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## The Bank of East Asia, Limited

東亞銀行有限公司

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

### ANNOUNCEMENT OF 2022 INTERIM RESULTS

#### INTERIM RESULTS

The Board of Directors of the Bank is pleased to announce the unaudited results (Note 1(a)) of the Group for the six months ended 30<sup>th</sup> June, 2022.

#### Consolidated Income Statement

		6 months ended 30/6/2022	6 months ended 30/6/2021
	Notes	HK\$ Mn	HK\$ Mn
Interest income	3	9,658	8,887
Interest income calculated using the effective interest method		10,154	9,403
Related interest expense		(496)	(516)
Interest expense	4	(3,828)	(3,364)
Net interest income		5,830	5,523
Fee and commission income	5	1,751	1,969
Fee and commission expense		(311)	(429)
Net fee and commission income		1,440	1,540
Net trading profit	6	441	561
Net result on financial instruments at FVTPL	7	34	173
Net result on financial assets measured at FVOCI	8	(1)	21
Net loss on sale of investments measured at amortised cost		-	(13)
Net hedging profit	9	67	64
Net insurance profit	10	157	371
Other operating income	11	150	175
Non-interest income		2,288	2,892
Operating income		8,118	8,415
Operating expenses	12	(4,406)	(4,647)
Operating profit before impairment losses		3,712	3,768
Impairment losses on financial instruments	13	(2,136)	(581)
Impairment losses		(2,136)	(581)
Operating profit after impairment losses		1,576	3,187
Net gain/(loss) on disposal of fixed assets	14	33	(22)
Valuation gains/(losses) on investment properties	23	3	(123)
Share of profits less losses of associates and joint ventures		190	129
Profit for the period before taxation		1,802	3,171
Income tax	15	(292)	(474)
Profit for the period		1,510	2,697
Attributable to:			
Owners of the parent		1,499	2,671
Non-controlling interests		11	26
Profit for the period		1,510	2,697
Profit for the Bank		1,455	2,305
Earnings per share			
Basic	1(b)	HK\$0.39	HK\$0.78
Diluted	1(b)	HK\$0.39	HK\$0.78

## Consolidated Statement of Comprehensive Income

		6 months ended 30/6/2022	6 months ended 30/6/2021
	<i>Notes</i>	HK\$ Mn	HK\$ Mn
Net profit		1,510	2,697
Other comprehensive income for the period:			
Items that will not be reclassified to income statement:			
Premises:			
- unrealised surplus on revaluation of premises		-	4
- deferred taxes	31	1	5
Fair value reserve (equity instruments):			
- net change in fair value		181	(537)
- deferred taxes	31	(4)	(13)
Liability credit reserve:			
- net change in fair value attributable to Group's own credit risk		82	(7)
- deferred taxes	31	(13)	2
Items that may be reclassified subsequently to income statement:			
Fair value reserve (debt instruments):			
- net change in fair value		(1,807)	463
- amount transferred to income statement on disposal		7	(78)
- deferred taxes	31	267	(163)
Hedging reserve (cash flow hedges):			
- effective portion of changes in fair value of hedging instruments		-	1
- fair value change transferred to income statement		-	(1)
Share of changes in equity of associates and joint ventures		45	(193)
Exchange differences arising from translation of accounts/disposal of overseas branches, subsidiaries, associates and joint ventures		(1,830)	266
Other comprehensive income		(3,071)	(251)
Total comprehensive income		(1,561)	2,446
Total comprehensive income attributable to:			
Owners of the parent		(1,572)	2,420
Non-controlling interests		11	26
		(1,561)	2,446

## Consolidated Statement of Financial Position

	Notes	30/6/2022 HK\$ Mn	31/12/2021 HK\$ Mn
<b>ASSETS</b>			
Cash and balances with banks	16	54,817	55,088
Placements with and advances to banks	17	67,128	74,742
Trade bills	18	3,071	10,772
Trading assets	19	672	2,483
Derivative assets	37(b)	8,783	3,381
Loans and advances to customers	20	546,421	544,437
Investment securities	21	150,471	147,507
Investments in associates and joint ventures	22	8,669	8,947
Fixed assets	23	13,543	13,844
- Investment properties		4,994	4,992
- Other properties and equipment		7,677	8,015
- Right-of-use assets		872	837
Goodwill and intangible assets		1,878	1,885
Deferred tax assets	31	1,769	1,861
Other assets	24	50,989	42,523
- Assets held for sale	42	2,062	2,264
- Others		48,927	40,259
Total Assets		908,211	907,470
<b>EQUITY AND LIABILITIES</b>			
Deposits and balances of banks		34,531	31,766
- Designated at fair value through profit or loss	25	3,761	3,639
- At amortised cost		30,770	28,127
Deposits from customers		644,564	633,505
- Demand deposits and current accounts		69,500	79,657
- Savings deposits		184,981	196,662
- Time, call and notice deposits		390,083	357,186
Trading liabilities	26	27	5
Derivative liabilities	37(b)	3,651	5,050
Certificates of deposit issued		46,657	64,327
- Designated at fair value through profit or loss	25	25,586	32,618
- At amortised cost		21,071	31,709
Current taxation		1,144	958
Debt securities issued		3,147	5,847
- Designated at fair value through profit or loss	25	824	620
- At amortised cost		2,323	5,227
Deferred tax liabilities	31	266	559
Other liabilities	27	55,641	42,915
- Liabilities held for sale	42	1,658	1,637
- Others		53,983	41,278
Loan capital – at amortised cost	28	12,258	6,488
Total Liabilities		801,886	791,420
Share capital	1(d)	41,791	41,645
Reserves	32	54,177	60,133
Total equity attributable to owners of the parent		95,968	101,778
Additional equity instruments	33	10,090	13,968
Non-controlling interests		267	304
Total Equity		106,325	116,050
Total Equity and Liabilities		908,211	907,470

## Consolidated Statement of Changes in Equity

	Share capital	General reserve	Revaluation reserve of bank premises	Capital reserve	Exchange revaluation reserve	Capital reserve – staff share options issued	Fair value reserve	Liability credit reserve	Other reserves <sup>2</sup>	Retained profits	Total	Additional equity instruments	Non-controlling interests	Total equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 <sup>st</sup> January, 2022	41,645	13,658	1,905	895	1,058	152	1,925	(46)	5,191	35,395	101,778	13,968	304	116,050
Changes in equity														
Profit for the period	-	-	-	-	-	-	-	-	-	1,499	1,499	-	11	1,510
Other comprehensive income	-	-	1	-	(1,830)	-	(1,356)	69	45	-	(3,071)	-	-	(3,071)
Total comprehensive income	-	-	1	-	(1,830)	-	(1,356)	69	45	1,499	(1,572)	-	11	(1,561)
Shares issued in lieu of dividend (Note 1(d))	146	-	-	-	-	-	-	-	-	-	146	-	-	146
Equity settled share-based transaction	-	-	-	-	-	11	-	-	-	-	11	-	-	11
Transfer	-	-	-	-	-	(24)	-	-	(7)	31	-	-	-	-
Distribution/Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	(1,432)	(1,432)	-	(48)	(1,480)
Share buy-back <sup>3</sup>	-	-	-	-	-	-	-	-	-	(2,916)	(2,916)	-	-	(2,916)
Redemption of additional equity instruments <sup>f</sup>	-	-	-	-	-	-	-	-	-	(47)	(47)	(3,878)	-	(3,925)
At 30 <sup>th</sup> June, 2022	41,791	13,658	1,906	895	(772)	139	569	23	5,229	32,530	95,968	10,090	267	106,325
At 1 <sup>st</sup> January, 2021	41,557	13,657	1,895	895	301	157	2,465	(32)	5,138	32,852	98,885	13,968	943	113,796
Changes in equity														
Profit for the period	-	-	-	-	-	-	-	-	-	2,671	2,671	-	26	2,697
Other comprehensive income	-	-	9	-	266	-	(328)	(5)	(193)	-	(251)	-	-	(251)
Total comprehensive income	-	-	9	-	266	-	(328)	(5)	(193)	2,671	2,420	-	26	2,446
Shares issued in lieu of dividend	42	-	-	-	-	-	-	-	-	-	42	-	-	42
Equity settled share-based transaction	-	-	-	-	-	9	-	-	-	-	9	-	-	9
Transfer	-	-	-	-	-	(24)	-	-	208	(184)	-	-	-	-
Distribution/Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	(1,105)	(1,105)	-	(52)	(1,157)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(630)	(630)
At 30 <sup>th</sup> June, 2021	41,599	13,657	1,904	895	567	142	2,137	(37)	5,153	34,234	100,251	13,968	287	114,506

Notes: 1. The Bank redeemed HK\$3,878 million (USD500 million) undated non-cumulative subordinated Additional Tier 1 capital securities issued in 2017.

2. Other reserves include statutory reserve and other reserves.

3. In April 2022, the Bank bought back 247 million issued shares at a consideration of HK\$2,904 million. Together with the direct transaction cost of HK\$12 million, a total amount of HK\$2,916 million were accounted for as deduction from retained profits.

## Condensed Consolidated Cash Flow Statement

	6 months ended 30/6/2022	6 months ended 30/6/2021
Notes	HK\$ Mn	HK\$ Mn
NET CASH INFLOW/(OUTFLOW) FROM OPERATIONS	9,305	(13,894)
Income tax paid		
Hong Kong profits tax paid	(6)	(16)
Outside Hong Kong profits tax paid	(121)	(105)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	<u>9,178</u>	<u>(14,015)</u>
INVESTING ACTIVITIES		
Dividends received from associates and joint ventures	7	-
Dividends received from equity securities measured at FVOCI	9	6
Purchase of fixed assets	(179)	(174)
Proceeds from disposal of other properties and equipment	103	3
Returns of investment in associates	-	3
NET CASH USED IN INVESTING ACTIVITIES	<u>(60)</u>	<u>(162)</u>
FINANCING ACTIVITIES		
Ordinary dividends paid	(925)	(710)
Distribution to Additional Tier 1 issue holders	1(c) (409)	(405)
Payment for repurchase of shares	(2,916)	-
Issue of debt securities	390	314
Issue of loan capital	3,879	-
Payment of lease liabilities	(159)	(199)
Redemption of debt securities issued	(2,931)	(4)
Redemption of additional equity instruments	(3,925)	-
Interest paid on debt securities issued	(126)	(117)
Interest paid on loan capital	(158)	(236)
NET CASH USED IN FINANCING ACTIVITIES	<u>(7,280)</u>	<u>(1,357)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,838	(15,534)
CASH AND CASH EQUIVALENTS AT 1 <sup>st</sup> JANUARY	120,646	113,702
Effect of foreign exchange rate changes	(2,338)	479
CASH AND CASH EQUIVALENTS AT 30 <sup>th</sup> JUNE	34 <u>120,146</u>	<u>98,647</u>
Cash flows from operating activities included:		
Interest received	9,736	8,961
Interest paid	3,619	3,648
Dividend received	20	17

Notes:

1. (a) The information in this announcement is not audited or reviewed by the external auditors but is extracted from the interim report prepared under HKAS 34 “Interim Financial Reporting” issued by the HKICPA. Hence this announcement does not constitute the Group’s statutory accounts. The interim report, which has been reviewed by the Bank’s Audit Committee, is prepared on a basis consistent with the accounting policies and methods of computation adopted in the 2021 audited accounts, except for the accounting policy changes required under new HKFRSs and amendments that are first effective for the current accounting period as described in note 2 below, or otherwise explicitly stated, and has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA, whose unmodified review report is included in the interim report which will be published on the websites of the HKEX and the Bank, together with the disclosures required by the Banking (Disclosure) Rules issued by the HKMA.

