taxation		958	624
Debt securities issued		5,847	5,057
- Designated at fair value through profit or loss		620	155
- At amortised cost		5,227	4,902
Deferred tax liabilities		559	460
Other liabilities		42,915	59,959
- Liabilities held for sale	*28*	1,637	26,864
- Others		41,278	33,095
Loan capital – at amortised cost		6,488	10,311
Total Liabilities		791,420	770,624
Share capital	*1(c)*	41,645	41,557
Reserves	*26*	60,133	57,328
Total equity attributable to owners of the parent		101,778	98,885
Additional equity instruments		13,968	13,968
Non-controlling interests		304	943
Total Equity		116,050	113,796
Total Equity and Liabilities		907,470	884,420

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2021

	Share capital	General reserve	Revaluation reserve of bank premises	Capital reserve	Exchange revaluation reserve	Capital reserve – staff share options issued	Fair value reserve	Hedging reserve	Liability credit reserve	Other reserves[3]	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	HK$ Mn
At 1st 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 31st 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
At 1st January, 2020	41,379	13,651	1,848	1,090	(1,629)	163	2,331	1	(7)	5,347	31,133	95,307	13,963	368	109,638
Changes in equity															
Profit for the year	-	-	-	-	-	-	-	-	-	-	3,614	3,614	-	71	3,685
Other comprehensive income	-	-	53	-	1,930	-	134	(1)	(25)	(17)	-	2,074	-	1	2,075
Total comprehensive income	-	-	53	-	1,930	-	134	(1)	(25)	(17)	3,614	5,688	-	72	5,760
Issue of additional equity instruments [1]	-	-	-	-	-	-	-	-	-	-	-	-	5,021	-	5,021
Shares issued in lieu of dividend *(Note 1(c))*	178	-	-	-	-	-	-	-	-	-	-	178	-	-	178
Equity settled share-based transaction	-	-	-	-	-	11	-	-	-	-	-	11	-	-	11
Transfer	-	6	(6)	(195)	-	(17)	-	-	-	(192)	404	-	-	-	-
Distribution/Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	-	(2,275)	(2,275)	-	(53)	(2,328)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	556	556
Redemption of additional equity instruments [2]	-	-	-	-	-	-	-	-	-	-	(24)	(24)	(5,016)	-	(5,040)
At 31st December, 2020	41,557	13,657	1,895	895	301	157	2,465	-	(32)	5,138	32,852	98,885	13,968	943	113,796

1. *In 2020, the Bank issued HK$5,037 million (USD650 million) undated non-cumulative subordinated Additional Tier 1 capital securities. Direct issuance costs of HK$16 million are accounted for as a deduction from the equity instruments.*

2. *In 2020, the Bank redeemed HK$5,016 million (USD650 million) undated non-cumulative subordinated Additional Tier 1 capital securities issued in 2015.*

3. *Other reserves include statutory reserve and other reserves.*

Consolidated Cash Flow Statement
For the year ended 31st December, 2021

	Notes	2021 HK$ Mn	2020 HK$ Mn
OPERATING ACTIVITIES			
Profit for the year before taxation		6,136	3,606
Adjustments for:			
Charge for impairment losses on financial instruments		1,679	4,674
Charge for impairment losses on assets held for sale		-	12
Charge for impairment losses on intangible assets		-	2
Charge for impairment losses on associate		-	402
Share of profits less losses of associates and joint ventures		234	(310)
Net loss on sale of investments measured at amortised cost		14	14
Net profit on sale of debt securities measured at FVOCI		(95)	(661)
Net profit on disposal of subsidiaries and associates		(181)	(341)
Net profit on sale of assets held for sale		(1,042)	(32)
Net loss on disposal of fixed assets		4	33
Interest expense on debt securities issued		131	122
Interest expense on loan capital issued		368	449
Interest expense on lease liabilities		29	35
Depreciation on bank premises, furniture, fixtures and equipment	*13*	581	556
Depreciation on right-of-use assets	*13*	374	425
Dividend income from equity securities measured at FVOCI	*9*	(22)	(13)
Amortisation of intangible assets	*13*	14	14
Amortisation of premium/discount on debt securities and loan capital issued		11	8
Revaluation (gains)/losses on debt securities and loan capital issued		(46)	33
Valuation losses on investment properties		132	301
Equity settled share-based payment expenses	*13*	19	11
		8,340	9,340
(Increase)/decrease in operating assets:			
Cash and balances with banks with original maturity beyond three months		1,492	1,775
Placements with and advances to banks with original maturity beyond three months		378	15,641
Trade bills		1,026	285
Trading assets		(1,471)	261
Financial assets designated at FVTPL		-	446
Derivative assets		4,678	(2,366)
Loans and advances to customers		(36,838)	(8,468)
Debt investment securities measured at amortised cost		(1,602)	896
Debt investment securities measured at FVOCI		(5,634)	(15,174)
Debt investment securities mandatorily measured at FVTPL		180	2,252
Non-trading equity securities mandatorily measured at FVTPL		135	(1,820)
Other assets		(10,684)	2,296
Increase/(decrease) in operating liabilities:			
Deposits and balances of banks		623	3,228
Deposits from customers		44,303	15,675
Certificates of deposit issued		3,461	(13,236)
Trading liabilities		5	-
Derivative liabilities		(7,966)	5,362
Other liabilities		9,976	4,119
Exchange adjustments		(383)	(1,095)
NET CASH INFLOW FROM OPERATIONS		10,019	19,417
Income tax paid			
Hong Kong profits tax paid		(167)	(1,539)
Outside Hong Kong profits tax paid		(176)	(214)
NET CASH GENERATED FROM OPERATING ACTIVITIES		9,676	17,664

	Notes	2021 HK$ Mn	2020 HK$ Mn
INVESTING ACTIVITIES			
Dividends received from associates and joint ventures		-	61
Dividends received from equity securities measured at FVOCI		22	13
Purchase of fixed assets		(605)	(599)
Proceeds from disposal of other properties and equipment		113	5
Proceeds from sale of assets held for sale		3,135	43
Proceeds from disposal of associates		-	906
Returns of/(additional) investments in associates		7	(61)
NET CASH GENERATED FROM INVESTING ACTIVITIES		2,672	368
FINANCING ACTIVITIES			
Ordinary dividends paid		(1,686)	(1,358)
Distribution to Additional Tier 1 issue holders	*2(c)*	(811)	(792)
Issue of additional equity instruments		-	5,021
Issue of debt securities		692	1,867
Issue of loan capital		-	4,632
Payment of lease liabilities		(388)	(444)
Redemption of debt securities issued		(4)	(163)
Redemption of loan capital		(3,898)	(4,651)
Redemption of additional equity instruments		-	(5,040)
Interest paid on debt securities issued		(125)	(117)
Interest paid on loan capital		(391)	(560)
NET CASH USED IN FINANCING ACTIVITIES		(6,611)	(1,605)
NET INCREASE IN CASH AND CASH EQUIVALENTS		5,737	16,427
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		113,702	94,638
Effect of foreign exchange rate changes		1,207	2,637
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER		120,646	113,702

		2021 HK$ Mn	2020 HK$ Mn
Cash flows from operating activities included:			
Interest received		17,894	21,653
Interest paid		6,828	11,290
Dividend received		44	38

Notes to the Financial Statements

1. (a) The financial information relating to the years ended 31st December, 2021 and 2020 included in this announcement of 2021 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 31st December, 2020 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 31st December, 2021 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$4,459 million (2020: HK$2,822 million) after accounting for the distribution of HK$811 million (2020: HK$792 million) to Additional Tier 1 issue holders, and on the weighted average of 2,919 million ordinary shares outstanding during the year (2020: 2,913 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$4,459 million (2020: HK$2,822 million) after accounting for the distribution of HK$811 million (2020: HK$792 million) to Additional Tier 1 issue holders, and on the weighted average of 2,919 million ordinary shares outstanding during the year (2020: 2,913 million), adjusted for the effects of all dilutive potential shares.

(c) Share capital

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

	2021		2020	
	No. of shares Million	HK$ Mn	No. of shares Million	HK$ Mn
Ordinary shares, issued and fully paid:				
At 1st January	2,917	41,557	2,907	41,379
Shares issued in lieu of dividend	6	88	10	178
At 31st December	2,923	41,645	2,917	41,557

2. Distribution/Dividends

(a) Dividends attributable to the year

	2021	2020
	HK$ Mn	HK$ Mn
Interim dividend declared and paid of HK$0.35 per share on 2,919 million shares (2020: HK$0.16 per share on 2,915 million shares)	1,022	466
Second interim dividend of HK$0.35 per share on 2,923 million shares (2020: HK$0.24 per share on 2,917 million shares)	1,023	700
	2,045	1,166

The total dividend attributable to the year is HK$0.70 per share (2020: HK$0.40 per share). The second interim dividend has not been recognised as a liability at the end of the reporting period.

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

	2021	2020
	HK$ Mn	HK$ Mn
Second interim dividend in respect of the previous financial year, approved and paid during the year, of HK$0.24 per share on 2,917 million shares (2020: HK$0.35 per share on 2,907 million shares)	700	1,017

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

	2021	2020
	HK$ Mn	HK$ Mn
Distribution paid on the Additional Tier 1 capital instruments	811	792

3. Changes in Accounting Policies

The Group has initially adopted Interest Rate Benchmark Reform - Phase 2 amendments from 1st January, 2021.

In respect of the Phase 2 Amendments, the Group applied them retrospectively. In accordance with the options permitted in the Phase 2 amendments, the Group has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2020.

There is no impact on opening equity balances as a result of retrospective application given that the relevant modifications to financial contracts would only be required after 2020.

The Phase 2 amendments provide practical relief from certain requirements in HKFRSs. This relief relates to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

The Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the interest rate benchmark reform if the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and

- the new basis for determining the contractual cash flows is economically equivalent to the previous basis, i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Group first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. Subsequently, the Group applies the policies on accounting for modifications set out above to the additional changes.

The Phase 2 amendments allow the Group to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform.

The Phase 2 amendments also provide a series of temporary exemptions from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument that permit the hedging relationship to be continued without interruption. The Group applies the following relief as and when uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument:

- the Group amends the designation of a hedging relationship to reflect changes that are required by the reform without discontinuing the hedging relationship; and

- when a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

For details of exposures to Interbank Offered Rates as at 31st December 2021, please refer to Note 29.