The financial information relating to the financial year ended 31<sup>st</sup> December, 2021 that is included in the interim financial report as comparative information does not constitute the Bank’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31<sup>st</sup> December, 2021 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Bank’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 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 period attributable to owners of the parent of HK\$1,090 million (six months ended 30<sup>th</sup> June, 2021: HK\$2,266 million) after accounting for the distribution of HK\$409 million (six months ended 30<sup>th</sup> June, 2021: HK\$405 million) to Additional Tier 1 issue holders, and on the weighted average of 2,818 million ordinary shares outstanding during the six months ended 30<sup>th</sup> June, 2022 (six months ended 30<sup>th</sup> June, 2021: 2,918 million).
- (ii) The calculation of diluted earnings per share is based on the consolidated profit for the period attributable to owners of the parent of HK\$1,090 million (six months ended 30<sup>th</sup> June, 2021: HK\$2,266 million) after accounting for the distribution of HK\$409 million (six months ended 30<sup>th</sup> June, 2021: HK\$405 million) to Additional Tier 1 issue holders, and on the weighted average of 2,818 million ordinary shares outstanding during the six months ended 30<sup>th</sup> June, 2022 (six months ended 30<sup>th</sup> June, 2021: 2,918 million), adjusted for the effects of all dilutive potential shares.

(c) Distribution/Dividends

- (i) Dividends payable to equity owners of the parent attributable to the interim period

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Interim dividend declared after the interim period of HK\$0.16 per share on 2,689 million shares (six months ended 30 <sup>th</sup> June, 2021: HK\$0.35 per share on 2,919 million shares)	430	1,022

The interim dividend has not been recognised as a liability at the end of the reporting period.

1. (c) Distribution/Dividends (Continued)

- (ii) Dividends payable to equity owners of the parent attributable to the previous financial year, approved and paid during the interim period

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Second interim dividend of HK\$0.35 per share on 2,923 million shares (2021: HK\$0.24 per share on 2,917 million shares)	<u>1,023</u>	<u>700</u>

- (iii) Distribution to holders of Additional Tier 1 capital instruments

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Distribution paid on the Additional Tier 1 capital instruments	<u>409</u>	<u>405</u>

(d) Share Capital

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

	<u>At 30<sup>th</sup> June, 2022</u>		<u>At 31<sup>st</sup> December, 2021</u>	
	<u>No. of shares</u>		<u>No. of shares</u>	
	Million	HK\$ Mn	Million	HK\$ Mn
Ordinary shares, issued and fully paid:				
At 1st January	2,923	41,645	2,917	41,557
Share issued in lieu of dividend	13	146	6	88
Share buy-back ( <i>Note</i> )	<u>(247)</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30 <sup>th</sup> June/31 <sup>st</sup> December	<u>2,689</u>	<u>41,791</u>	<u>2,923</u>	<u>41,645</u>

*Note: On 11<sup>th</sup> April, 2022, the Bank bought back its 247 million issued shares after completion of an off-market share buy-back transaction. Such shares were cancelled on 20<sup>th</sup> April, 2022.*

2. Changes in Accounting Policies

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

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

### 3. Interest Income

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Loans, deposits with banks, and trade bills	8,200	7,635
Investment securities		
- measured at amortised cost or FVOCI	1,385	1,169
- mandatory at FVTPL	53	57
Trading assets	20	26
	<u>9,658</u>	<u>8,887</u>

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

The above included interest income of HK\$10,154 million (six months ended 30<sup>th</sup> June, 2021: HK\$9,403 million), before hedging effect, for financial assets that are not recognised at fair value through profit or loss.

### 4. Interest Expense

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Customer deposits and deposits of banks		
- at amortised cost	3,274	2,721
- designated at FVTPL	12	6
Certificates of deposit and debt securities issued		
- at amortised cost	238	327
- designated at FVTPL	118	96
Subordinated notes carried at amortised cost	166	197
Lease liabilities	15	15
Other borrowings	5	2
	<u>3,828</u>	<u>3,364</u>

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

The above included interest expense of HK\$3,711 million (six months ended 30<sup>th</sup> June, 2021: HK\$3,285 million), before hedging effect, for financial liabilities that are not recognised at fair value through profit or loss.



## 5. Fee and Commission Income

Fee and commission income is disaggregated by services:

	6 months ended 30/6/2022	6 months ended 30/6/2021 Restated <i>(Note)</i>
	HK\$ Mn	HK\$ Mn
Loans, overdrafts and guarantees	440	475
Credit cards	331	391
Sale of third party insurance policies	251	83
Securities brokerage	124	251
Investment products	118	246
Trust and other fiduciary activities	112	150
Other retail banking services	101	86
Trade finance	50	40
Others	224	247
Total fee and commission income	<u>1,751</u>	<u>1,969</u>

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

	1,445	1,549
Fee income	<u>1,751</u>	<u>1,969</u>
Fee expenses	<u>(306)</u>	<u>(420)</u>

*Note: Certain fee and commission income for the six months ended 30<sup>th</sup> June, 2021 has been reclassified among the categories of loans, overdrafts and guarantees, securities brokerage, trade finance and others to conform to the current period and prior year end's presentation.*

## 6. Net Trading Profit

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Profit on dealing in foreign currencies and funding swaps	275	239
(Loss)/Profit on trading securities	(88)	82
Net gain on derivatives	244	229
Loss on other dealing activities	(1)	(1)
Dividend income from trading equity securities	11	12
	<u>441</u>	<u>561</u>

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

	6 months ended 30/6/2022 HK\$ Mn	6 months ended 30/6/2021 HK\$ Mn
Net gain from financial instruments designated at FVTPL	289	16
Net (loss)/gain from financial instruments mandatorily measured at FVTPL (other than those included in net trading profits)	<u>(255)</u>	<u>157</u>
	<u>34</u>	<u>173</u>

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

	6 months ended 30/6/2022 HK\$ Mn	6 months ended 30/6/2021 HK\$ Mn
Net (loss)/profit on sale of debt securities	(10)	15
Dividend income from equity securities	<u>9</u>	<u>6</u>
	<u>(1)</u>	<u>21</u>

**9. Net Hedging Profit**

	6 months ended 30/6/2022 HK\$ Mn	6 months ended 30/6/2021 HK\$ Mn
Fair value hedges		
- Net loss on hedged items attributable to the hedged risk	(6,462)	(1,655)
- Net gain on hedging instruments	<u>6,529</u>	<u>1,719</u>
	<u>67</u>	<u>64</u>

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the six months ended 30<sup>th</sup> June, 2022 and 30<sup>th</sup> June, 2021.

## 10. Net Insurance Profit

	6 months ended 30/6/2022 HK\$ Mn	6 months ended 30/6/2021 HK\$ Mn
(a) Net insurance profit		
Net interest income	14	352
Net trading profit	5	29
Net result on financial instruments at FVTPL	(12)	159
Net profit on sale of debt investment securities measured at FVOCI	-	56
Net insurance premium	(b) 500	3,550
	507	4,146
Net insurance claims and expenses	(c) (350)	(3,752)
	157	394
Operating expenses	-	(2)
Impairment losses on financial instruments	-	(21)
	157	371
(b) Net insurance premium		
Gross insurance premium income	529	3,586
Reinsurer's share of gross insurance premium income	(29)	(36)
	500	3,550
(c) Net insurance claims and expenses		
Claims, benefits and surrenders paid	427	3,263
Movement in provisions	(124)	445
	303	3,708
Reinsurers' share of claim, benefits and surrenders paid	(24)	(17)
Reinsurers' share of movement in provisions	13	(3)
	(11)	(20)
	292	3,688
Net insurance commission expenses	58	64
	350	3,752

## 11. Other Operating Income

	6 months ended 30/6/2022 HK\$ Mn	6 months ended 30/6/2021 HK\$ Mn
Rental from safe deposit boxes	61	61
Rental income on properties	66	76
Government subsidy – Employment Support Scheme	4	-
Others	19	38
	150	175

## 12. Operating Expenses

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Contributions to defined contribution plan		
- Hong Kong	81	93
- Outside Hong Kong	114	116
Equity settled share-based payment expenses	11	9
Salaries and other staff costs	<u>2,546</u>	<u>2,547</u>
Total staff costs	<u>2,752</u>	<u>2,765</u>
Premises and equipment expenses excluding depreciation		
- Expenses relating to short-term leases	6	10
- Variable lease payments not included in the measurement of lease liabilities ( <i>Note</i> )	(2)	3
- Maintenance, repairs and others	370	373
Total premises and equipment expenses excluding depreciation	<u>374</u>	<u>386</u>
Depreciation on		
- Bank premises, furniture, fixtures and equipment	290	290
- Right-of-use assets	160	195
	<u>450</u>	<u>485</u>
Amortisation of intangible assets	<u>7</u>	<u>7</u>
Other operating expenses		
- Internet platform charges	205	259
- Legal and professional fees	165	163
- Communications, stationery and printing	133	129
- Advertising expenses	118	95
- Insurance expenses	70	66
- Stamp duty, withholding taxes and value added taxes	42	41
- Card related expenses	37	64
- Business promotions and business travel	23	24
- Others	30	163
Total other operating expenses	<u>823</u>	<u>1,004</u>
Total operating expenses	<u>4,406</u>	<u>4,647</u>

*Note: Included a credit of HK\$2.0 million (six months ended 30<sup>th</sup> June, 2021: HK\$1.1 million) of COVID-19-related rent concession and a credit of HK\$1.3 million (six months ended 30<sup>th</sup> June, 2021: Nil) of rent concession during the period for the purpose of entering into a new lease.*

## 13. Impairment Losses on Financial Instruments

	6 months ended 30/6/2022	6 months ended 30/6/2021
	HK\$ Mn	HK\$ Mn
Loans and advances to customers	1,822	552
Others	314	29
	<u>2,136</u>	<u>581</u>

#### 14. Net Gain/(Loss) on Disposal of Fixed Assets

	6 months ended 30/6/2022 HK\$ Mn	6 months ended 30/6/2021 HK\$ Mn
Net gain/(loss) on disposal of a bank premise, furniture, fixtures and equipment	<u>33</u>	<u>(22)</u>

#### 15. Income Tax

Taxation in the consolidated income statement represents:

	6 months ended 30/6/2022 HK\$ Mn	6 months ended 30/6/2021 HK\$ Mn
Current tax – Hong Kong		
Tax for the period	208	286
Over-provision in respect of prior years	<u>(47)</u>	<u>(60)</u>
	<u>161</u>	<u>226</u>
Current tax – outside Hong Kong		
Tax for the period	151	128
Under/(Over)-provision in respect of prior years	<u>1</u>	<u>(5)</u>
	<u>152</u>	<u>123</u>
Deferred tax		
Origination and reversal of temporary differences	<u>(21)</u>	<u>125</u>
	<u>292</u>	<u>474</u>

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30<sup>th</sup> June, 2021: 16.5%) of the estimated assessable profits for the six months ended 30<sup>th</sup> June, 2022.