4. Interest Income

	2021	2020
	HK$ Mn	HK$ Mn
Loans, deposits with banks, and trade bills	15,595	17,966
Investment securities		
- measured at amortised cost or FVOCI	2,305	2,972
- designated at FVTPL	-	2
- mandatory at FVTPL	110	144
Trading assets	45	23
	18,055	21,107

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$19,123 million (2020: HK$21,718 million), before hedging effect, for financial assets that are not recognised at fair value through profit or loss.

5. Interest Expense

	2021	2020
	HK$ Mn	HK$ Mn
Customer deposits and deposits of banks		
– at amortised cost	5,655	7,739
– designated at FVTPL	9	40
Certificates of deposit and debt securities issued		
– at amortised cost	617	951
– designated at FVTPL	181	332
Subordinated notes carried at amortised cost	377	455
Lease liabilities	29	35
Other borrowings	2	5
	6,870	9,557

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$6,719 million (2020: HK$9,243 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:

	2021	2020 Restated (Note)
	HK$ Mn	HK$ Mn
Loans, overdrafts and guarantees	947	942
Credit cards	801	909
Investment products	409	457
Securities brokerage	403	387
Trust and other fiduciary activities	305	282
Sale of third party insurance policies	296	52
Other retail banking services	176	165
Trade finance	90	74
Others	489	446
Total fee and commission income	3,916	3,714
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not measured at FVTPL	3,082	2,935
Fee income	3,916	3,714
Fee expenses	(834)	(779)

Note: Certain fee and commission income in 2020 has been reclassified among the categories of loans, overdrafts and guarantees, securities brokerage, trade finance and others to conform to the current year's presentation.

7. Net Trading Profit

	2021	2020
	HK$ Mn	HK$ Mn
Profit on dealing in foreign currencies and funding swaps	436	130
(Loss)/Profit on trading securities	(52)	76
Net gain on derivatives	475	755
Loss on other dealing activities	(2)	(2)
Dividend income from trading equity securities	22	25
	879	984

8. Net Result on Financial Instruments at FVTPL

	2021	2020
	HK$ Mn	HK$ Mn
Net gain/(loss) from financial instruments designated at FVTPL	89	(22)
Net gain from financial instruments mandatorily measured at FVTPL (other than those included in net trading profit)	145	220
	234	198

9. Net Result on Financial Assets Measured at FVOCI

	2021 HK$ Mn	2020 HK$ Mn
Net profit on sale of debt securities	23	140
Dividend income from equity securities	22	13
	45	153

10. Net Hedging Profit

	2021 HK$ Mn	2020 HK$ Mn
Fair value hedges		
- Net (loss)/gain on hedged items attributable to the hedged risk	(2,941)	2,203
- Net gain/(loss) on hedging instruments	3,085	(2,141)
	144	62

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the years 2021 and 2020.

11. Net Insurance Profit

			2021 HK$ Mn	2020 HK$ Mn
(a)	Net insurance profit			
	Net interest income		482	666
	Net trading profit/(loss)		77	(78)
	Net result on financial instruments at FVTPL		150	292
	Net profit on sale of debt investment securities measured at FVOCI		72	521
	Net insurance premium	(b)	4,824	6,461
	Other operating income		3	1
			5,608	7,863
	Net insurance claims and expenses	(c)	(5,168)	(7,076)
			440	787
	Operating expenses		(3)	(4)
	Impairment losses on financial instruments		(26)	(12)
			411	771
(b)	Net insurance premium			
	Gross insurance premium income		4,894	6,531
	Reinsurers' share of gross insurance premium income		(70)	(70)
			4,824	6,461
(c)	Net insurance claims and expenses			
	Claims, benefits and surrenders paid		3,902	2,144
	Movement in provisions		1,193	4,830
			5,095	6,974
	Reinsurers' share of claim, benefits and surrenders paid		(36)	(59)
	Reinsurers' share of movement in provisions		(9)	21
			(45)	(38)
			5,050	6,936
	Net insurance commission expenses		118	140
			5,168	7,076

12. Other Operating Income

	2021	2020
	HK$ Mn	HK$ Mn
Rental from safe deposit boxes	122	121
Rental income on properties	143	154
Government subsidy – Employment Support Scheme	-	252
Others	65	157
	330	684

13. Operating Expenses

	2021	2020
	HK$ Mn	HK$ Mn
Contributions to defined contribution plan *(Note 1)*		
- Hong Kong	170	188
- Outside Hong Kong	229	94
Equity settled share-based payment expenses	19	11
Salaries and other staff costs	5,105	4,778
Total staff costs	5,523	5,071
Premises and equipment expenses excluding depreciation		
- Expenses relating to short-term leases	20	18
- Expenses relating to low value assets	1	1
- Variable lease payments not included in the measurement of lease liabilities *(Note 2)*	(4)	(1)
- Maintenance, repairs and others	669	742
Total premises and equipment expenses excluding depreciation	686	760
Depreciation on		
- Bank premises, furniture, fixtures and equipment	581	556
- Right-of-use assets	374	425
	955	981
Amortisation of intangible assets	14	14
Other operating expenses		
- Internet platform charges	482	511
- Legal and professional fees	399	357
- Communications, stationery and printing	274	267
- Advertising expenses	224	251
- Card related expenses	119	207
- Insurance expenses	111	108
- Stamp duty, withholding taxes and value added taxes	72	77
- Business promotions and business travel	66	64
- Audit fee	21	20
- Others	375	275
Total other operating expenses	2,143	2,137
Total operating expenses *(Note 3)*	9,321	8,963

Notes:

1. *Forfeited contributions totalling HK$35 million (2020: HK$17 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 (2020: Nil).*

2. *Included a credit of HK$5 million (2020: HK$5 million) of COVID-19-related rent concessions during the year.*

3. *Included in operating expenses are direct operating expenses of HK$8 million (2020: HK$7 million) in respect of investment properties which generated rental income during the year.*

14. Impairment Losses on Financial Instruments

	2021	2020
	HK$ Mn	HK$ Mn
Loans and advances to customers	1,471	4,734
Others	208	(60)
	1,679	4,674

15. Impairment Losses on Intangible Assets

	2021	2020
	HK$ Mn	HK$ Mn
Impairment losses on intangible assets	-	2

16. Net Profit on Sale of Assets Held for Sale

	2021	2020
	HK$ Mn	HK$ Mn
Net profit on sale of properties	140	30
Net profit on sale of disposal groups	902	2
	1,042	32

17. Net Loss on Disposal of Fixed Assets

	2021	2020
	HK$ Mn	HK$ Mn
Net loss on disposal of bank premises, furniture, fixtures and equipment	(5)	(33)
Net profit on termination of lease	1	-
	(4)	(33)

18. Income Tax

Taxation in the consolidated income statement represents:

	2021	2020
	HK$ Mn	HK$ Mn
Current tax – Hong Kong		
Tax for the year	514	531
Over-provision in respect of prior years	(96)	(394)
	418	137
Current tax – outside Hong Kong		
Tax for the year	271	229
Over-provision in respect of prior years	(18)	(50)
	253	179
Deferred tax		
Origination and reversal of temporary differences	152	(395)
	823	(79)

The provision for Hong Kong profits tax is calculated at 16.5% (2020: 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.

19. Trading Assets

	2021 HK$ Mn	2020 HK$ Mn
Treasury bills (including Exchange Fund Bills)	-	119
Debt securities	1,632	190
Equity securities	851	881
	2,483	1,190

20. Loans and Advances to Customers

(a) Loans and advances to customers

	2021 HK$ Mn	2020 HK$ Mn
Loans and advances to customers at amortised cost	548,808	513,929
Less: Impairment allowances	(4,371)	(4,859)
- Stage 1	(667)	(845)
- Stage 2	(527)	(1,038)
- Stage 3	(3,177)	(2,976)
	544,437	509,070

20. 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.

	2021		2020	
	Gross advances	% of gross advances covered by collateral	Gross advances	% of gross advances covered by collateral
	HK$ Mn	%	HK$ Mn	%
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	34,103	54.12	29,038	59.33
- Property investment	50,280	91.88	49,544	89.17
- Financial concerns	15,514	50.18	13,434	55.49
- Stockbrokers	1,957	99.99	4,468	94.34
- Wholesale and retail trade	7,742	47.86	6,273	52.78
- Manufacturing	4,810	32.51	4,390	47.24
- Transport and transport equipment	5,531	46.15	5,441	56.21
- Recreational activities	304	87.23	82	70.40
- Information technology	1,268	2.13	676	5.20
- Others	15,365	58.85	19,151	56.85
- Sub-total	136,874	66.89	132,497	69.81
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,337	100.00	1,383	100.00
- Loans for the purchase of other residential properties	91,532	100.00	87,512	100.00
- Credit card advances	4,284	0.00	4,043	0.00
- Others	28,182	63.75	27,730	85.01
- Sub-total	125,335	88.43	120,668	93.20
Total loans for use in Hong Kong	262,209	77.18	253,165	80.96
Trade finance	6,088	32.92	4,427	49.24
Loans for use outside Hong Kong *(Note)*	280,511	36.83	256,337	37.78
Total advances to customers	548,808	56.07	513,929	59.15

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

20. Loans and Advances to Customers (Continued)

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

	2021		2020	
	Gross advances	% of gross advances covered by collateral	Gross advances	% of gross advances covered by collateral
	HK$ Mn	%	HK$ Mn	%
Loans for use in Mainland China				
Industrial, commercial and financial				
- Property development	44,747	34.37	41,344	29.81
- Property investment	14,134	80.56	13,254	81.47
- Financial concerns	47,765	0.00	41,107	3.84
- Wholesale and retail trade	10,837	13.94	6,644	40.81
- Manufacturing	11,219	5.76	5,870	12.28
- Transport and transport equipment	811	43.46	584	38.04
- Recreational activities	25	100.00	71	58.14
- Information technology	1,967	0.43	1,601	0.70
- Others	17,618	12.24	13,997	19.62
- Sub-total	149,123	21.10	124,472	25.03
Individuals				
- Loans for the purchase of other residential properties	15,762	100.00	14,180	99.98
- Credit card advances	6,370	0.00	7,072	0.00
- Others	12,724	5.28	14,910	1.84
- Sub-total	34,856	47.15	36,162	39.96
Total loans for use in Mainland China	183,979	26.03	160,634	28.39

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:

	2021	2020
	HK$ Mn	HK$ Mn
(i) Property development		
a. Individually impaired loans	1,009	642
b. Specific provisions	326	216
c. Collective provisions	206	88
d. New provision charged to income statement	607	324
e. Written off	87	284
(ii) Property investment		
a. Individually impaired loans	2,552	2,298
b. Specific provisions	1,375	702
c. Collective provisions	87	319
d. New provision charged to income statement	1,644	1,079
e. Written off	12	666
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	270	273
b. Specific provisions	10	13
c. Collective provisions	27	153
d. New provision charged to income statement	146	200
e. Written off	-	-
(iv) Financial concerns		
a. Individually impaired loans	64	-
b. Specific provisions	34	-
c. Collective provisions	43	303
d. New provision charged to income statement	201	250
e. Written off	-	-

20. Loans and Advances to Customers (Continued)

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

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.