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

## 16. Cash and Balances with Banks

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
Cash in hand	1,030	1,016
Balances with central banks	36,242	37,463
Balances with other banks	17,547	16,612
	<u>54,819</u>	<u>55,091</u>
Less: Impairment allowances	(2)	(3)
- Stage 1	(2)	(3)
- Stage 2	-	-
- Stage 3	-	-
	<u>54,817</u>	<u>55,088</u>

## 17. Placements with and Advances to Banks

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
Placements with and advances to banks		
Maturing		
- within one month	62,107	73,104
- after one month but within one year	5,022	1,639
- after one year	-	-
	<u>67,129</u>	<u>74,743</u>
Less: Impairment allowances	(1)	(1)
- Stage 1	(1)	(1)
- Stage 2	-	-
- Stage 3	-	-
	<u>67,128</u>	<u>74,742</u>
Of which:		
Placements with and advances to central banks	-	-

## 18. Trade Bills

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
Measured at amortised cost	582	560
Less: Impairment allowances	-	-
- Stage 1	-	-
- Stage 2	-	-
- Stage 3	-	-
	<u>582</u>	<u>560</u>
Measured at FVOCI	2,489	10,212
	<u>3,071</u>	<u>10,772</u>

**19. Trading Assets**

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	100	-
Debt securities	51	1,632
Equity securities	521	851
	<u>672</u>	<u>2,483</u>

**20. Loans and Advances to Customers**

## (a) Loans and advances to customers

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
Loans and advances to customers at amortised cost	551,372	548,808
Less: Impairment allowances	(4,951)	(4,371)
- Stage 1	(702)	(667)
- Stage 2	(838)	(527)
- Stage 3	(3,411)	(3,177)
	<u>546,421</u>	<u>544,437</u>

## 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.

	30/6/2022		31/12/2021	
	Gross advances HK\$ Mn	% of gross advances covered by collateral %	Gross advances HK\$ Mn	% of gross advances covered by collateral %
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	35,222	59.49	34,103	54.12
- Property investment	49,819	91.23	50,280	91.88
- Financial concerns	17,004	58.36	15,514	50.18
- Stockbrokers	1,479	99.98	1,957	99.99
- Wholesale and retail trade	6,595	58.38	7,742	47.86
- Manufacturing	4,608	28.45	4,810	32.51
- Transport and transport equipment	5,121	47.38	5,531	46.15
- Recreational activities	373	91.88	304	87.23
- Information technology	830	2.32	1,268	2.13
- Others	15,976	56.87	15,365	58.85
- Sub-total	<u>137,027</u>	69.22	<u>136,874</u>	66.89
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,270	100.00	1,337	100.00
- Loans for the purchase of other residential properties	91,856	100.00	91,532	100.00
- Credit card advances	3,955	0.00	4,284	0.00
- Others	26,777	57.35	28,182	63.75
- Sub-total	<u>123,858</u>	87.59	<u>125,335</u>	88.43
Total loans for use in Hong Kong	260,885	77.94	262,209	77.18
Trade finance	6,765	31.05	6,088	32.92
Loans for use outside Hong Kong (Note)	<u>283,722</u>	34.70	<u>280,511</u>	36.83
Total advances to customers	<u>551,372</u>	55.11	<u>548,808</u>	56.07

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)

	30/6/2022		31/12/2021	
	Gross advances HK\$ Mn	% of gross advances covered by collateral %	Gross advances HK\$ Mn	% of gross advances covered by collateral %
Loans for use in Mainland China				
Industrial, commercial and financial				
- Property development	41,553	32.06	44,747	34.37
- Property investment	12,713	76.09	14,134	80.56
- Financial concerns	48,867	0.28	47,765	0.00
- Wholesale and retail trade	11,207	6.36	10,837	13.94
- Manufacturing	13,109	6.98	11,219	5.76
- Transport and transport equipment	788	40.89	811	43.46
- Recreational activities	-	N/A	25	100.00
- Information technology	2,111	0.29	1,967	0.43
- Others	16,486	12.72	17,618	12.24
- Sub-total	<u>146,834</u>	18.51	<u>149,123</u>	21.10
Individuals				
- Loans for the purchase of other residential properties	14,572	100.00	15,762	100.00
- Credit card advances	5,575	0.00	6,370	0.00
- Others	13,641	4.54	12,724	5.28
- Sub-total	<u>33,788</u>	44.96	<u>34,856</u>	47.15
Total loans for use in Mainland China	<u>180,622</u>	23.46	<u>183,979</u>	26.03

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

	30/6/2022 HK\$ Mn	31/12/2021 HK\$ Mn
(i) Property development		
a. Individually impaired loans	4,170	1,009
b. Specific provisions	1,134	326
c. Collective provisions	550	206
d. New provision charged to income statement	1,315	607
e. Written off	-	87
(ii) Property investment		
a. Individually impaired loans	2,528	2,552
b. Specific provisions	1,047	1,375
c. Collective provisions	64	87
d. New provision charged to income statement	220	1,644
e. Written off	436	12
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	278	270
b. Specific provisions	10	10
c. Collective provisions	17	27
d. New provision charged to income statement	8	146
e. Written off	3	-

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

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

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
(iv) Financial concerns		
a. Individually impaired loans	47	64
b. Specific provisions	30	34
c. Collective provisions	61	43
d. New provision charged to income statement	43	201
e. Written off	-	-

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

### (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 29 which is prepared in a manner consistent with the way in which information is reported internally to the Group's Senior Management. Impaired loans and advances are individually assessed loans with objective evidence of impairment on an individual basis. 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.

	<u>30/6/2022</u>				
	<u>Total</u>	<u>Advances</u>	<u>Impaired</u>	<u>Specific</u>	<u>Collective</u>
	<u>advances to</u>	<u>overdue for</u>	<u>advances to</u>	<u>provisions</u>	<u>provisions</u>
	<u>customers</u>	<u>over three</u>	<u>customers</u>	<u>Specific</u>	<u>provisions</u>
	<u>HK\$ Mn</u>	<u>months</u>	<u>HK\$ Mn</u>	<u>provisions</u>	<u>HK\$ Mn</u>
	<u>HK\$ Mn</u>	<u>HK\$ Mn</u>	<u>HK\$ Mn</u>	<u>HK\$ Mn</u>	<u>HK\$ Mn</u>
Hong Kong	265,563	456	1,234	548	145
Mainland China	196,704	2,005	7,440	2,861	1,083
Other Asian Countries and Regions	29,000	11	22	2	93
Others	60,105	-	6	-	219
<b>Total</b>	<b><u>551,372</u></b>	<b><u>2,472</u></b>	<b><u>8,702</u></b>	<b><u>3,411</u></b>	<b><u>1,540</u></b>
 % of total advances to customers			<u>1.58%</u>		

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

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

	31/12/2021				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Specific provisions	Collective provisions
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	264,285	409	1,218	254	136
Mainland China	202,365	2,020	4,589	2,822	755
Other Asian Countries and Regions	28,036	22	164	101	62
Others	54,122	-	6	-	241
<b>Total</b>	<b>548,808</b>	<b>2,451</b>	<b>5,977</b>	<b>3,177</b>	<b>1,194</b>
% of total advances to customers			1.09%		

## 21. Investment Securities

	30/06/2022			
	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)	-	21,647	2,427	24,074
Certificates of deposits held	-	-	606	606
Debt securities	3,465	107,303	13,175	123,943
Equity securities	39	893	-	932
Investment funds	916	-	-	916
	<b>4,420</b>	<b>129,843</b>	<b>16,208</b>	<b>150,471</b>
	31/12/2021			
	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
	<b>5,437</b>	<b>125,524</b>	<b>16,546</b>	<b>147,507</b>

## 21. Investment Securities (Continued)

### Equity securities designated at FVOCI

	30/6/2022		31/12/2021	
	Fair value HK\$ Mn	Dividend income recognised HK\$ Mn	Fair value HK\$ Mn	Dividend income recognised HK\$ Mn
Equity investments held for long-term strategic purposes	893	9	712	22

## 22. Investments in Associates and Joint Ventures

	30/6/2022 HK\$ Mn	31/12/2021 HK\$ Mn
Share of net assets	9,008	9,270
Goodwill	460	476
	9,468	9,746
Less: Impairment allowances	(799)	(799)
	8,669	8,947

At 30<sup>th</sup> June, 2022, the fair value of the Group's investment in AFFIN Bank Berhad ("AFFIN") based on the quoted market price had been persistently below the carrying amount for a period of time. As a result, the Group performed an impairment test on the investment using a value-in-use ("VIU") methodology and this demonstrated that the recoverable amount of the investment was HK\$3,891 million. The recoverable amount was higher than the carrying value of HK\$3,375 million and no further impairment charge was recognised. 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. A discount rate of 12.08% (31/12/2021: 11.49%), which is based on a Capital Asset Pricing Model calculation for AFFIN, is used in the VIU calculation.

The following table illustrates the impact on the 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 HK\$ Mn	VIU HK\$ Mn		Decrease in VIU HK\$ Mn	VIU HK\$ Mn	
At 30 <sup>th</sup> June, 2022						
Discount rate	-50 bps	217	4,108	+50 bps	(194)	3,697
Long-term growth rate	+50 bps	39	3,930	-50 bps	(35)	3,856
Expected cash flows	+10%	389	4,280	-10%	(389)	3,502

## 23. Fixed Assets

30/6/2022

	Investment properties	Bank premises	Furniture, fixtures and equipment	Sub-total	Right-of-use assets – Bank premises	Right-of-use assets - Furniture, fixtures and equipment	Sub-total	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Cost or valuation								
At 1 <sup>st</sup> January, 2022	4,992	8,529	6,448	14,977	1,507	23	1,530	21,499
Additions	-	1	178	179	222	3	225	404
Revaluation surplus	3	-	-	-	-	-	-	3
Disposals	-	(140)	(128)	(268)	-	-	-	(268)
Remeasurement	-	-	-	-	2	-	2	2
Expiry/termination of lease contracts	-	-	-	-	(240)	(1)	(241)	(241)
Exchange adjustments	(1)	(184)	(103)	(287)	(40)	-	(40)	(328)
At 30 <sup>th</sup> June, 2022	4,994	8,206	6,395	14,601	1,451	25	1,476	21,071
Accumulated depreciation and amortisation								
At 1 <sup>st</sup> January, 2022	-	2,378	4,584	6,962	682	11	693	7,655
Charge for the period	-	71	219	290	158	2	160	450
Expiry/termination of lease contracts	-	-	-	-	(235)	(1)	(236)	(236)
Written off on disposal	-	(88)	(110)	(198)	-	-	-	(198)
Exchange adjustments	-	(62)	(68)	(130)	(14)	1	(13)	(143)
At 30 <sup>th</sup> June, 2022	-	2,299	4,625	6,924	591	13	604	7,528
Net book value at 30 <sup>th</sup> June, 2022	4,994	5,907	1,770	7,677	860	12	872	13,543
Net book value at 31 <sup>st</sup> December, 2021	4,992	6,151	1,864	8,015	825	12	837	13,844
The gross amounts of the above assets are stated:								
At cost	-	7,458	6,395	13,853	1,451	25	1,476	15,329
At Directors' valuation - 1989	-	748	-	748	-	-	-	748
At professional valuation - 2022	4,994	-	-	-	-	-	-	4,994
	4,994	8,206	6,395	14,601	1,451	25	1,476	21,071

## 24. Other Assets

	<u>30/6/2022</u> HK\$ Mn	<u>31/12/2021</u> HK\$ Mn
Accrued interest	2,571	2,649
Customer liabilities under acceptances	34,761	28,674
Other accounts	11,750	9,068
Less: Impairment allowances	(155)	(132)
- Stage 1	(9)	(8)
- Stage 2	(5)	(2)
- Stage 3	(141)	(122)
	<u>48,927</u>	<u>40,259</u>
Assets held for sale ( <i>Note 42</i> )	<u>2,062</u>	<u>2,264</u>
	<u>50,989</u>	<u>42,523</u>

## 25. Financial Liabilities Designated at Fair Value through Profit or Loss

	<u>30/6/2022</u> HK\$ Mn	<u>31/12/2021</u> HK\$ Mn
Deposits and balances of banks	3,761	3,639
Certificates of deposits issued	25,586	32,618
Debt securities issued	824	620
	<u>30,171</u>	<u>36,877</u>

Financial liabilities above have been designated as at FVTPL when the Group holds related derivatives at FVTPL, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The amount of change, during the period and cumulatively, in the fair value of financial liabilities designated at FVTPL that is attributable to changes in the credit risk of these liabilities and recognised in other comprehensive income is set out below.