(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 24 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.

	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
Total	548,808	2,451	5,977	3,177	1,194
% of total advances to customers			1.09%		
Market value of collateral held against impaired advances to customers			3,656		

	2020				
	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	262,280	863	1,225	447	423
Mainland China	178,085	1,856	4,992	2,353	1,179
Other Asian Countries and Regions	29,483	80	234	174	55
Others	44,081	14	14	2	226
Total	513,929	2,813	6,465	2,976	1,883
% of total advances to customers			1.26%		
Market value of collateral held against impaired advances to customers			4,801		

20. Loans and Advances to Customers (Continued)

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

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.

Collateral includes any tangible security that carries a fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets such as plant and equipment. Where collateral values are greater than gross loans and advances to customers, only the amount of collateral up to the gross loans and advances is included.

21. Investment Securities

	2021			
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK$ Mn	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
	5,437	125,524	16,546	147,507

	2020			
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Treasury bills (including Exchange Fund Bills)	-	25,828	2,359	28,187
Certificates of deposits held	-	1,175	1,065	2,240
Debt securities	4,571	94,325	12,297	111,193
Equity securities	482	1,283	-	1,765
Investment funds	786	-	-	786
	5,839	122,611	15,721	144,171

Equity securities designated at FVOCI

	2021		2020	
	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	712	22	1,283	13

21. Investment Securities (Continued)

Equity securities designated at FVOCI (Continued)

As at 31st December, 2021, equity securities designated at FVOCI amounting to HK$712 million (2020: HK$1,283 million) were held for long-term strategic purposes, of which HK$588 million (2020: HK$1,156 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 2021 and 2020, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

22. Investments in Associates and Joint Ventures

	2021	2020
	HK$ Mn	HK$ Mn
Share of net assets	9,270	9,504
Goodwill	476	477
	9,746	9,981
Less: Impairment allowances	(799)	(799)
	8,947	9,182

At 31st December, 2021, 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$3,975 million. The recoverable amount was higher than the carrying value of HK$3,504 million and no further impairment charge was recognised (2020: impairment charge of HK$402 million). 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 11.49% (2020: 11.03%), 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 31st December, 2021						
Discount rate	-50 bps	263	4,238	+50 bps	(234)	3,741
Long-term growth rate	+50 bps	65	4,040	-50 bps	(58)	3,917
Expected cash flows	+10%	397	4,372	-10%	(398)	3,577

23. Other Assets

	2021	2020
	HK$ Mn	HK$ Mn
Accrued interest	2,649	2,488
Customer liabilities under acceptances	28,674	17,333
Other accounts	9,068	13,437
Less: Impairment allowances	(132)	(185)
- Stage 1	(8)	(14)
- Stage 2	(2)	(3)
- Stage 3	(122)	(168)
	40,259	33,073
Assets held for sale *(Note 28)*	2,264	26,657
	42,523	59,730

24. 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 carrying out by the Bank 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.

- **Corporate 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 and investment products & advisory in Hong Kong.

- **Centralised operations** include supporting units of banking operations in Hong Kong.

- **Others** mainly include insurance business, trust business, securities & futures broking and corporate financial advisory 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 in overseas.

24. Segment Reporting (continued)

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.

24. Segment Reporting (continued)

	2021												
	Hong Kong operations												
	Hong Kong banking business												
	Personal banking	Corporate banking	Treasury markets	Wealth management	Centralised operations	Total	Others	Total	Mainland China operations	Overseas operations	Corporate management	Inter-segment elimination	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)	2,287	2,532	(30)	317	(21)	5,085	87	5,172	3,917	1,775	321	-	11,185
Non-interest income	1,104	641	577	442	334	3,098	984	4,082	841	214	-	(39)	5,098
Operating income	3,391	3,173	547	759	313	8,183	1,071	9,254	4,758	1,989	321	(39)	16,283
Operating expenses	(1,611)	(367)	(164)	(234)	(2,185)	(4,561)	(504)	(5,065)	(3,542)	(753)	-	39	(9,321)
Operating profit/(loss) before impairment losses	1,780	2,806	383	525	(1,872)	3,622	567	4,189	1,216	1,236	321	-	6,962
(Charge for)/Write back of impairment losses on financial instruments	(103)	(1,009)	(11)	2	-	(1,121)	(4)	(1,125)	(620)	66	-	-	(1,679)
Operating profit/(loss) after impairment losses	1,677	1,797	372	527	(1,872)	2,501	563	3,064	596	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	1,664	1,797	372	527	(1,852)	2,508	1,433	3,941	374	1,500	321	-	6,136
Depreciation for the year	(308)	(8)	(8)	(3)	(226)	(553)	(42)	(595)	(296)	(64)	-	-	(955)
Segment assets	119,858	169,032	229,919	25,191	11,392	555,392	3,598	558,990	262,576	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	25,191	11,407	555,407	5,896	561,303	266,576	123,687	-	(44,096)	907,470
Segment liabilities	331,601	58,997	65,994	29,595	2,244	488,431	675	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	29,595	2,244	488,431	2,312	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

24. Segment Reporting (continued)

	2020												
	Hong Kong operations												
	Hong Kong banking business												
	Personal banking	Corporate banking	Treasury markets	Wealth management	Centralised operations	Total	Others	Total	Mainland China operations	Overseas operations	Corporate management	Inter-segment elimination	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)	2,692	2,319	101	327	(76)	5,363	148	5,511	4,117	1,492	426	4	11,550
Non-interest income	1,069	576	477	502	635	3,259	1,273	4,532	955	317	-	(44)	5,760
Operating income	3,761	2,895	578	829	559	8,622	1,421	10,043	5,072	1,809	426	(40)	17,310
Operating expenses	(1,758)	(321)	(169)	(237)	(2,111)	(4,596)	(461)	(5,057)	(3,264)	(682)	-	40	(8,963)
Operating profit/(loss) before impairment losses	2,003	2,574	409	592	(1,552)	4,026	960	4,986	1,808	1,127	426	-	8,347
(Charge for)/Write back of impairment losses on financial instruments	(208)	(1,083)	1	8	1	(1,281)	(1)	(1,282)	(2,954)	(438)	-	-	(4,674)
Impairment losses on assets held for sale	-	-	-	-	-	-	-	-	(12)	-	-	-	(12)
Impairment losses on intangible assets	-	-	-	-	-	-	-	-	(2)	-	-	-	(2)
Impairment losses on associate	-	-	-	-	-	-	-	-	-	(402)	-	-	(402)
Operating profit/(loss) after impairment losses	1,795	1,491	410	600	(1,551)	2,745	959	3,704	(1,160)	287	426	-	3,257
Net profit on sale of assets held for sale	-	-	-	-	30	30	-	30	1	1	-	-	32
Net profit on disposal of subsidiaries/associates	-	-	-	-	-	-	-	-	-	341	-	-	341
Net profit/(loss)on disposal of fixed assets	(19)	-	-	-	1	(18)	-	(18)	(12)	(3)	-	-	(33)
Valuation losses on investment properties	-	-	-	-	(248)	(248)	(52)	(300)	-	(1)	-	-	(301)
Share of profits less losses of associates and joint ventures	-	-	-	-	-	-	(3)	(3)	123	190	-	-	310
Profit/(Loss) before taxation	1,776	1,491	410	600	(1,768)	2,509	904	3,413	(1,048)	815	426	-	3,606
Depreciation for the year	(340)	(6)	(7)	(3)	(216)	(572)	(41)	(613)	(302)	(66)	-	-	(981)
Segment assets	115,004	163,163	218,240	31,371	11,406	539,184	9,244	548,428	230,472	113,192	-	(43,511)	848,581
Investments in associates and joint ventures	-	-	-	-	-	-	76	76	4,121	4,985	-	-	9,182
Other assets – Assets held for sale	-	-	-	-	20	20	26,620	26,640	17	-	-	-	26,657
Total assets	115,004	163,163	218,240	31,371	11,426	539,204	35,940	575,144	234,610	118,177	-	(43,511)	884,420
Segment liabilities	328,720	46,151	69,730	29,911	1,958	476,470	2,229	478,699	203,868	103,955	-	(42,762)	743,760
Other liabilities – Liabilities held for sale	-	-	-	-	-	-	26,864	26,864	-	-	-	-	26,864
Total liabilities	328,720	46,151	69,730	29,911	1,958	476,470	29,093	505,563	203,868	103,955	-	(42,762)	770,624
Capital expenditure incurred during the year	197	8	9	5	280	499	42	541	255	40	-	-	836

25. 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.

	2021	2020
	HK$ Mn	HK$ Mn
Contractual amounts of contingent liabilities		
Direct credit substitutes	4,664	9,065
Transaction-related contingencies	4,295	1,325
Trade-related contingencies	5,046	4,303
	14,005	14,693
Contractual amounts of commitments		
Commitments that are unconditionally cancellable without prior notice	232,146	159,852
Other commitments with an original maturity		
- up to 1 year	3,145	7,093
- over 1 year	28,914	27,722
	264,205	194,667
Total	278,210	209,360
Credit risk weighted amounts	21,412	22,946

(b) Derivatives

	2021	2020
	HK$ Mn	HK$ Mn
Fair value of derivatives		
Assets		
Exchange rate contracts	1,207	2,333
Interest rate contracts	1,764	2,004
Equity contracts	410	3,721
Others	-	1
	3,381	8,059
Liabilities		
Exchange rate contracts	1,174	2,827
Interest rate contracts	3,548	6,450
Equity contracts	328	3,740
Others	-	-
	5,050	13,017
Notional amounts of derivatives		
Exchange rate contracts	291,721	293,773
Interest rate contracts	403,558	428,454
Equity contracts	8,370	17,522
Others	-	77
	703,649	739,826

26. Reserves

	2021	2020
	HK$ Mn	HK$ Mn
General reserve	13,658	13,657
Revaluation reserve on bank premises	1,905	1,895
Capital reserve	895	895
Exchange revaluation reserve	1,058	301
Capital reserve – staff share options issued	152	157
Fair value reserve	1,925	2,465
Hedging reserve	-	-
Liability credit reserve	(46)	(32)
Other reserves	5,191	5,138
Retained profits*	35,395	32,852
	60,133	57,328
Dividends declared, not provided for	1,023	700

* *A regulatory reserve is maintained to satisfy the provisions of the 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 31st December, 2021, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK$2,658 million (2020: HK$1,762 million).*

27. Comparative Figures

Certain 2020 comparative figures have been restated to conform to current year's presentation. Please refer to Note 6 for the effect of restatement.

28. Assets Held for Sale

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

	2021	2020
	HK$ Mn	HK$ Mn
Assets held for sale *(Note 23)*		
Disposal groups held for sale *(Note)*	2,232	26,620
Other properties	32	37
	2,264	26,657
Liabilities held for sale		
Disposal groups held for sale *(Note)*	1,637	26,864

Note: 2021: Include Blue Cross (Asia-Pacific) Insurance Limited.
2020: Include BEA Life Limited and legacy life insurance portfolio of Blue Cross (Asia-Pacific) Insurance Limited. The sale of BEA Life Limited was completed on 1st September, 2021. The sale of the legacy life insurance portfolio of Blue Cross (Asia-Pacific) Insurance Limited is still subject to both regulatory approval and consent of the Hong Kong court at 31st December, 2021.

28. Assets Held for Sale (continued)

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

	2021	2020
	HK$ Mn	HK$ Mn
ASSETS		
Cash and balances with banks	3	3
Investment securities	1,926	25,920
Fixed assets	34	9
- Investment properties	-	-
- Other properties and equipment	33	9
- Right-of-use assets	1	-
Goodwill	14	-
Other assets	255	688
Assets held for sale	2,232	26,620
LIABILITIES		
Derivative liabilities	-	1
Current taxation	4	39
Deferred tax liabilities	5	1
Other liabilities	1,628	26,823
Liabilities held for sale	1,637	26,864

As at 31st December, 2021, the total equity of the disposal groups attributable to the Group was HK$770 million (2020: HK$2,688 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
	76	1,850	-	1,926

	2020			
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Debt securities	1,272	19,088	2,104	22,464
Equity securities	1,026	-	-	1,026
Investment funds	2,430	-	-	2,430
	4,728	19,088	2,104	25,920

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

	2021	2020
	HK$ Mn	HK$ Mn
Cumulative income recognised in other comprehensive income	(36)	707

29. Exposures to Interbank Offered Rates

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 31st December, 2021, 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.

	2021 Gross Carrying Amount / Notional Amount							
	USD LIBOR	EUR LIBOR	GBP LIBOR	HIBOR	SG Swap Offer Rate	Bank Bill Swap Rate	Bank Bill Benchmark Rate	Other IBOR
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Assets								
Loans and advances to customers	36,270	1	5,444	209,803	3,840	2,184	-	14,967
Placements with and advances to banks	4,571	-	-	4,860	-	-	-	-
Negotiable debt instruments held, including negotiable certificates of deposit	94	-	-	550	-	2,078	-	-
Total Asset	40,935	1	5,444	215,213	3,840	4,262	-	14,967
Liabilities								
Deposits from customers	-	-	-	1,918	-	-	-	-
Certificate of deposit and debt securities issued	2,713	-	-	230	-	-	-	-
Total liabilities	2,713	-	-	2,148	-	-	-	-
Derivatives								
Interest rate swaps	60,612	-	-	78,535	173	10,544	599	10,196
Cross currency swaps	2,889	-	-	1,458	-	2,406	1,148	2,296
Other derivatives	234	-	-	1,317	-	28	-	-
Gross total derivatives	63,735	-	-	81,310	173	12,978	1,747	12,492

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 31st December, 2021, 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 31st December, 2021, 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:

	2021	
	Notional designated	Weighted average exposure years
	HK$ Mn	
Interest rate swaps		
USD LIBOR	49,680	3.90
Bank Bill Swap Rate	10,529	0.96
HIBOR	2,541	0.16
Bank Bill Benchmark Rate	599	0.02
SG Swap Offer Rate	173	0.01
Other IBOR	4,632	0.21
	68,154	5.26

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy

	2021	2020
	HK$ Mn	HK$ Mn
Capital base		
- Common Equity Tier 1 capital	86,487	81,784
- Additional Tier 1 capital	13,968	13,968
- Total Tier 1 capital	100,455	95,752
- Tier 2 capital	9,262	12,669
- Total capital	109,717	108,421
Risk weighted assets by risk type		
- Credit risk	467,566	453,886
- Market risk	11,788	11,516
- Operational risk	31,054	32,285
	510,408	497,687
Less: Deductions	(3,099)	(3,145)
	507,309	494,542

	2021	2020
	%	%
Common Equity Tier 1 capital ratio	17.0	16.5
Tier 1 capital ratio	19.8	19.4
Total capital ratio	21.6	21.9

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 the 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 and Tier 2 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 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 or at the following direct link: www.hkbea.com/regulatory_disclosures.

B. Leverage Ratio

	2021	2020
	HK$ Mn	HK$ Mn
Total Tier 1 capital	100,455	95,752
Exposure measure	941,722	879,956
	%	%
Leverage ratio	10.7	10.9

The disclosure on leverage ratio is effective since 31st 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 or at the following direct link: www.hkbea.com/regulatory_disclosures.

C. Liquidity Position

Liquidity coverage ratio

		2021	2020
		%	%
Average liquidity coverage ratio	- First quarter	189.4	178.1
	- Second quarter	177.3	177.7
	- Third quarter	180.9	175.9
	- Fourth quarter	182.4	183.8

The liquidity coverage ratio is calculated in accordance with the Banking (Liquidity) Rules effective from 1st 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 or at the following direct link: 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

	2021	2020
	HK$ Mn	HK$ Mn
Total available stable funding	562,512	540,767
Total required stable funding	486,536	455,969

	2021	2020
	%	%
Net stable funding ratio	115.6	118.6

The net stable funding ratio is calculated in accordance with the Banking (Liquidity) Rules effective from 1st 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 or at the following direct link: www.hkbea.com/regulatory_disclosures.

D. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances to customers

	2021		2020	
	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	948	0.2	776	0.2
- 1 year or less but over 6 months	1,014	0.2	870	0.2
- Over 1 year	489	0.1	1,167	0.2
	2,451	0.5	2,813	0.6
Rescheduled advances to customers	262	0.0	166	0.0
Total overdue and rescheduled advances	2,713	0.5	2,979	0.6
Covered portion of overdue advances	1,932	0.4	1,878	0.4
Uncovered portion of overdue advances	519	0.1	935	0.2
Current market value of collateral held against the covered portion of overdue advances	3,518		5,007	
Specific provisions made on advances overdue for more than 3 months	1,310		1,578	

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

The two main types of "Eligible Collateral" are as follows:
(i) "Eligible Financial Collateral" mainly comprises cash deposits and shares.
(ii) "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:
(a) Debt rescheduling / restructuring
(b) Enforcement of security
(c) Legal action
(d) Recovery via debt collector

(b) Overdue and rescheduled advances to banks

	2021 HK$ Mn	2020 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

	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	-	-

	2020		
	Accrued interest HK$ Mn	Debt securities HK$ Mn	Other assets* HK$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	8	-	-
- 1 year or less but over 6 months	20	-	-
- Over 1 year	73	-	-
	101	-	-
Rescheduled assets	-	-	-
Total other overdue and rescheduled assets	101	-	-

* *Other assets refer to trade bills and receivables.*

(d) Repossessed assets

	2021 HK$ Mn	2020 HK$ Mn
Repossessed land and buildings *(Note)*	195	211
Repossessed vehicles and equipment	-	28
Repossessed machines	-	-
Total repossessed assets	195	239

The amount represents the estimated market value of the repossessed assets as at 31st December.

Note: The balance included HK$14 million (2020: HK$52 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 or at the following direct link: www.hkbea.com/regulatory_disclosures.

STATEMENT OF COMPLIANCE

(1) In preparing the accounts for 2021, 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 31st December, 2021, the Bank has complied with all Code Provisions set out in the CG Code.

(4) During the financial year ended 31st December, 2021, 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 2021

The Board has declared a second interim dividend for the year ended 31st December, 2021 ("2021 Second Interim Dividend") of HK$0.35 per Share (2020 Second Interim Dividend: HK$0.24 per Share), together with the 2021 interim dividend of HK$0.35 per Share paid in October 2021, will constitute a total dividend of HK$0.70 per Share (2020 total dividend: HK$0.40 per Share) for the full year. The 2021 Second Interim Dividend will be paid on or about Thursday, 7th April, 2022 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, 16th March, 2022. 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, 10th March, 2022 (being the first day that the Shares will be traded ex-dividend) to Wednesday, 16th March, 2022 (both days inclusive). Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Wednesday, 16th March, 2022.

The Scrip Dividend Scheme is conditional upon the Listing Committee of 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 Scheme will be sent to shareholders by ordinary mail on or about Thursday, 7th April, 2022.