	<u>30/6/2022</u> HK\$ Mn	<u>31/12/2021</u> HK\$ Mn
Balance at 1 <sup>st</sup> January	(46)	(32)
Recognised in other comprehensive income during the period	82	(18)
Deferred tax	(13)	4
Balance at 30 <sup>th</sup> June/31 <sup>st</sup> December	<u>23</u>	<u>(46)</u>

There was no transfer of cumulative gain or loss within equity due to de-recognition of liabilities designated at FVTPL during first half of 2022 (31/12/2021: Nil).

The change in fair value attributable to changes in credit risk on financial liabilities is calculated using the difference between the fair value of the financial liabilities at the reporting date and the present value computed with adjusted asset swap spread.

The carrying amount of financial liabilities designated as at FVTPL at 30<sup>th</sup> June, 2022 was HK\$460 million lower than the contractual amount due at maturity (31/12/2021: HK\$46 million lower).

## 26. Trading Liabilities

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
Shares sold	<u>27</u>	<u>5</u>

## 27. Other Liabilities

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
Accrued interest payable	2,103	1,894
Acceptance draft payable	34,761	28,674
Impairment allowances on financial guarantee contracts issued and loan commitments issued	315	174
- Stage 1	125	133
- Stage 2	126	24
- Stage 3	64	17
Liabilities held for sale (Note 42)	1,658	1,637
Lease liabilities	926	884
Other accounts (Note)	15,878	9,652
	<u>55,641</u>	<u>42,915</u>

Note: Include contract liabilities of HK\$2,519 million (31/12/2021: HK\$2,625 million) from contracts with customers under HKFRS 15.

## 28. Loan Capital

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
Subordinated notes/ Loss absorbing notes, at amortised cost with fair value hedge adjustments		
USD500 million fixed rate subordinated notes due 22 <sup>nd</sup> April, 2032 (1)	3,847	-
USD250 million fixed rate loss absorbing notes due 7 <sup>th</sup> July, 2028 (2)	1,967	-
Subordinated notes, at amortised cost without hedging		
RMB1,500 million fixed rate subordinated notes due 25 <sup>th</sup> April, 2029 (3)	1,757	1,833
USD600 million fixed rate subordinated notes due 29 <sup>th</sup> May, 2030 (4)	4,687	4,655
	<u>12,258</u>	<u>6,488</u>

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during the period/year ended 30<sup>th</sup> June, 2022 and 31<sup>st</sup> December, 2021.

- (1) Loan capital with face value of HK\$3,923 million (US\$500 million) and carrying amount of HK\$3,847 million represents subordinated notes carrying a coupon rate of 4.875% p.a. qualifying as Tier 2 capital and meeting the loss-absorbing capacity requirements issued on 22<sup>nd</sup> April, 2022 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 22<sup>nd</sup> April, 2032 and are callable on 22<sup>nd</sup> April, 2027. The notes are under fair value hedge accounting and hedge ineffectiveness of HK\$4 million profit was recorded in first half of 2022.

## 28. Loan Capital (Continued)

- (2) Loan capital with face value of HK\$1,961 million (US\$250 million) and carrying amount of HK\$1,967 million represents non-preferred loss-absorbing capacity notes carrying a coupon rate of 5.125% p.a. and meeting the loss-absorbing capacity requirements issued on 7<sup>th</sup> July, 2022 (traded on 28<sup>th</sup> June, 2022) by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 7<sup>th</sup> July, 2028 and are callable on 7<sup>th</sup> July, 2027. The notes are under fair value hedge accounting.
- (3) Loan capital with face value of HK\$1,758 million (RMB1,500 million) and carrying amount of HK\$1,757 million (31/12/2021: HK\$1,833 million) represents subordinated notes carrying a coupon of 4.94% p.a. issued on 25<sup>th</sup> April, 2019 by the Bank's subsidiary, The Bank of East Asia (China) Limited. The notes will mature on 25<sup>th</sup> April, 2029 and are callable on 25<sup>th</sup> April, 2024.
- (4) Loan capital with face value of HK\$4,707 million (US\$600 million) and carrying amount of HK\$4,687 million (31/12/2021: HK\$4,655 million) represents subordinated notes carrying a coupon of 4% p.a. qualifying as Tier 2 capital and meeting the loss-absorbing capacity requirements issued on 29<sup>th</sup> May, 2020 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 29<sup>th</sup> May, 2030 and are callable on 29<sup>th</sup> May, 2025.

## 29. Segment Reporting

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

### *Hong Kong operations*

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

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



## 29. Segment Reporting (Continued)

### *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.

### *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.

**29. Segment Reporting (Continued)**

	Hong Kong operations												
	Hong Kong banking business												
	Personal banking	Wholesale 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	HK\$ Mn
<b>6 months ended 30<sup>th</sup> June, 2022</b>													
Net interest income/(expense)	1,220	1,393	(22)	156	(21)	2,726	14	2,740	1,948	993	149	-	5,830
Non-interest income	584	327	31	331	120	1,393	352	1,745	498	59	-	(14)	2,288
Operating income	1,804	1,720	9	487	99	4,119	366	4,485	2,446	1,052	149	(14)	8,118
Operating expenses	(782)	(225)	(98)	(164)	(1,090)	(2,359)	(178)	(2,537)	(1,512)	(371)	-	14	(4,406)
Operating profit/(loss) before impairment losses	1,022	1,495	(89)	323	(991)	1,760	188	1,948	934	681	149	-	3,712
Impairment losses on financial instruments	(45)	(1,116)	(46)	-	-	(1,207)	-	(1,207)	(990)	61	-	-	(2,136)
Operating profit/(loss) after impairment losses	977	379	(135)	323	(991)	553	188	741	(56)	742	149	-	1,576
Net gain/(loss) on disposal of fixed assets	(11)	-	-	-	-	(11)	-	(11)	44	-	-	-	33
Valuation gains on investment properties	-	-	-	-	3	3	-	3	-	-	-	-	3
Share of profits less losses of associates and joint ventures	-	-	-	-	-	-	(5)	(5)	(3)	198	-	-	190
Profit/(Loss) before taxation	966	379	(135)	323	(988)	545	183	728	(15)	940	149	-	1,802
Depreciation for the period	(131)	(6)	(6)	(3)	(111)	(257)	(15)	(272)	(149)	(29)	-	-	(450)
<b>At 30<sup>th</sup> June, 2022</b>													
Segment assets	119,735	167,567	238,600	25,067	11,989	562,958	2,143	565,101	254,556	123,751	-	(45,928)	897,480
Investments in associates and joint ventures	-	-	-	-	-	-	60	60	3,820	4,789	-	-	8,669
Other assets – Assets held for sale	-	-	-	-	15	15	2,031	2,046	16	-	-	-	2,062
Total assets	119,735	167,567	238,600	25,067	12,004	562,973	4,234	567,207	258,392	128,540	-	(45,928)	908,211
Segment liabilities	338,097	63,765	68,029	31,674	1,920	503,485	328	503,813	227,953	113,576	-	(45,114)	800,228
Other liabilities – Liabilities held for sale	-	-	-	-	-	-	1,658	1,658	-	-	-	-	1,658
Total liabilities	338,097	63,765	68,029	31,674	1,920	503,485	1,986	505,471	227,953	113,576	-	(45,114)	801,886

**29. Segment Reporting (Continued)**

	Hong Kong operations (Restated) <sup>Note</sup>												
	Hong Kong banking business							Mainland China operations (Restated) <sup>Note</sup>	Overseas operations	Corporate management	Inter-segment elimination	Total	
	Personal Banking	Wholesale Banking	Treasury Markets	Wealth Management	Centralised operations	Total	Others						
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
<b>6 months ended 30<sup>th</sup> June, 2021</b>													
Net interest income/(expense)	1,130	1,177	60	172	(10)	2,529	46	2,575	1,962	828	158	-	5,523
Non-interest income	565	327	393	389	155	1,829	515	2,344	450	117	-	(19)	2,892
Operating income	1,695	1,504	453	561	145	4,358	561	4,919	2,412	945	158	(19)	8,415
Operating expenses	(844)	(181)	(87)	(158)	(1,075)	(2,345)	(208)	(2,553)	(1,738)	(375)	-	19	(4,647)
Operating profit/(loss) before impairment losses	851	1,323	366	403	(930)	2,013	353	2,366	674	570	158	-	3,768
Impairment losses on financial instruments	(56)	(189)	(7)	(2)	-	(254)	(4)	(258)	(317)	(6)	-	-	(581)
Operating profit/(loss) after impairment losses	795	1,134	359	401	(930)	1,759	349	2,108	357	564	158	-	3,187
Net loss on disposal of fixed assets	(8)	-	-	-	(2)	(10)	-	(10)	(12)	-	-	-	(22)
Valuation losses on investment properties	-	-	-	-	(101)	(101)	(22)	(123)	-	-	-	-	(123)
Share of profits less losses of associates and joint ventures	-	-	-	-	-	-	(1)	(1)	84	46	-	-	129
Profit/(Loss) before taxation	787	1,134	359	401	(1,033)	1,648	326	1,974	429	610	158	-	3,171
Depreciation for the period	(160)	(4)	(4)	(4)	(112)	(284)	(19)	(303)	(149)	(33)	-	-	(485)
<b>At 31<sup>st</sup> December, 2021</b>													
Segment assets	119,858	169,032	229,919	26,605	11,392	556,806	2,185	558,991	262,575	118,789	-	(44,096)	896,259
Investments in associates and joint ventures	-	-	-	-	-	-	66	66	3,983	4,898	-	-	8,947
Other assets – Assets held for sale	-	-	-	-	15	15	2,232	2,247	17	-	-	-	2,264
Total assets	119,858	169,032	229,919	26,605	11,407	556,821	4,483	561,304	266,575	123,687	-	(44,096)	907,470
Segment liabilities	331,601	58,997	65,994	29,886	2,244	488,722	384	489,106	234,937	109,059	-	(43,319)	789,783
Other liabilities – Liabilities held for sale	-	-	-	-	-	-	1,637	1,637	-	-	-	-	1,637
Total liabilities	331,601	58,997	65,994	29,886	2,244	488,722	2,021	490,743	234,937	109,059	-	(43,319)	791,420

Note: The financials of Hong Kong operations and Mainland China operations have been restated to conform to the current period's presentation that reflected the organisation restructure which took place in 2022.

### 30. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2022							
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Assets</b>								
Cash and balances with banks	44,272	-	-	-	-	-	10,545	54,817
Placements with and advances to banks	-	62,107	4,787	234	-	-	-	67,128
Trade bills	-	1,642	691	738	-	-	-	3,071
Trading assets	-	-	100	-	8	43	521	672
Derivative assets	-	-	-	-	-	-	8,783	8,783
Loans and advances to customers	2,898	74,407	39,506	130,918	183,708	111,073	3,911	546,421
Investment securities	-	7,646	12,127	18,476	65,639	44,773	1,810	150,471
Investments in associates and joint ventures	-	-	-	-	-	-	8,669	8,669
Fixed assets	-	-	-	-	-	-	13,543	13,543
Goodwill and intangible assets	-	-	-	-	-	-	1,878	1,878
Deferred tax assets	-	-	-	-	-	-	1,769	1,769
Other assets	48	12,169	10,211	19,053	1,114	1,066	7,328	50,989
<b>Total assets</b>	<b>47,218</b>	<b>157,971</b>	<b>67,422</b>	<b>169,419</b>	<b>250,469</b>	<b>156,955</b>	<b>58,757</b>	<b>908,211</b>
<b>Liabilities</b>								
Deposits and balances of banks	1,683	13,178	13,817	5,853	-	-	-	34,531
Deposits from customers	256,161	96,824	144,640	132,856	14,083	-	-	644,564
- Demand deposits and current accounts	69,500	-	-	-	-	-	-	69,500
- Savings deposits	184,981	-	-	-	-	-	-	184,981
- Time, call and notice deposits	1,680	96,824	144,640	132,856	14,083	-	-	390,083
Trading liabilities	-	-	-	-	-	-	27	27
Derivative liabilities	-	-	-	-	-	-	3,651	3,651
Certificates of deposit issued	-	8,824	8,905	22,002	6,926	-	-	46,657
Current taxation	-	-	-	1,144	-	-	-	1,144
Debt securities issued	-	-	-	1,647	1,500	-	-	3,147
Deferred tax liabilities	-	-	-	-	-	-	266	266
Other liabilities	1,126	8,734	10,386	19,834	1,553	1,948	12,060	55,641
- Lease liabilities	2	24	42	189	437	232	-	926
- Other accounts	1,124	8,710	10,344	19,645	1,116	1,716	12,060	54,715
Loan capital	-	-	-	-	10,291	1,967	-	12,258
<b>Total liabilities</b>	<b>258,970</b>	<b>127,560</b>	<b>177,748</b>	<b>183,336</b>	<b>34,353</b>	<b>3,915</b>	<b>16,004</b>	<b>801,886</b>
<b>Net gap</b>	<b>(211,752)</b>	<b>30,411</b>	<b>(110,326)</b>	<b>(13,917)</b>	<b>216,116</b>	<b>153,040</b>		

### 30. Analysis of Assets and Liabilities by Remaining Maturity (Continued)

	31/12/2021							Total HK\$ Mn
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
<b>Assets</b>								
Cash and balances with banks	43,103	-	-	-	-	-	11,985	55,088
Placements with and advances to banks	-	73,103	1,639	-	-	-	-	74,742
Trade bills	-	2,596	5,553	2,623	-	-	-	10,772
Trading assets	-	122	-	-	1,424	86	851	2,483
Derivative assets	-	-	-	-	-	-	3,381	3,381
Loans and advances to customers	2,507	69,226	31,993	119,963	198,315	120,417	2,016	544,437
Investment securities	-	5,123	3,468	29,833	66,365	40,975	1,743	147,507
Investments in associates and joint ventures	-	-	-	-	-	-	8,947	8,947
Fixed assets	-	-	-	-	-	-	13,844	13,844
Goodwill and intangible assets	-	-	-	-	-	-	1,885	1,885
Deferred tax assets	-	-	-	-	-	-	1,861	1,861
Other assets	49	5,380	6,710	20,765	1,152	1,216	7,251	42,523
<b>Total assets</b>	<b>45,659</b>	<b>155,550</b>	<b>49,363</b>	<b>173,184</b>	<b>267,256</b>	<b>162,694</b>	<b>53,764</b>	<b>907,470</b>
<b>Liabilities</b>								
Deposits and balances of banks	5,237	7,986	8,540	10,003	-	-	-	31,766
Deposits from customers	277,711	95,546	164,176	86,374	9,698	-	-	633,505
- Demand deposits and current accounts	79,657	-	-	-	-	-	-	79,657
- Savings deposits	196,662	-	-	-	-	-	-	196,662
- Time, call and notice deposits	1,392	95,546	164,176	86,374	9,698	-	-	357,186
Trading liabilities	-	-	-	-	-	-	5	5
Derivative liabilities	-	-	-	-	-	-	5,050	5,050
Certificates of deposit issued	-	7,565	11,652	35,600	9,510	-	-	64,327
Current taxation	-	-	-	958	-	-	-	958
Debt securities issued	-	-	3,058	234	2,555	-	-	5,847
Deferred tax liabilities	-	-	-	-	-	-	559	559
Other liabilities	1,007	3,542	7,139	20,929	1,490	2,039	6,769	42,915
- Lease liabilities	1	29	49	183	434	188	-	884
- Other accounts	1,006	3,513	7,090	20,746	1,056	1,851	6,769	42,031
Loan capital	-	-	-	-	6,488	-	-	6,488
<b>Total liabilities</b>	<b>283,955</b>	<b>114,639</b>	<b>194,565</b>	<b>154,098</b>	<b>29,741</b>	<b>2,039</b>	<b>12,383</b>	<b>791,420</b>
<b>Net gap</b>	<b>(238,296)</b>	<b>40,911</b>	<b>(145,202)</b>	<b>19,086</b>	<b>237,515</b>	<b>160,655</b>		

### 31. Deferred Tax Assets and Liabilities Recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the period are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation	Revaluation of properties	Impairment losses on financial assets	Revaluation of financial assets at FVOCI	Tax losses	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 31 <sup>st</sup> December, 2021/ 1 <sup>st</sup> January, 2022	339	109	(1,515)	282	(303)	(214)	(1,302)
Charged/(Credited) to income statement	18	-	(246)	-	183	24	(21)
Charged/(Credited) to reserve	-	(1)	-	(263)	-	13	(251)
Transfer to assets held for sale	-	-	-	-	-	2	2
Exchange and other adjustments	1	-	57	(1)	8	4	69
At 30 <sup>th</sup> June, 2022	<u>358</u>	<u>108</u>	<u>(1,704)</u>	<u>18</u>	<u>(112)</u>	<u>(171)</u>	<u>(1,503)</u>

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	30/6/2022 HK\$ Mn	31/12/2021 HK\$ Mn
Net deferred tax assets recognised on the statement of financial position	(1,769)	(1,861)
Net deferred tax liabilities recognised on the statement of financial position	266	559
	<u>(1,503)</u>	<u>(1,302)</u>

### 32. Reserves

	30/6/2022 HK\$ Mn	31/12/2021 HK\$ Mn
General reserve	13,658	13,658
Revaluation reserve on bank premises	1,906	1,905
Capital reserve	895	895
Exchange revaluation reserve	(772)	1,058
Capital reserve – staff share options issued	139	152
Fair value reserve	569	1,925
Liability credit reserve	23	(46)
Other reserves	5,229	5,191
Retained profits ( <i>Note (1), (2)</i> )	<u>32,530</u>	<u>35,395</u>
	<u>54,177</u>	<u>60,133</u>
Proposed dividends, not provided for	430	1,023

### 32. Reserves (Continued)

Notes:

- (1) In accordance with the resolution passed at the extraordinary general meeting of the Bank held on 28<sup>th</sup> March, 2022, the Bank executed a share buy-back deed with Elliott Investment Management's affiliate entities on 28<sup>th</sup> March, 2022 to repurchase 247 million shares of the Bank. The share buy-back transaction was completed on 11<sup>th</sup> April, 2022 at a consideration of HK\$2,904 million. Together with the direct transaction cost of HK\$12 million, a total amount of HK\$2,916 million were accounted for as deduction from retained profits.
- (2) 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 30<sup>th</sup> June, 2022, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK\$2,327 million (31/12/2021: HK\$2,658 million).

### 33. Additional Equity Instruments

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
Additional Tier 1 Capital Securities		
USD500 million undated non-cumulative subordinated capital securities (1)	-	3,878
USD650 million undated non-cumulative subordinated capital securities (2)	5,069	5,069
USD650 million undated non-cumulative subordinated capital securities (3)	5,021	5,021
	<u>10,090</u>	<u>13,968</u>

- (1) On 18<sup>th</sup> May, 2017, the Bank issued undated non-cumulative subordinated capital securities ("Additional Tier 1 Capital Securities") with a face value of US\$500 million (equivalent to HK\$3,878 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.625% per annum coupon until the first call date on 18<sup>th</sup> May, 2022. The Bank fully redeemed the Additional Tier 1 Capital Securities on 18<sup>th</sup> May 2022.
- (2) On 19<sup>th</sup> September, 2019, the Bank issued undated non-cumulative subordinated capital securities ("Additional Tier 1 Capital Securities") with a face value of US\$650 million (equivalent to HK\$5,069 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.875% per annum coupon until the first call date on 19<sup>th</sup> September, 2024. The coupon will be reset every five years, if the Additional Tier 1 Capital Securities are not redeemed, to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 4.257% per annum. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up, and meet the loss-absorbing capacity requirements.
- (3) On 21<sup>st</sup> October, 2020, the Bank issued undated non-cumulative subordinated capital securities ("Additional Tier 1 Capital Securities") with a face value of US\$650 million (equivalent to HK\$5,021 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.825% per annum coupon until the first call date on 21<sup>st</sup> October, 2025. The coupon will be reset every five years, if the Additional Tier 1 Capital Securities are not redeemed, to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 5.527% per annum. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up, and meet the loss-absorbing capacity requirements.

### 34. Consolidated Cash Flow Statement

Cash and cash equivalents	30/6/2022	30/6/2021
	HK\$ Mn	HK\$ Mn
(i) Components of cash and cash equivalents in the consolidated cash flow statement		
Cash and balances with banks with original maturity within three months	44,365	45,900
Placements with and advances to banks with original maturity within three months	65,084	47,579
Treasury bills with original maturity within three months	10,088	3,767
Certificates of deposit held with original maturity within three months	-	480
Debt securities with original maturity within three months	606	921
Add: Cash and balances with banks included in "Assets held for sale" (Note 42)	3	-
	<u>120,146</u>	<u>98,647</u>
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks	54,817	60,370
Placements with and advances to banks	67,128	50,728
Treasury bills, certificates of deposit held and debt securities		
- trading assets	151	3,050
- investment securities	148,623	138,867
	148,774	141,917
Add: Cash and balances with banks included in "Assets held for sale" (Note 42)	3	-
Certificates of deposits held – investment securities included in "Assets held for sale" (Note 42)	638	-
Debt securities – investment securities included in "Assets held for sale" (Note 42)	918	25,376
Amount shown in the consolidated statement of financial position	272,278	278,391
Less: Amounts with an original maturity of beyond three months	(141,678)	(165,244)
Cash balance with central bank subject to regulatory restriction	(10,454)	(14,500)
Cash and cash equivalents in the consolidated cash flow statement	<u>120,146</u>	<u>98,647</u>



## 35. Fair Values of Financial Instruments

### (a) Financial instruments carried at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following hierarchy of methods:

Level 1 – Quoted market price in an active market for an identical instrument.

Level 2 – Valuation techniques based on observable input. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or counterparty quotations. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and various market recognised option pricing models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, equity prices, foreign currency exchange rates, index prices, historical or implied volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price of the financial instrument that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the reporting date.

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses valuation models, which usually are developed from recognised valuation methodologies. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation control function, namely Financial Instruments Valuation Group ("FIVG") which comprises control units independent of front office management. Procedures for price verification have been established. Any pricing models to be used would be subject to a rigorous validation and approval process.