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 2021 Second Interim Dividend, the Register of Members of the Bank will be closed from Monday, 14th March, 2022 to Wednesday, 16th March, 2022 (both days inclusive). In order to qualify for the 2021 Second Interim Dividend, all transfer documents accompanied by the relevant share certificates should be lodged for registration with Tricor Standard Limited (Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) by 4:00 p.m. on Friday, 11th March, 2022.

b) For the purpose of determining shareholders who are entitled to attend and vote at the 2022 AGM, the Register of Members of the Bank will be closed from Friday, 29th April, 2022 to Friday, 6th May, 2022 (both days inclusive). In order to qualify for attending and voting at the 2022 AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with Tricor Standard Limited (Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) by 4:00 p.m. on Thursday, 28th April, 2022.

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

On 3rd November, 2021, the Bank completed the early redemption of a face value of US$500 million 4% Tier 2 Capital Dated Subordinated Notes due 2026 (the "2026 Subordinated Notes"). The 2026 Subordinated Notes were issued in 2016 under the Bank's Medium Term Note Programme and listed on the Stock Exchange.

Save for the redemption of the 2026 Subordinated Notes as disclosed herein, there was no purchase, sale or redemption by the Bank or any of its subsidiaries, of listed securities of the Bank during the year ended 31st December, 2021.

EXECUTIVE CHAIRMAN'S STATEMENT

2021 will be remembered as a turbulent year, with multiple waves of COVID-19 across the globe despite the successful roll-out of vaccines; chip shortages and supply-chain bottlenecks leading to inflationary pressure worldwide; rigorous regulatory action on technology, education and property companies on the Mainland; and a soaring stock-market in the US, but a down year in Hong Kong.

Through it all, the global economy has bounced back, led by resurgent demand from the US. In many ways, the volatility that we endured during the past year has created the conditions for stability ahead. More and more countries are learning to live with COVID-19; the Mainland's transition to an advanced industrial economy is gaining traction; and the US and China are taking tentative steps to finding a new equilibrium in their tense relationship.

In this uncertain environment, we have doubled down on our strengths and executed our vision, which is to be the preferred banking partner in Greater China and beyond. Through focusing on our customers' needs, refining our product mix and service fulfilment capabilities, and improving our risk and compliance functions, we have enhanced the fundamentals of our business and delivered solid financial results. Indeed, profit has increased across all regions, demonstrating our ability to prosper in the face of adversity. We have also achieved a notable turnaround in loan-loss provisioning, while continuing to support our customers through the challenges of the pandemic.

Strategic focus

While we focus on the resilience of our business, we are also investing for the future. Online banking and digital innovation have changed the playing field for financial services. Digital transformation is part of our long-term strategy, ensuring that we are prepared for the digital challenges of tomorrow.

At the front end, we are working to strengthen our service channels and improve the interactions that our customers have with us. As we implement straight-through processing and advanced data analytics, we will be able to increase the level of personalisation that we offer, and the speed with which we respond to market changes.

At the back end, increased use of regulatory technology ("Regtech") and automation are speeding up key processes, making risk and compliance management more efficient. Continued enhancements to our technology and cyber security platforms will ensure our resilience in tomorrow's increasingly data and tech-driven environment.

As BEA transforms, so too do our employees. We are better able to use the digital tools that are increasingly at our disposal; we are collaborating across the Group more effectively; and we are focussing more on value-added work – all to serve our customers better.

Our Bank retains a unique franchise that straddles Hong Kong, the Mainland and our overseas network. Although travel was restricted throughout 2021, we are ramping up efforts to provide our customers with a One Bank experience, delivering seamless and frictionless cross-boundary customer service.

Our Mainland business returned to profit in 2021, following a sustained effort to upgrade asset quality. BEA China faces the future with a strong balance sheet, a lower cost structure, a more robust risk culture and enhanced internal controls.

We made important changes to our international network, sharpening our focus on corporate banking in Singapore, Macau and the UK. This initiative produced the desired results, with steady growth in business. Linking Hong Kong and the Mainland with our international network remains a key aspect of our strategy going forward.

As well as strengthening internal collaboration, we have continued to foster mutually beneficial partnerships with like-minded organisations. In 2021, we entered into a ground-breaking bancassurance agreement with AIA Group Limited. Our shared vision and excellent working relationship ensured that our partnership enjoyed a highly promising start. I am confident that, by developing our strong distribution network and expanding our client base in Greater China, this synergistic partnership will continue to perform to our high expectations in 2022 and beyond.

We remain committed to developing responsibly and addressing ESG concerns in our operations. In November 2021, BEA's Board-level ESG Committee endorsed the Bank Group's ESG strategy framework, which sets out our vision to be a market leader in sustainability in financial services. We adopted concrete metrics that assist us to gauge ESG risks in our lending policies. We established a Group carbon-emissions reduction target, and we have been making the necessary investments to achieve our set targets for Group emissions. Meanwhile, we have developed innovative new products and solutions to help our customers transition to a low-carbon future.

We will continue to strengthen our governance and refine business practices to ensure that we deliver sustainable value to all stakeholders.

Outlook

The Mainland economy entered a period of transition in 2021, as new regulations guided investment toward sectors that would support China's long-term competitiveness and sustainable growth. These measures will keep economic fundamentals strong, reducing systemic risks and laying the foundation for an advanced industrial economy based on common prosperity. Meanwhile, the development of the Greater Bay Area is still in its infancy. The best is yet to come.

In late January, the Bank announced that it plans to repurchase all of the Bank's shares held by Elliott Investment Management and its affiliated entities, subject to approval of shareholders at an Extraordinary General Meeting. Management and the Board strongly believe that this transaction presents a tremendous opportunity to enhance return on equity and earnings per share.

Covid-19 remains an ever-present threat. However, after two years of managing successive waves of the virus, we have an effective anti-Covid response framework in place. With the emergence of the fifth wave in Hong Kong in early 2022, we are strictly enforcing all government and HKMA guidelines on vaccination, testing, work-from-home arrangements and social distancing in order to protect customers and staff.

As BEA becomes an increasingly digital, asset-efficient bank, we have become more agile, collaborative and productive. Fee-based revenue streams are being expanded. We are better able to take advantage of change, and ready to capitalise on our strengths as cross-boundary financial connectivity widens and expands.

Our employees were asked to bear the dual loads of daily operating excellence while managing the disruptive changes of our push toward a digital future. They have risen to the challenge. As we move forward, BEA will continue to recruit and develop digitally-aware talent across the organisation, further enhancing our capabilities and service and priming us for future growth.

In closing, 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 as we carry out our bank transformation programme.

I thank our many international partners, in particular CaixaBank and Sumitomo Mitsui Banking Corp, for the excellent working relationship that we enjoy with them. I thank the communities that we serve for their support and encouragement. And I thank our shareholders and customers. Without their longstanding loyalty and confidence in this Bank, we could not achieve so much.

David LI Kwok-po
Executive Chairman

Hong Kong, 24th February, 2022

REPORT OF THE CO-CHIEF EXECUTIVES

FINANCIAL REVIEW

Financial Performance

In 2021, BEA and its subsidiaries earned a profit attributable to owners of the parent of HK$5,270 million, representing an increase of 45.8%, compared with the HK$3,614 million earned in 2020.

The increase in attributable profit was mainly due to a significant reduction in impairment losses in Mainland China, improved net fee and commission income, and a gain of HK$902 million on the disposal of BEA Life.

Basic earnings per share rose from HK$0.97 in 2020 to HK$1.53 in 2021.

The return on average assets rose from 0.3% to 0.5%, while the return on average equity rose from 3.0% to 4.4%.

Group net interest income was pressured under the prolonged low-interest-rate environment. Net interest margin for the full year narrowed from 1.48% to 1.37%, leading to a 3.2% drop in net interest income to HK$11,185 million, despite a 4.7% increase in average interest earning assets. However, the situation stabilised in the second half of the year, with net interest income rising by 2.5% half-on-half.

Net fee and commission income rose by 5.0% to HK$3,069 million. The increase was mainly led by higher income from sales of insurance policies, as well as improved results from investment activity in Hong Kong and other revenue streams across the Group.

Net insurance profit was lower compared to 2020, mainly due to a shorter period of revenue contribution from life insurance business following the disposal of BEA Life. Non-interest income was also impacted by the absence of COVID-19-related government subsidies.

Overall, total operating income decreased by 5.9% to HK$16,283 million.

Total operating expenses were contained at HK$9,321 million despite continued investments in technology and talent, as efficiency gains from automation and straight-through processing began to take effect. Excluding the impact of exchange rate movements, costs grew by just 1.0%.

Impairment losses on financial instruments fell sharply, from HK$4,674 million in 2020 to HK$1,679 million in 2021. Credit cost improved from 0.94% to 0.28%. The Group’s impaired loan ratio decreased from 1.26% at the end of December 2020 to 1.09% at the end of December 2021, while that for Mainland China operations improved from 3.10% to 1.54%.

Operating profit after impairment losses amounted to HK$5,283 million, an increase of HK$2,026 million, or 62.2%.

Net profit on sale of assets held for sale increased by HK$1,010 million to HK$1,042 million, mainly as a result of the disposal of BEA Life.

The Group’s share of after-tax profits less losses from associates and joint ventures decreased by HK$544 million to a loss of HK$234 million, mainly contributed by an associate operating in Mainland China.

After accounting for income taxes, profit increased to HK$5,313 million, an increase of 44.2% compared to the HK$3,685 million recorded in 2020.

Financial Position

Total consolidated assets of the Group stood at HK$907,470 million at the end of December 2021, an increase of 2.6% compared to HK$884,420 million at the end of 2020.

Gross advances to customers increased by 6.8% to HK$548,808 million.

Driven by the strong contribution from net profit for the year, total equity attributable to owners of the parent increased to HK$101,778 million, a rise of 2.9%.

Total deposits from customers increased by 7.5% to HK$633,505 million. Of the total, demand deposits and current account balances increased by HK$9,822 million, or 14.1%; savings deposits increased by HK$8,760 million, or 4.7%; and time deposits increased by HK$25,721 million, or 7.8%. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, increased by 7.3% to HK$697,832 million.

The loan-to-deposit ratio stood at 78.6% at the end of December 2021, compared to 79.1% at the end of 2020.