### 35. Fair Values of Financial Instruments (Continued)

#### (a) Financial instruments carried at fair value (Continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised.

	30/6/2022				31/12/2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Recurring fair value measurement</b>								
<b>Assets</b>								
Trade Bills – Measured at FVOCI	-	2,489	-	2,489	-	10,212	-	10,212
Trading assets	621	51	-	672	851	1,632	-	2,483
Derivative assets	525	8,258	-	8,783	146	3,235	-	3,381
Investment securities								
- Mandatorily measured at FVTPL	-	3,670	750	4,420	2	4,627	808	5,437
- Measured at FVOCI	23,885	105,065	893	129,843	25,083	99,729	712	125,524
	<u>25,031</u>	<u>119,533</u>	<u>1,643</u>	<u>146,207</u>	<u>26,082</u>	<u>119,435</u>	<u>1,520</u>	<u>147,037</u>
Investment securities classified as assets held for sale								
- Mandatorily measured at FVTPL	40	23	-	63	50	26	-	76
- Measured at FVOCI	-	1,533	-	1,533	-	1,850	-	1,850
	<u>40</u>	<u>1,556</u>	<u>-</u>	<u>1,596</u>	<u>50</u>	<u>1,876</u>	<u>-</u>	<u>1,926</u>
<b>Liabilities</b>								
Trading liabilities	27	-	-	27	5	-	-	5
Derivative liabilities	3	3,648	-	3,651	98	4,952	-	5,050
Financial liabilities designated at FVTPL	-	30,171	-	30,171	-	36,877	-	36,877
	<u>30</u>	<u>33,819</u>	<u>-</u>	<u>33,849</u>	<u>103</u>	<u>41,829</u>	<u>-</u>	<u>41,932</u>

During the period ended 30<sup>th</sup> June, 2022 and year ended 31<sup>st</sup> December, 2021, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about significant unobservable inputs in Level 3 valuations:

	Valuation technique	Significant unobservable input(s)	Value or range
Unlisted debt securities, equity securities and investment funds	Counterparty quote	N/A	N/A
	Net asset value	N/A	N/A
Market-comparable approach	Discounted cash flow model	Discount rate	30/6/2022: 12.4% (31/12/2021: 15.3%)
		Marketability discount	30/6/2022: 20% (31/12/2021: 20%)
	Earnings multiple	30/6/2022: 13.42 – 29.34 (31/12/2021: 21.98 – 36.67)	
		EV/EBIT	30/6/2022: 24.07 – 28.56 (31/12/2021: 30.18 – 37.54)
Marketability discount	30/6/2022: 50% (31/12/2021: 50%)		

### 35. Fair Values of Financial Instruments (Continued)

#### (a) Financial instruments carried at fair value (Continued)

The fair values of unlisted equity instruments mandatorily measured at FVTPL or measured at FVOCI are estimated using the discounted cash flow model, on the basis of an analysis of the investee's financial position and results, or with reference to multiples of comparable listed companies, adjusted for a marketability discount to reflect the fact that the shares are not actively traded. An increase in the ratio / investee's financial position and results in isolation will result in favourable movement in the fair values, while an increase in discount rate / marketability discount in isolation will result in unfavourable movement. The fair value of the unlisted investment funds are estimated by using the net asset valuations ("NAV") provided by the managers of the funds.

Valuation of financial instruments in Level 3 are subject to the same valuation control framework as described above and reviewed regularly by FIVG.

#### (1) Valuation of financial instruments with significant unobservable inputs

Movements in the recognised fair values of instruments with significant unobservable inputs were as follows:

	30/6/2022		31/12/2021	
	Investment securities mandatorily measured at FVTPL HK\$ Mn	Investment securities measured at FVOCI HK\$ Mn	Investment securities mandatorily measured at FVTPL HK\$ Mn	Investment securities measured at FVOCI HK\$ Mn
<b>Assets</b>				
At 1 <sup>st</sup> January	808	712	850	1,283
Additions/Purchases	24	-	413	-
Disposals/Settlements	(22)	-	(484)	-
Changes in fair value recognised in the income statement	(60)	-	29	-
Changes in fair value recognised in the other comprehensive income	-	181	-	(571)
At 30 <sup>th</sup> June/31 <sup>st</sup> December	<u>750</u>	<u>893</u>	<u>808</u>	<u>712</u>
Total gains/(losses) for the period included in FVOCI fair value reserve of the other comprehensive income for assets held at the end of the reporting period	<u>-</u>	<u>181</u>	<u>-</u>	<u>(571)</u>
Total (losses)/gains for the period included in the income statement for assets held at the end of the reporting period recorded in net results from other financial instruments at FVTPL	<u>(60)</u>	<u>-</u>	<u>29</u>	<u>-</u>

### 35. Fair Values of Financial Instruments (Continued)

#### (a) Financial instruments carried at fair value (Continued)

- (2) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions

	30/6/2022			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Financial assets				
Investment securities mandatorily measured at FVTPL	63	(63)	-	-
Investment securities measured at FVOCI	-	-	75	(75)
	<u>63</u>	<u>(63)</u>	<u>75</u>	<u>(75)</u>
	31/12/2021			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Financial assets				
Investment securities mandatorily measured at FVTPL	67	(67)	-	-
Investment securities measured at FVOCI	-	-	59	(59)
	<u>67</u>	<u>(67)</u>	<u>59</u>	<u>(59)</u>

The fair values of financial instruments are in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The table above shows the sensitivity of fair values due to parallel movement of plus or minus 10 per cent in reasonably possible alternative assumptions.

#### (b) Fair values of financial instruments carried at other than fair value

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented below:

- (i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the end of the reporting period.
- (ii) The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value.
- (iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

### 35. Fair Values of Financial Instruments (Continued)

#### (b) Fair values of financial instruments carried at other than fair value (Continued)

- (iv) The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30<sup>th</sup> June, 2022 and 31<sup>st</sup> December, 2021 except as follows:

	30/6/2022		31/12/2021	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Financial assets				
Investment securities measured at amortised cost	16,208	15,587	16,546	16,610

### 36. Credit Risk

The Group's stage allocation can be matched to the HKMA's 5-Grade Asset classification as follows:

HKMA's 5-Grade Asset Classification		Stage allocation
Pass	General (i.e. do not meet the Bank's criteria of "Significant Increase of Credit Risk")	1
	Meet the Bank's criteria of "Significant Increase of Credit Risk"	2
Special Mention		2
Substandard		3
Doubtful		
Loss		

The criteria of "significant increase of credit risk" has taken into consideration of three key factors:

- The exposure has a significant deterioration of internal or external rating as compared with the rating at the time when the exposure was originated;
- Being Special Mention under HKMA classification; and
- The rating of the exposure falls out of the "Low-Credit Risk Threshold" that is equivalent to the globally understood definition of "investment grade".

### 36. Credit Risk (Continued)

#### (a) Credit Quality Analysis

##### Credit quality of loans and advances

The following tables set out information about the credit quality of loans and advances to customers. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

	30/6/2022							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Loans and advances to customers at amortised cost</b>								
- Grades 1 - 15: Pass	512,778	976	15,832	27	-	-	528,610	1,003
- Grades 16 - 17: Special Mention	-	-	14,059	58	-	-	14,059	58
- Grade 18: Substandard	-	-	-	-	6,492	30	6,492	30
- Grade 19: Doubtful	-	-	-	-	1,409	53	1,409	53
- Grade 20: Loss	-	-	-	-	802	18	802	18
Total gross carrying amount	512,778	976	29,891	85	8,703	101	551,372	1,162
Impairment allowances	(702)	(3)	(838)	(3)	(3,411)	(63)	(4,951)	(69)
Carrying amount	512,076	973	29,053	82	5,292	38	546,421	1,093

Market value of collateral held against impaired loans and advances to customers

3,683

	31/12/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Loans and advances to customers at amortised cost</b>								
- Grades 1 - 15: Pass	512,975	1,001	23,845	58	-	-	536,820	1,059
- Grades 16 - 17: Special Mention	-	-	6,011	16	-	-	6,011	16
- Grade 18: Substandard	-	-	-	-	4,324	24	4,324	24
- Grade 19: Doubtful	-	-	-	-	1,563	50	1,563	50
- Grade 20: Loss	-	-	-	-	90	4	90	4
Total gross carrying amount	512,975	1,001	29,856	74	5,977	78	548,808	1,153
Impairment allowances	(667)	(3)	(527)	(1)	(3,177)	(54)	(4,371)	(58)
Carrying amount	512,308	998	29,329	73	2,800	24	544,437	1,095

Market value of collateral held against impaired loans and advances to customers

3,656

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.

### 36. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

*Credit quality of financial assets other than loans and advances*

The following tables set out the credit analysis for financial assets other than loans and advances to customers, measured at amortised cost and FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts/fair value. For loan commitment and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	30/6/2022							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Trade bills measured at amortised cost</b>								
- Grades 1 - 15: Pass	582	1	-	-	-	-	582	1
Total gross carrying amount	582	1	-	-	-	-	582	1
Impairment allowances	-	-	-	-	-	-	-	-
Carrying amount	582	1	-	-	-	-	582	1

	31/12/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Trade bills measured at amortised cost</b>								
- Grades 1 - 15: Pass	560	-	-	-	-	-	560	-
Total gross carrying amount	560	-	-	-	-	-	560	-
Impairment allowances	-	-	-	-	-	-	-	-
Carrying amount	560	-	-	-	-	-	560	-

### 36. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

*Credit quality of financial assets other than loans and advances (Continued)*

	30/6/2022							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Trade bills measured at FVOCI</b>								
- Grades 1 - 15: Pass	2,452	-	37	-	-	-	2,489	-
Total carrying amount at fair value	2,452	-	37	-	-	-	2,489	-
Impairment allowances	-	-	-	-	-	-	-	-

	31/12/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Trade bills measured at FVOCI</b>								
- Grades 1 - 15: Pass	10,212	-	-	-	-	-	10,212	-
Total carrying amount at fair value	10,212	-	-	-	-	-	10,212	-
Impairment allowances	(2)	-	-	-	-	-	(2)	-

	30/6/2022							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Placements with and advances to banks</b>								
- Grades 1 - 15: Pass	67,129	30	-	-	-	-	67,129	30
Total gross carrying amount	67,129	30	-	-	-	-	67,129	30
Impairment allowances	(1)	-	-	-	-	-	(1)	-
Carrying amount	67,128	30	-	-	-	-	67,128	30

	31/12/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Placements with and advances to banks</b>								
- Grades 1 - 15: Pass	74,743	10	-	-	-	-	74,743	10
Total gross carrying amount	74,743	10	-	-	-	-	74,743	10
Impairment allowances	(1)	-	-	-	-	-	(1)	-
Carrying amount	74,742	10	-	-	-	-	74,742	10



### 36. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

*Credit quality of financial assets other than loans and advances (Continued)*

	30/6/2022			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Loan commitments</b>				
- Grades 1 - 15: Pass	291,006	2,623	-	293,629
- Grades 16 - 17: Special Mention	-	64	-	64
- Grade 18: Substandard	-	-	40	40
Total	291,006	2,687	40	293,733
Impairment allowances	(115)	(9)	-	(124)
<b>Financial guarantee contracts</b>				
- Grades 1 - 15: Pass	13,401	456	-	13,857
- Grades 16 - 17: Special Mention	-	118	-	118
- Grade 18: Substandard	-	-	606	606
Total	13,401	574	606	14,581
Impairment allowances	(10)	(117)	(64)	(191)
	31/12/2021			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Loan commitments</b>				
- Grades 1 - 15: Pass	261,879	2,999	-	264,878
- Grades 16 - 17: Special Mention	-	31	-	31
- Grade 18: Substandard	-	-	1	1
Total	261,879	3,030	1	264,910
Impairment allowances	(126)	(17)	-	(143)
<b>Financial guarantee contracts</b>				
- Grades 1 - 15: Pass	21,433	2,393	-	23,826
- Grades 16 - 17: Special Mention	-	-	-	-
- Grade 18: Substandard	-	-	320	320
Total	21,433	2,393	320	24,146
Impairment allowances	(7)	(7)	(17)	(31)

### 36. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

*Credit quality of financial assets other than loans and advances (Continued)*

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate and bank lending risk and risk gradings are applied to the counterparties with individual counterparty limits set.