As at 31st December, 2021, the total capital ratio, tier 1 capital ratio, and common equity tier 1 capital ratio were 21.6%, 19.8%, and 17.0%, respectively. The average liquidity coverage ratio for the quarter ended 31st December, 2021 was 182.4%, 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	Positive

MAJOR RECOGNITION

The Bank of East Asia, Limited

"Domestic Retail Bank of the Year – Hong Kong" and "Initiative of the Year – Hong Kong" in the ABF Retail Banking Awards 2021
- *Asian Banking and Finance*

"Best SME's Partner Gold Award 2021" (for the 4th consecutive year)
- *The Hong Kong General Chamber of Small and Medium Business*

"Best Financial Planning Service" in the Hong Kong Awards 2021
- *The Asian Banker*

"Retail Bank of the Year – Outstanding Achievement"
"Premium Segment Client Service – Outstanding Achievement"
"Wealth Management Platform – Outstanding" Achievement
in the Financial Institution Awards 2021
- *Bloomberg Businessweek (Chinese Edition)*

"Best Private Bank in Greater China 2021"
- *Global Brands Magazine*

"Best Wealth Management Partner in North Asia 2021"
- *Global Brands Magazine*

The Bank of East Asia (China) Limited
"2021 Annual Excellent Commercial Bank" at the 21st Century Competitiveness of Finance
- *21st Century Business Herald*

"Foreign Bank of Excellent Brand-building Competitiveness" at the 2021 Financial Institutions of Competitiveness of Excellence
- *China Business Journal*

Bank of East Asia (Trustees) Limited

Gold Ratings – BEA (MPF) Value Scheme –
MPF Ratings' 2021 MPF Scheme Ratings and Awards
- *MPF Ratings Limited*

Blue Cross (Asia-Pacific) Insurance Limited
The Hong Kong Insurance Awards 2021 – "Outstanding Initiative on Community Health Crisis Award"
- *The Hong Kong Federation of Insurers*

BEA Union Investment Management Limited

For BEA Union RMB Core Bond Fund
Refinitiv Lipper Fund Awards Year 2021 Hong Kong:
Best Fund Over 5 Years – Bond Global LC,
Hong Kong Group Award – Mixed Asset (3 years),
Hong Kong Group Award – Overall (3 years)
- *Refinitiv Lipper Fund Awards*

BUSINESS REVIEW

The global economy is on course for recovery. However, the vaccine-inspired optimism in the early part of 2021 has been tempered by inflationary pressures from commodity crunches, supply chain disruptions and food shortages. Major central banks are increasingly under pressure to rein in expansionary policies and raise interest rates. Added to this mix is the emergence of yet another highly infectious COVID-19 variant, reminding the world that it may be too soon to declare victory over the virus.

Despite external challenges, Hong Kong's economy performed well in 2021, with exports growing at 26.3% year-on-year. Strict border policies have kept the pandemic situation stable, minimising disruption to the domestic economy and supporting employment and consumption. Unemployment averaged 3.9% in the three months to the end of December. Meanwhile, retail sales rose by 8.1% year-on-year, boosted by the government's consumption voucher scheme. These factors led the economy to grow by 6.4% in 2021. While equity markets underperformed, the property market showed resilience, with prices rising 3.3% over the year.

Looking ahead, BEA expects that exports will remain strong, although year-on-year growth will be somewhat slower than 2021. Downside risks remain, however, with the threat of virus mutations and global inflationary pressures among the foremost concerns.

Overall, the Bank forecasts Hong Kong's gross domestic product will grow by 3.2% in 2022, with inflation trending upwards to 1.9%.

On the Mainland, exports continued to defy market expectations, growing by 29.9% year-on-year. Fixed asset investment rose by 4.9% year-on-year. Meanwhile, sporadic COVID-19 outbreaks have tempered private consumption, leaving retail sales with subdued average annual growth of 4% when compared to 2019 levels. Property prices started to trend downwards in September 2021, succumbing to intense regulatory pressure. Overall, the economy registered annual growth of 8.1%.

In the coming year, China may face the threat of a sliding property market, surging input prices and persistent COVID-19 risks. If these factors were to occur simultaneously, this could lead to slower growth in 2022.

The Chinese government has stated that economic and social stability are top priorities for the year. The People's Bank of China has already taken action in this regard, lowering the reserve requirement for banks by 0.5 percentage point in December, and thereby freeing up liquidity for investments. A key policy focus for 2022 will be support for small- and medium-sized enterprises. Given this expansionary posture, BEA forecasts China's economy will grow by 5.3% in 2022. Inflation will remain under control, averaging 2.2%.

Business – Hong Kong

Profit before tax for Hong Kong operations increased by 15.5% year-on-year to HK$3,941 million. Growth was driven by higher fee income and a one-off gain on the disposal of BEA Life. This was partially offset by the impact of a sustained low-interest environment, as well as an upturn in impairment losses towards the end of the year following negative news surrounding Mainland property exposure.

Net fee and commission income increased by 14.9% year-on-year as the Bank focussed on uplifting frontline productivity and driving fee-generating business. Early results from BEA's bancassurance partnership with AIA, which launched in July 2021, have been positive. This partnership is expected to have a growing contribution in subsequent periods.

As experienced across the industry, net interest income declined, although the pressure on NIM stabilised in the second half of the year. Net insurance profit was also lower following the aforementioned disposal of BEA Life. The Bank's general insurance arm, Blue Cross (Asia Pacific) Insurance Limited, is now classified as an asset held for sale.

Initiatives to reduce costs and improve efficiency across the Bank's operations have been successful. As a result, operating expenses were well contained, despite significant investment in digital capabilities and people.

Credit deterioration was seen in the fourth quarter, as certain corporate clients faced liquidity issues. This brought impairment losses for the full year roughly in line with 2020, bucking the trend of improved asset quality in previous quarters.

The Bank maintained a prudent approach to new lending throughout 2021. Customer loans increased by 3.3% to HK$305,400 million at 31st December, while deposits rose by 5.4% to HK$412,018 million. To mitigate the pressure on NIM, the Bank continued to attract low-cost deposits across all business units, and the average current and savings account ratio improved compared to the previous year.

BEA is committed to developing green and sustainable finance in Hong Kong. In October 2021, the Bank signed a Memorandum of Understanding with the Hong Kong Quality Assurance Agency ("HKQAA"). Under this agreement, programmes will be developed to encourage customers to engage in certification and assessment services. Meanwhile, a new green mortgage plan was launched in December 2021 covering private and public residential properties under the Hong Kong Green Building Council's BEAM Plus scheme.

Retail Banking

For the Bank's retail operations, income was dragged by a double-digit decline in net interest income. NIM was pressured under the persistent low interest environment, impacting deposit income in particular. The effect was mitigated by successful efforts to grow fee revenues and reduce costs. Overall, profit before tax reduced by 6.4% year-on-year.

Retail wealth revenues increased by 13.4%, with higher income from investment and insurance product sales. The Bank refined its value propositions for target customer groups, and double-digit growth was recorded in the affluent and emerging affluent segments. In particular, new-to-bank customers of BEA's Supreme all-in-one account rose by 54.8%, while the newly launched SupremeGold Private service saw continued growth in both customers and AUM.

Following continuous enhancements to the Bank's digital service capabilities, 41.8% of financial transactions are now conducted online or via mobile. In particular, mobile investment transactions rose by 20.9% year-on-year. Digital migration has enabled BEA to optimise its network and repurpose branches as wealth management hubs, raising productivity and reducing costs. These efforts contributed to an 8.3% reduction in operating expenses.

Looking ahead, encouraging momentum has been seen in the youth segment, and the Bank is investing to drive future growth in its customer base. To this end, a new virtual card was launched in December. Additional functions in digital payment and consumer finance will be developed to complement BEA's offering.

Corporate and Commercial Banking

Corporate Banking's performance improved in 2021, as business activity bounced back from the lows experienced during the worst of the COVID-19 outbreak.

Overall, operating income rose by 9.6% year-on-year. Net interest income was up by 9.2%, driven by a 4.9% increase in the corporate loan book, as well as an improved interest spread on lending resulting from lower funding costs.

Non-interest income also grew by 11.3%. The Bank's efforts to improve fee income, including a widened product suite, expanded specialist teams and a systematic approach to account planning, were effective. As a result, revenues from insurance, corporate wealth management, debt capital markets solutions and trade finance activity increased.

BEA continued to attract new customers from a wide range of industries to broaden its customer base and diversify its portfolio. The corporate customer base grew by 16.3%, and new-to-bank customers made a significant contribution to growth in deposits, loans and fee income. The Bank has developed tailor-made sector solutions to further deepen penetration in target customer segments. Results to date have been encouraging, with a 43.6% increase in revenues from customers using these products.

In the coming year, BEA will focus on upgrading its digital service capabilities for corporate customers. A new Corporate Cyberbanking platform will be launched in the second half of 2022, with advanced features and an improved user interface. The Bank will also leverage the HKMA's Commercial Data Interchange project and Open Application Programming Interface technology to collaborate with a wide range of partners on commercial data, customer experience integration and new payment and financing solutions.

Wealth Management

Private Banking's performance was impacted by muted investor sentiment in the second half of the year, as equity markets in Hong Kong came under pressure from sector-specific policy risk on the Mainland. Clients continued to deleverage their portfolios, focussing instead on risk mitigation. As a result, loans and investment AUM declined. However, deposits recorded good growth, providing a solid foundation for future revenue generation.

Demand for mutual funds remained resilient throughout the period as customers were advised to actively re-adjust their portfolios and diversify their holdings. Foreign exchange-related business also recorded strong results from both retail and private banking clients, with revenues from currency-linked deposits more than doubling.

BEA will continue to promote its forex-related services to help clients capture opportunities from anticipated exchange rate volatility as global monetary policies diverge. Meanwhile, the Bank remains dedicated to serving the Greater Bay Area and has built a solid market position among foreign banks under the Wealth Management Connect scheme.

The Bank is further strengthening its integrated service platform, especially digital investment tools, to meet the holistic needs of high-net-worth individuals in the region. Seasoned relationship managers, investment consultants and product specialists have been recruited to drive the wealth management business. Strong growth in AUM and revenue is expected as the COVID-19 recovery takes hold, both from new customer acquisition as well as a deepened wallet share from existing clients.

Insurance and MPF Services

In 2021, the Bank successfully completed the sale of BEA Life to AIA Group. As part of the transaction, BEA also entered into a 15-year exclusive bancassurance agreement with AIA covering Hong Kong and Mainland China. The bancassurance partnership was launched in July following a brief transition. Initial results have been promising, and this partnership is expected to contribute meaningful revenues in the coming years.