At the end of the reporting period, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, Moody's Investor Services, or equivalent, is as follows:

	30/6/2022							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Debt investment securities measured at amortised cost</b>								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	3,235	1	-	-	-	-	3,235	1
A1 to A3	4,203	42	-	-	-	-	4,203	42
Baa1 to Baa3	2,175	19	179	1	-	-	2,354	20
Below Baa3	549	7	934	17	132	3	1,615	27
Unrated	5,046	58	-	-	-	-	5,046	58
Total gross carrying amount	15,208	127	1,113	18	132	3	16,453	148
Impairment allowances	(80)	(1)	(100)	(2)	(65)	(3)	(245)	(6)
Carrying amount	15,128	126	1,013	16	67	-	16,208	142

	31/12/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Debt investment securities measured at amortised cost</b>								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	2,680	-	-	-	-	-	2,680	-
A1 to A3	4,363	80	-	-	-	-	4,363	80
Baa1 to Baa3	2,464	21	-	-	-	-	2,464	21
Below Baa3	1,223	17	524	12	-	-	1,747	29
Unrated	5,433	61	-	-	-	-	5,433	61
Total gross carrying amount	16,163	179	524	12	-	-	16,687	191
Impairment allowances	(97)	(1)	(44)	(1)	-	-	(141)	(2)
Carrying amount	16,066	178	480	11	-	-	16,546	189

### 36. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

*Credit quality of financial assets other than loans and advances (Continued)*

	30/6/2022							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Debt investment securities measured at FVOCI</b>								
Aaa	8,305	9	-	-	-	-	8,305	9
Aa1 to Aa3	19,120	12	-	-	-	-	19,120	12
A1 to A3	59,016	733	-	-	-	-	59,016	733
Baa1 to Baa3	38,932	430	285	4	-	-	39,217	434
Below Baa3	78	1	-	-	-	-	78	1
Unrated	3,214	37	-	-	-	-	3,214	37
Total carrying amount at fair value	128,665	1,222	285	4	-	-	128,950	1,226
where impairment allowances included	(218)	(2)	(13)	-	-	-	(231)	(2)
<b>Debt investment securities measured at FVOCI classified as assets held for sale</b>								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	203	2	-	-	-	-	203	2
A1 to A3	837	6	-	-	-	-	837	6
Baa1 to Baa3	476	5	17	-	-	-	493	5
Below Baa3	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Total carrying amount at fair value	1,516	13	17	-	-	-	1,533	13
where impairment allowances included	(3)	-	(3)	-	-	-	(6)	-

### 36. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

*Credit quality of financial assets other than loans and advances (Continued)*

	31/12/2021							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Debt investment securities measured at FVOCI</b>								
Aaa	7,261	9	-	-	-	-	7,261	9
Aa1 to Aa3	20,891	6	-	-	-	-	20,891	6
A1 to A3	57,540	830	-	-	-	-	57,540	830
Baa1 to Baa3	35,530	343	159	2	-	-	35,689	345
Below Baa3	80	1	15	-	-	-	95	1
Unrated	3,336	36	-	-	-	-	3,336	36
Total carrying amount at fair value	124,638	1,225	174	2	-	-	124,812	1,227
where impairment allowances included	(184)	(2)	(2)	-	-	-	(186)	(2)
<b>Debt investment securities measured at FVOCI classified as assets held for sale</b>								
Aaa	-	-	-	-	-	-	-	-
Aa1 to Aa3	19	-	-	-	-	-	19	-
A1 to A3	665	4	-	-	-	-	665	4
Baa1 to Baa3	628	5	-	-	-	-	628	5
Below Baa3	-	-	-	-	-	-	-	-
Unrated	538	3	-	-	-	-	538	3
Total carrying amount at fair value	1,850	12	-	-	-	-	1,850	12
where impairment allowances included	(7)	-	-	-	-	-	(7)	-

The following table sets out the credit analysis for non-trading financial assets measured at FVTPL.

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
<b>Debt investment securities</b>		
Aaa	-	-
Aa1 to Aa3	-	-
A1 to A3	188	352
Baa1 to Baa3	3,157	3,887
Below Baa3	-	-
Unrated	120	126
Total carrying amount at fair value	3,465	4,365
<b>Debt investment securities classified as assets held for sale</b>		
Aaa	-	-
Aa1 to Aa3	-	-
A1 to A3	23	-
Baa1 to Baa3	-	26
Below Baa3	-	-
Unrated	-	-
Total carrying amount at fair value	23	26

### 36. Credit Risk (Continued)

#### (a) Credit Quality Analysis (Continued)

*Credit quality of financial assets other than loans and advances (Continued)*

The following table sets out the credit analysis for trading debt investment securities.

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
<b>Debt investment securities</b>		
Aaa	-	-
Aa1 to Aa3	100	-
A1 to A3	7	1,632
Baa1 to Baa3	44	-
Below Baa3	-	-
Unrated	-	-
Total carrying amount at fair value	<u>151</u>	<u>1,632</u>

The following table shows the credit quality of the counterparties to which there were exposures arising from derivative asset transactions.

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
<b>Derivative assets</b>		
Aa1 to Aa3	5,737	106
A1 to A3	1,323	700
Baa1 to Baa3	696	920
Below Baa3	-	-
Unrated	1,027	1,655
Total carrying amount at fair value	<u>8,783</u>	<u>3,381</u>

#### **Cash and balances with banks**

At 30<sup>th</sup> June, 2022, the Group held cash and balances with banks of HK\$54,819 million (31<sup>st</sup> December, 2021: HK\$55,091 million), of which 97% (31<sup>st</sup> December, 2021: 98%) of cash and balances with banks counterparties that are rated at investment grade, based on Moody's Investor Services, or equivalent ratings.

### 36. Credit Risk (Continued)

#### (b) Impairment Allowances Reconciliation

The following tables show reconciliations from the opening to the closing balance of the impairment allowance by type of financial instrument. The reconciliation is prepared by comparing the position of impairment allowance between 1<sup>st</sup> January and 30<sup>th</sup> June/31<sup>st</sup> December at transaction level. Transfers between different stages of ECL are deemed to occur at the beginning of the year and therefore amounts transferred net to zero. The re-measurement of ECL resulting from a change in ECL stage is reported under the ECL stage in which they are transferred to.

	30/6/2022			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Loans and advances to customers</b>				
Balance at 1 <sup>st</sup> January	670	528	3,231	4,429
Transfer to 12-month ECL	46	(46)	-	-
Transfer to lifetime ECL not credit-impaired	(23)	120	(97)	-
Transfer to lifetime ECL credit-impaired	(6)	(102)	108	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	214	37	34	285
Write-offs	-	-	(1,220)	(1,220)
Net remeasurement of impairment allowances (including exchange adjustments)	(196)	304	1,418	1,526
Balance at 30 <sup>th</sup> June	<u>705</u>	<u>841</u>	<u>3,474</u>	<u>5,020</u>
Of which:				
For loans and advances to customers at amortised cost (Note 20(a))	702	838	3,411	4,951
For related accrued interest receivable (Note 24)	3	3	63	69
	<u>705</u>	<u>841</u>	<u>3,474</u>	<u>5,020</u>

### 36. Credit Risk (Continued)

#### (b) Impairment Allowances Reconciliation (Continued)

	31/12/2021			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Loans and advances to customers</b>				
Balance at 1 <sup>st</sup> January	849	1,041	3,025	4,915
Transfer to 12-month ECL	150	(150)	-	-
Transfer to lifetime ECL not credit-impaired	(19)	24	(5)	-
Transfer to lifetime ECL credit-impaired	(10)	(371)	381	-
New financial assets originated or purchased, assets derecognised, repayments and further lending	(4)	46	(74)	(32)
Write-offs	-	-	(2,397)	(2,397)
Net remeasurement of impairment allowances (including exchange adjustments)	(296)	(62)	2,301	1,943
Balance at 31 <sup>st</sup> December	<u>670</u>	<u>528</u>	<u>3,231</u>	<u>4,429</u>
Of which:				
For loans and advances to customers at amortised cost ( <i>Note 20(a)</i> )	667	527	3,177	4,371
For related accrued interest receivable ( <i>Note 24</i> )	3	1	54	58
	<u>670</u>	<u>528</u>	<u>3,231</u>	<u>4,429</u>

### 36. Credit Risk (Continued)

#### (b) Impairment Allowances Reconciliation (Continued)

	30/6/2022			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Debt investment securities</b>				
Balance at 1 <sup>st</sup> January	284	47	-	331
Transfer to 12-month ECL	2	(2)	-	-
Transfer to lifetime ECL not credit-impaired	(13)	13	-	-
Transfer to lifetime ECL credit-impaired	-	(13)	13	-
New financial assets originated or purchased, assets derecognised, repayments and further investment	38	-	-	38
Write-offs	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	(10)	70	55	115
Balance at 30 <sup>th</sup> June	<u>301</u>	<u>115</u>	<u>68</u>	<u>484</u>
Of which:				
For debt investment securities measured at amortised cost	80	100	65	245
For related accrued interest receivable (Note 24)	1	2	3	6
	<u>81</u>	<u>102</u>	<u>68</u>	<u>251</u>
For debt investment securities measured at FVOCI	218	13	-	231
For related accrued interest receivable	2	-	-	2
	<u>220</u>	<u>13</u>	<u>-</u>	<u>233</u>



### 36. Credit Risk (Continued)

#### (b) Impairment Allowances Reconciliation (Continued)

	31/12/2021			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Debt investment securities</b>				
Balance at 1 <sup>st</sup> January	273	-	-	273
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit-impaired	(6)	6	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-
New financial assets originated or purchased, assets derecognised, repayments and further investment	(27)	26	-	(1)
Write-offs	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	51	15	-	66
Transfer to assets held for sale	(7)	-	-	(7)
Balance at 31 <sup>st</sup> December	<u>284</u>	<u>47</u>	<u>-</u>	<u>331</u>
Of which:				
For debt investment securities measured at amortised cost	97	44	-	141
For related accrued interest receivable (Note 24)	1	1	-	2
	<u>98</u>	<u>45</u>	<u>-</u>	<u>143</u>
For debt investment securities measured at FVOCI	184	2	-	186
For related accrued interest receivable	2	-	-	2
	<u>186</u>	<u>2</u>	<u>-</u>	<u>188</u>

The impairment allowances of debt investment securities measured at FVOCI are not separately recognised in the statement of financial position because they have been adjusted to the carrying amounts of debt investment securities measured at FVOCI being their fair values.