Blue Cross (Asia Pacific) Insurance Limited, BEA's wholly-owned general insurance arm ("Blue Cross"), experienced an exceptional surge in inpatient claims in 2021 as pent up demand was released, dragging underwriting profits. Premium income was also affected by a temporary delay in new subscriptions due to ongoing travel restrictions. Nevertheless, demand is expected to rebound strongly as borders reopen and normal activity resumes.

Blue Cross remains focussed on providing value-added services for its base of over 300,000 medical and general insurance customers. To drive engagement and brand awareness, a new wellness platform is being launched in phases. The platform will provide healthy living advice, as well as a rewards program where customers can redeem gifts and insurance discounts.

Total membership of BEA's MPF schemes grew to 851,000 at the end of December 2021, while AUM stood at HK$31 billion. The Bank continued to promote its convenient digital MPF service channels, and the utilisation rate among members reached 90% during the year under review.

Business – Mainland China

In 2021, China's economy staged a strong recovery and its GDP expanded by 8.1% compared to the year before. However, signs of a slowdown were observed in the second half of 2021, mainly due to weakened demand, supply chain disruptions and tightened regulations on various industries, in particular the real estate sector.

BEA China successfully executed its business strategies and its operations showed a turnaround, achieving a net profit of HK$571 million in 2021 from a net loss of HK$818 million in 2020. During the year, loan growth momentum accelerated while credit cost was managed at the lowest level in recent years. Through persistent efforts in expanding and diversifying the loan portfolio, total loans recorded double-digit growth to reach HK$150 billion while the proportion of property-related loans was progressively reduced.

Despite encouraging loan book growth in 2021, total operating income edged down on a year-on-year basis. NIM was lower as a result of the reduction in the high-margin consumer finance portfolio and keen market competition for deposits. Non-interest income was also weaker than expected, due to a slowdown in economic activity and dampened demand on wealth management services as capital market volatility increased.

On the corporate banking side, BEA China focussed on growing and diversifying its loan portfolio in 2021. Emphasis was placed on developing the non-property related loan portfolio and building up trade finance assets. BEA China's non-property related loan portfolio now accounts for 67.0% of its total corporate portfolio, while it stood at 60.7% at the end of 2020; and comprises mainly of non-bank financial institutions, companies from wholesale and retail trade, and the manufacturing industry. A large proportion of the increase came from extending additional facilities to qualified customers who have long-term banking relationships with the Bank as well as customers with financing needs on both sides of the border. At the same time, BEA China has cautiously expanded its customer base, which has led to a steady growth in new-to-bank customers, with state-owned sponsors accounting for a larger share.

Overall, operating income from corporate banking achieved steady growth in 2021. Net interest income from corporate banking grew by 15.4% year-on-year. The benefits from a larger loan portfolio were offset by thinner margins as BEA China targeted quality customers with stronger credit ratings. Non-interest income from corporate banking remained stable, and BEA China was able to capture new business opportunities through treasury sales and debt capital markets.

Operating income from retail lending in 2021 was lower compared to the previous year as BEA China downsized its high-margin internet finance and credit card portfolios. Following the new Government policy on internet finance, the Bank worked closely with its eco-system partners to improve risk control on both pre- and post-lending and ensure compliance with new regulations. Regarding its credit card business, BEA China slowed down new card issuance and put greater emphasis on deepening customers' wallet share through cross-selling.

Income from wealth management also dropped during the year as customers moved away from risky products and volatile markets. However, it is encouraging to see an increase in the number of SupremeGold customers and the amount of AUM (including deposits) and cross-boundary referrals during the year, with the GBA fuelling a large share of the growth. Since the bancassurance partnership between BEA China and AIA China was officially launched, with product proposition and a sales force put in place, early encouraging results have been noted. This momentum should carry over to 2022 and beyond.

During the period under review, operating expenses for BEA China increased by 8.5% year-on-year to HK$3,446 million. However, on a constant currency basis, BEA China's operating expenses stayed flat compared to a year ago, reflecting strong cost discipline despite being in an inflationary environment. The cost benefits of network consolidation and a more efficient workforce were partly offset by the absence of a one-time social insurance contribution exemption granted by the Central Government in 2020 amid the COVID-19 outbreak. Notwithstanding its flat cost base, BEA China has increased its investments in information technology as well as digital and data analytics capabilities in order to drive cost efficiency, improve workflow and strengthen core infrastructure.

Regarding asset quality, BEA China continued to maintain a prudent underwriting standard and further reduced the size of its legacy corporate non-performing loan portfolio. Significant improvements in asset quality were observed in both corporate banking and retail banking. The impaired loan ratio dropped by 1.56 percentage points to 1.54% as of the end of 2021. Non-performing loan formation and impairment losses for the year fell to HK$1,383 million and HK$560 million, a year-on-year reduction of 58.2% and 81.1% respectively. BEA China will continue to manage its asset quality vigilantly during what is expected to be a highly uncertain year.

BEA China maintains a strong presence in Mainland China, with 30 branches and 39 sub-branches covering 38 cities at the end of 2021. In the GBA, BEA China operates 20 outlets and will continue to leverage on the Group's extensive network to capture opportunities that arise from the region.

Business – International, Macau and Taiwan

In 2021, the Bank's overseas operations delivered a solid financial performance, notwithstanding the challenging operating environment stemming from COVID-19 variants, geopolitical tensions, and global supply chain disruptions.

During the period under review, pre-provision operating profit for overseas branches grew by 10.0% year-on-year as a result of higher net interest margins and steady growth in customer advances.

Net profit after tax surged 77.0% to HK$1,053 million, mainly driven by a reduction in credit loss provisioning as the economic outlook improved. Asset quality remained sound, with the impaired loan ratio kept firmly at the low level of 0.35% at the end of 2021.

The cost-to-income ratio remained stable at 37.0% in 2021, notwithstanding a surge in information technology and risk and compliance expenses due to more stringent regulatory requirements.

During the year, major economies rebounded strongly, supported by a gradual resumption of economic activity and social mobility. Amidst tempered optimism, BEA's overseas branches continued to uphold prudent underwriting standards when onboarding new businesses and terminate challenging relationships. In 2021, the Bank's overseas branches registered a mild loan growth of 2.6%.

The Bank's branches in New York and Los Angeles focussed on participating in quality syndicated loans with positive business prospects. Meanwhile, the Bank's UK operations recorded continuing growth in both loans and pre-provision operating profit through diversification into syndicated financing, including green and sustainability-linked loans.

In Asia (excluding Hong Kong and Mainland China), BEA successfully completed its strategic repositioning and network rationalisation initiatives, resulting in an improvement in efficiency and profitability of the respective units. As part of this exercise, Singapore and Macau branches have shifted their focus to corporate banking. In the first half of 2021, the new banking hall of Singapore Branch opened its doors to customers while in Macau, the main branch became the sole, centralised customer service point at the end of the year.

Strengthening collaboration with other business units and strategic partners of the Bank to provide seamless, quality services remains an ongoing focus. In the year under review, the Taiwan Branch successfully referred quality deals to other business units of the Bank. Going forward, the branch will capitalise on its expertise in the syndicated loan market and step up cross-selling efforts to generate new business from large corporations. In a similar vein, The Kuala Lumpur Representative Office will continue to serve our customers in the region through business referrals to other business units of the Group.

In line with the Group's strategic direction, overseas operations will seek opportunities in sectors that will benefit from economic recovery, expand green and sustainability-linked financing, and invest in digital capabilities and workflow automation.

BEA Union Investment Management Limited

BEA Union Investment Management Limited ("BEA Union Investment") is well positioned to benefit from the business opportunities presented to support the growth and development of the GBA. In particular, all of BEA Union Investment's retail funds are already eligible to participate in the recently announced Wealth Management Connect scheme.

During the past year, BEA Union Investment introduced two new funds under the Mainland-Hong Kong Mutual Recognition of Funds scheme, bringing the total number of offshore funds now on offer to Mainland investors under this scheme to four.

Meanwhile, the unit's Shenzhen-based wholly foreign-owned subsidiary, BEA Union Investment (Shenzhen) Limited, introduced one new private fund in 2021. With this addition, the Shenzhen subsidiary currently manages two private funds that are designed for sale to high-net-worth investors on the Mainland.

Following the recent regulatory changes in Hong Kong that offer favourable treatment to open-ended funds, BEA Union Investment restructured five existing unit trust funds as open-ended funds. This not only benefits investors, but also enhances Hong Kong's role as a leading fund domicile and full-service asset and wealth management centre.

Looking to 2022, with its pioneering spirit, agility and resilience, BEA Union Investment will continue to enrich its product offering and increase its market exposure.

Our People

As of 31st December, 2021, BEA Group employed 8,824 people:

	As of 31st December, 2021	As of 31st December, 2020
Hong Kong	5,057	5,576
Mainland China	3,211	3,373
Macau and Taiwan	130	151
Overseas	426	439
Total	8,824	9,539

Employees are the Bank's greatest assets, and are instrumental to its continued growth and success. To support BEA's business strategy and transformation, robust recruitment activities were in place throughout 2021 to attract both experienced and high-calibre professionals.

To groom young talent for future banking, the Bank continued to participate in the HKMA and Applied Science and Technology Research Institute's co-launched HKMA Banking Talent Programme, and sponsors intake through the FinTech Career Accelerator Scheme. In addition, BEA took part in the HKSAR Government's Greater Bay Area Youth Employment Scheme. Further, in order to best serve the career development needs of the Bank's Management Trainees, which saw a marked increment in the number hired as compared to the previous year, BEA adapted its trainee programme to provide additional support via broadened exposure to FinTech and the GBA.

BEA encourages internal mobility to fulfil employees' aspirations and meet its talent demand to build the Bank's leadership pipeline with The BEA Future Leader Accelerated Programme. This programme provides structured development for high-potential executives ("HIPOs") with opportunities for vertical and lateral movement across the Bank to support their career aspirations. HIPOs gain professional and leadership development through broadened business exposure and management experience; learning insights from the Co-Chief Executives and senior management through exchange forums and senior mentoring, strengthening their leadership competence through training and executive education.

To empower employees to take on future challenges, BEA also rolled out a series of new training programmes to build staff skillsets, such as the bank-wide growth mindset programmes launched throughout 2021 for staff at different levels, and modules designed to improve staff members' digital awareness and capabilities. These included a digital leadership programme for senior leaders, FinTech webinars for executives and managers, and Bank-wide e-learning modules. BEA also utilised bank-wide digitalisation to implement online learning, virtual classrooms, self-paced micro-learning and hybrid learning as appropriate to drive a strong learning culture and support its sustainable growth.

Moreover, the Bank launched the "Learn & Grow" Recognition Scheme during the year to encourage staff to participate in upskilling programmes, recognise their efforts, and celebrate their scholarly accomplishments. Future training curriculum will run in parallel with continuous professional staff development. It will promote staff participation and increasingly integrate technological and innovative means.

To further strengthen its bank culture, BEA restructured the Bank Culture Work Group to reinforce collective efforts to promote a healthy risk culture. Bank-wide, division-specific culture plans were developed based on employee feedback from the most recent survey, which boasted an engagement score of over 80%.

Employee well-being is factored in at all times so that staff feel appreciated and cared for. During 2021, the Bank renovated its canteen in the Head Office in Central, turning it into the sustainability-conscious Café 23, named after BEA's stock code thanks to the winning entry in a staff naming competition. The space promotes staff well-being with a new, collaborative communal space. The Bank also began to offer healthier choices at both Café 23 and the staff canteen at its Millennium City 5 office in Kowloon, both of which still provide complimentary lunch to all staff every weekday. The Bank also increased the frequency with which employees can take well-being leave (shorten a work day by two hours) to once per month.

Staff members' health and safety, as well as that of the public, is always of utmost importance to the Bank. BEA therefore enhanced its medical and leave benefits; implemented flexible work arrangements such as split-team and work-from-home operations; provided one additional day of leave allowance to all staff for each COVID-19 vaccination received; and required unvaccinated staff to undergo regular testing, as guided by the HKMA to protect the health of all staff members.

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.

Risk and Return
The Group's overall 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, strategic 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 our 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.

The First Line of Defence	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.
The Second Line of Defence	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.
The Third Line of Defence	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.

Principal risk type	How it is managed
Credit Risk	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.
Interest Rate Risk	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.
Market Risk	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 polices, guidelines and manuals.
Liquidity Risk	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.
Operational Risk	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.
Reputation Risk	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.
Strategic Risk	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. The Group establishes comprehensive policies, manuals, profiles and reports to set out the management framework as well as assessment and monitoring tools.
Legal Risk	The Group has adopted comprehensive policies, guidelines and manuals. Qualified internal personnel and/or external professionals are engaged to provide advice and training courses.
Compliance Risk	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.
Technology Risk	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.

ERM Reports

ERM is driven and supported by the following enterprise-wide risk reports, which are applied consistently in order to identify, assess and manage risk across the Group.

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

The COVID-19 pandemic has presented many challenges to the Group, and the Group has actively managed the associated risks. Specifically, the Group enhanced risk management in the following areas in 2021:

Additional resources have been allocated for management of special assets and credit monitoring so as to proactively identify risk in the loan book and take timely mitigation actions.

Additional resources have also been allocated to strengthen parental oversight of risks associated with BEA China. An expanded operational risk plan is in place, along with enhancements covering incident analysis and monitoring, communication and reporting protocols. Post-credit-approval reviews and thematic reviews are regularly conducted on selected portfolios by head office.

The Group continues to enhance its operational risk management framework. Recent enhancements include a revamp of the Risk Control Self-Assessment programme by restructuring the risk taxonomy and control monitoring mechanism; standardisation of management of operational risk incidents; further sharpening of the anti-fraud control measures; and an update of the policy and assessment methodology for managing third-party risk.

The Group recognises the importance of sustainability for the environment, for society and for the long-term business success of the Group. During the past year, the Board approved the Group's first qualitative risk appetite statement on ESG risks, which 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 Sustainability-linked Lending Policy and introduced an ESG risk rating mechanism and tool that enables systematic assessment of customers' ESG performance and vulnerability to climate-related risk. In addition, the Group conducts climate-related stress testing to assess the climate resilience of the Group, facilitates the capability building for measuring climate risks, and embeds climate risks in business planning and strategy formation to mitigate climate risks.

Principal Uncertainties

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

Principal Uncertainties	**Mitigating Measures**
Macro-economic Uncertainty Risk	
The COVID-19 pandemic and US-China tensions have impacted a wide range of industries since 2019. Despite the economic recovery accelerating in 2021 in some regions, uncertainties over the duration and impact of the COVID-19 remain. In Hong Kong, the economy continued to show its growth momentum. However, the recovery is uneven and some sectors are outperforming others. The Hong Kong property market sentiment declined in the second half of the year, and the local stock market was volatile. Coupled with heightened regulatory risk for technology and real estate companies operating in Mainland China, the credit risk environment outlook remains challenging.	The Group will continue to monitor the market situation and its portfolios closely in order to manage risk exposure. 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 US-China tensions, thematic reviews on high risk sectors, and performing stress testing on capital adequacy and loan-loss allowances. From a market risk perspective, the Bank continues to assess trends, manage exposures, review its risk-taking strategy and formulate mitigation actions for impacted securities as necessary. From a compliance risk perspective, the Bank continues to track the development of relevant sanction regimes and adopt mitigating measures where appropriate.

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: • 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 the 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 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 Risks

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 negative impacts from ESG risks and cultivate ESG consciousness throughout the Group, BEA has: • Developed a Green and Sustainability-linked Lending Policy • Enhanced its ESG risk assessment checklist for credit applications by incorporating climate risk considerations • Participated in the HKMA pilot Climate Risk Stress Test to assess BEA's resilience to extreme climate events • Introduced various ESG/climate risk indicators to enhance monitoring capability in a proactive manner • Promoted and enhanced ESG knowledge and awareness to all staff through external and internal events including but not limited to industry webinars, mandatory training, and internal communications

Interbank Offered Rate ("IBOR") Transition

Following the decision of global regulators to phase out Interbank Offered Rates and replace them with risk-free rates as alternative reference rates ("ARRs"), the Group has established and completed the IBOR Reform Project, enabling the Group to meet related regulatory requirements of all applicable jurisdictions for 2021.

The Group has developed the capabilities to offer ARR products and started trading in ARRs. System and operational changes were also completed for handling ARR transactions, and appropriate fallback provisions have been included in contracts to protect customers. The Group also updated the IBOR reform pages as appropriate on BEA's official websites for customer reference.

With the completion of the IBOR Reform Project, the Group has the operational capability to manage the ARR transition for the USD London Interbank Offered Rates ("LIBORs") of tenors that will cease to be available after 30th June, 2023.

For the risks arisen from IBOR transition, including but not limited to the following, the Group will closely manage and monitor:

- Conduct risk arising from communications with clients and market counterparties due to the amendments required to legacy contracts necessary for IBOR reform;
- Financial risk to the Group and its clients should markets be disrupted due to IBOR reform giving rise to financial losses;
- Pricing risk from the potential lack of market information should liquidity in IBORs reduce;
- Operational risk arising from changes to systems and processes, and the risk of payments being disrupted should an IBOR cease to be available;
- Risk on mismatch of hedging relationships as financial instruments transition to ARRs resulting in unrepresentative income statement volatility.

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

Hong Kong, 24th February, 2022

As at the date of this announcement, the Board of Directors of the Bank comprises Dr. the Hon. Sir David LI Kwok-po# (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# (Co-Chief Executive), Mr. Brian David LI Man-bun# (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*.*

Executive Director
* *Non-executive Director*
** *Independent Non-executive Director*

GLOSSARY
詞彙

2022 AGM	An AGM of the Bank to be held in the Grand Ballroom, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Friday, 6th May, 2022 at 11:30 a.m. or any adjournment thereof
「2022 股東周年常會」	本行將於 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，或其任何續會
AGM	An Annual General Meeting of the Bank
「股東周年常會」	本行的股東周年常會
AUM	Assets under management
「管理資產」	管理資產
Bank Group or BEA Group or Group	The Bank and its subsidiaries
「集團」或「本集團」	東亞銀行及其附屬公司
Bank or BEA	The Bank of East Asia, Limited, a limited liability company incorporated in Hong Kong
「本行」或「東亞銀行」	東亞銀行有限公司，於香港註冊成立的有限公司
Bank Culture Reform	The circular in respect of Bank Culture Reform, issued by the HKMA on 2nd March, 2017
「銀行企業文化改革」	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	The Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
「《銀行業條例》」	《銀行業條例》（香港法例第 155 章）
BEA China	The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank
「東亞中國」	東亞銀行（中國）有限公司，本行的全資附屬公司
Board	Board of Directors of the Bank
「董事會」	本行的董事會
Capital Rules	Banking (Capital) Rules issued by the HKMA
「《資本規則》」	金管局頒布的《銀行業（資本規則）》
CG Code	Corporate Governance Code, Appendix 14 to the Listing Rules
「《企業管治守則》」	《上市規則》附錄 14 內所載的《企業管治守則》
CG-1	Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorized Institutions, issued by the HKMA
「CG-1」	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	Supervisory Policy Manual CG-5 on Guideline on a Sound Remuneration System, issued by the HKMA
「CG-5」	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》
China, Mainland, Mainland China, or PRC	People's Republic of China
「中國」或 「內地」	中華人民共和國
Companies Ordinance	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
「《公司條例》」	《公司條例》（香港法例第 622 章）
Director(s)	Includes any person who occupies the position of a director, by whatever name called, of the Bank or otherwise as the context may require
「董事」	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	Environmental, social, and governance
「環境、社會及管治」	環境、社會及管治
EUR	Euro, the lawful currency of 19 of the 27 member states of the European Union
「歐羅」	歐洲聯盟 27 個成員國內，其中 19 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 UK 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
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
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
Stock Exchange 「聯交所」	The Stock Exchange of Hong Kong Limited 香港聯合交易所有限公司
UK 「英國」	United Kingdom 英國
US 「美國」	United States of America 美利堅合眾國
US$ or USD 「美元」	United States dollar, the lawful currency of the US 美國法定貨幣