### 36. Credit Risk (Continued)

#### (b) Impairment Allowances Reconciliation (Continued)

	30/6/2022			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Others</b>				
Balance at 1 <sup>st</sup> January	143	24	85	252
Transfer to 12-month ECL	1	(1)	-	-
Transfer to lifetime ECL not credit-impaired	(1)	1	-	-
Transfer to lifetime ECL credit-impaired	-	(7)	7	-
New financial assets originated or purchased, assets derecognised and repayments	1	(6)	9	4
Write-offs	-	-	-	-
Net remeasurement of impairment allowances (including exchange adjustments)	(11)	115	38	142
Balance at 30 <sup>th</sup> June	<u>133</u>	<u>126</u>	<u>139</u>	<u>398</u>
Of which:				
For trade bills measured at FVOCI	-	-	-	-
For related accrued interest receivable	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
For trade bills measured at amortised cost ( <i>Note 18</i> )	-	-	-	-
For related accrued interest receivable	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
For placements with and advances to banks ( <i>Note 17</i> )	1	-	-	1
For related accrued interest receivable	-	-	-	-
	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
For cash and balances with banks ( <i>Note 16</i> )	2	-	-	2
For related accrued interest receivable	-	-	-	-
	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
For loan commitments and financial guarantee contracts ( <i>Note 27</i> )	<u>125</u>	<u>126</u>	<u>64</u>	<u>315</u>
For account receivables and other accounts other than accrued interest receivable ( <i>Note 24</i> )	<u>5</u>	<u>-</u>	<u>75</u>	<u>80</u>

### 36. Credit Risk (Continued)

#### (b) Impairment Allowances Reconciliation (Continued)

	31/12/2021			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit-impaired	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Others</b>				
Balance at 1 <sup>st</sup> January	89	19	121	229
Transfer to 12-month ECL	2	(2)	-	-
Transfer to lifetime ECL not credit-impaired	-	-	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-
New financial assets originated or purchased, assets derecognised and repayments	(14)	1	(1)	(14)
Write-offs	-	-	(124)	(124)
Net remeasurement of impairment allowances (including exchange adjustments)	66	6	89	161
Balance at 31 <sup>st</sup> December	<u>143</u>	<u>24</u>	<u>85</u>	<u>252</u>
Of which:				
For trade bills measured at FVOCI	2	-	-	2
For related accrued interest receivable	-	-	-	-
	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
For trade bills measured at amortised cost (Note 18)	-	-	-	-
For related accrued interest receivable	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
For placements with and advances to banks (Note 17)	1	-	-	1
For related accrued interest receivable	-	-	-	-
	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
For cash and balances with banks (Note 16)	3	-	-	3
For related accrued interest receivable	-	-	-	-
	<u>3</u>	<u>-</u>	<u>-</u>	<u>3</u>
For loan commitments and financial guarantee contracts (Note 27)	<u>133</u>	<u>24</u>	<u>17</u>	<u>174</u>
For account receivables and other accounts other than accrued interest receivable (Note 24)	<u>4</u>	<u>-</u>	<u>68</u>	<u>72</u>

The impairment allowances of trade bills measured at FVOCI are not recognised in the statement of financial position because the carrying amount of trade bills measured at FVOCI is their fair value.

### 37. 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.

	<u>30/6/2022</u> HK\$ Mn	<u>31/12/2021</u> HK\$ Mn
Contractual amounts of contingent liabilities		
Direct credit substitutes	3,371	4,664
Transaction-related contingencies	3,401	4,295
Trade-related contingencies	<u>7,774</u>	<u>5,046</u>
	<u>14,546</u>	<u>14,005</u>
Contractual amounts of commitments		
Commitments that are unconditionally cancellable without prior notice	259,185	232,146
Other commitments with an original maturity		
- up to 1 year	2,803	3,145
- over 1 year	<u>31,060</u>	<u>28,914</u>
	<u>293,048</u>	<u>264,205</u>
Total	<u><u>307,594</u></u>	<u><u>278,210</u></u>
Credit risk weighted amounts	<u>21,772</u>	<u>21,412</u>

#### (b) Derivatives

##### Fair value of derivatives

##### Assets

Exchange rate contracts	1,996	1,207
Interest rate contracts	6,507	1,764
Equity contracts	<u>280</u>	<u>410</u>
	<u>8,783</u>	<u>3,381</u>

##### Liabilities

Exchange rate contracts	1,378	1,174
Interest rate contracts	1,997	3,548
Equity contracts	<u>276</u>	<u>328</u>
	<u>3,651</u>	<u>5,050</u>

##### Notional amounts of derivatives

Exchange rate contracts	312,460	291,721
Interest rate contracts	343,118	403,558
Equity contracts	<u>7,033</u>	<u>8,370</u>
	<u>662,611</u>	<u>703,649</u>

### 37. Off-balance Sheet Exposures (Continued)

(c) Capital commitments

Capital commitments outstanding as at 30<sup>th</sup> June and 31<sup>st</sup> December and not provided for in the financial statements were as follows:

	<u>30/6/2022</u> HK\$ Mn	<u>31/12/2021</u> HK\$ Mn
Expenditure authorised and contracted for	307	285
Expenditure authorised but not contracted for	162	171
	<u>469</u>	<u>456</u>

(d) Contingencies

The Group receives legal claims against it arising in the normal courses of business. The Group considers none of these matters as material. Where appropriate the Group recognises provisions for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation.

### 38. Material Related Party Transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Directors and certain of the highest paid employees, is as follows:

	<u>30/6/2022</u> HK\$ Mn	<u>30/6/2021</u> HK\$ Mn
Short-term employee benefits	78	83
Post-employment benefits	4	4
Equity compensation benefits	11	10
	<u>93</u>	<u>97</u>

- (b) The Group maintains certain retirement benefit schemes for its staff. In the six months ended 30<sup>th</sup> June, 2022, the total amount of contributions the Group made to the schemes was HK\$99 million (six months ended 30<sup>th</sup> June, 2021: HK\$106 million).

The Group enters into a number of transactions with the Group's related parties, including its associates, shareholders with significant influence, and key management personnel and their close family members and companies controlled or significantly influenced by them. The transactions include accepting deposits from and extending credit facilities to them. All interest rates in connection with the deposits taken and credit facilities extended are under terms and conditions normally applicable to customers of comparable standing.

### 38. Material Related Party Transactions (Continued)

The interest received from and interest paid to the Group's related parties for the six months ended 30<sup>th</sup> June, 2022, outstanding balances of amounts due from and due to them at 30<sup>th</sup> June, 2022 and maximum outstanding balance of amounts due from and due to them for the six months ended 30<sup>th</sup> June, 2022 are aggregated as follows:

	Key management personnel		Associates		Shareholders with significant influence	
	30/6/2022	30/6/2021	30/6/2022	30/6/2021	30/6/2022	30/6/2021
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	10	8	43	34	-	-
Interest expense	6	5	-	-	-	-
Amounts due from	972	735	1,665	1,623	2,197	3,409
Amounts due to	2,144	2,386	183	32	40	135
Maximum amounts due from	2,030	1,107	1,792	1,950	8,259	6,125
Maximum amounts due to	3,893	3,976	390	251	244	1,003
Committed facilities to	548	1,286	1,703	1,009	-	-

### 39. Basis of Consolidation

Unless otherwise stated, all financial information contained in this interim results announcement is prepared according to the consolidation basis for accounting purposes.

The capital adequacy ratio, leverage ratio and liquidity position of the Group are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation base for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries, associates and joint ventures whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other businesses incidental to banking business.

### 40. Comparative Figures

Certain 2021 comparative figures have been restated to conform to current period's presentation. Please refer to Note 5 and Note 29 for the effect of the restatement.

### 41. Statement of Compliance

The Interim Report has been prepared in accordance with the applicable disclosure provisions of the Listing Rules and in compliance with HKAS 34, "Interim Financial Reporting", issued by the HKICPA. It was authorised for issue on 18<sup>th</sup> August, 2022.

This Interim Report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The Banking Disclosure Statement (refer to Note E of Supplementary Financial Information), together with the disclosures in the interim financial report, contained all the disclosures required by the Banking (Disclosure) Rules and Part 6 of the Financial Institutions (Resolutions) (Loss-absorbing Capacity Requirements – Banking Sector) Rules issued by the HKMA.

## 42. Assets Held for Sale

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

	30/6/2022 HK\$ Mn	31/12/2021 HK\$ Mn
Assets held for sale ( <i>Note 24</i> )		
Disposal groups held for sale ( <i>Note</i> )	2,031	2,232
Other properties	31	32
	<u>2,062</u>	<u>2,264</u>
Liabilities held for sale ( <i>Note 27</i> )		
Disposal groups held for sale ( <i>Note</i> )	<u>1,658</u>	<u>1,637</u>

*Note: Include Blue Cross (Asia Pacific) Insurance Limited*

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

	30/6/2022 HK\$ Mn	31/12/2021 HK\$ Mn
<b>ASSETS</b>		
Cash and balances with banks	3	3
Investment securities	1,596	1,926
Fixed assets	39	34
- Investment properties	-	-
- Other properties and equipment	38	33
- Right-of-use assets	1	1
Goodwill	14	14
Other assets	379	255
Assets held for sale	<u>2,031</u>	<u>2,232</u>
<b>LIABILITIES</b>		
Current taxation	-	4
Deferred tax liabilities	3	5
Other liabilities	1,655	1,628
Liabilities held for sale	<u>1,658</u>	<u>1,637</u>

As at 30<sup>th</sup> June, 2022, the total equity of the disposal groups attributable to the Group was HK\$678 million (31/12/2021: HK\$770 million).

### Investment Securities

	30/6/2022			Total HK\$ Mn
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	
Certificate of deposits held	-	638	-	638
Debt securities	23	895	-	918
Equity securities	40	-	-	40
	<u>63</u>	<u>1,533</u>	<u>-</u>	<u>1,596</u>

#### 42. Assets Held for Sale (Continued)

	31/12/2021			
	Mandatorily measured at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Certificate of deposits held	-	690	-	690
Debt securities	26	1,160	-	1,186
Equity securities	50	-	-	50
	<u>76</u>	<u>1,850</u>	<u>-</u>	<u>1,926</u>

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

	30/6/2022	30/6/2021
	HK\$ Mn	HK\$ Mn
Cumulative income recognised in other comprehensive income	<u>(172)</u>	<u>(525)</u>

#### 43. Exposures to Interbank Offered Rates

The following tables show outstanding amounts of financial instruments referencing the interest rate benchmarks that have yet to transit to alternative benchmark rates at the end of the reporting period, 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.

	30/6/2022			
	Gross Carrying Amount / Notional Amount			
	USD LIBOR	GBP LIBOR	SG Swap Offer Rate	SIBOR
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>Assets</b>				
Loans and advances to customers	41,197	95	2,494	6,086
Placements with and advances to banks	4,530	-	-	-
Negotiable debt instruments held, including negotiable certificates of deposit	78	-	-	-
<b>Total Asset</b>	<u>45,805</u>	<u>95</u>	<u>2,494</u>	<u>6,086</u>
<b>Liabilities</b>				
Certificate of deposit and debt securities issued	2,730	-	-	-
<b>Total liabilities</b>	<u>2,730</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Derivatives</b>				
Interest rate swaps	58,339	-	-	-
Cross currency swaps	2,820	-	-	-
Other derivatives	157	-	-	-
<b>Gross total derivatives</b>	<u>61,316</u>	<u>-</u>	<u>-</u>	<u>-</u>



#### 43. Exposures to Interbank Offered Rates (Continued)

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 30<sup>th</sup> June, 2022, the Group believes uncertainty continues to exist as to when and how the replacement may occur with respect to the relevant derivative hedging instruments, and so the targeted reliefs apply to the Group's hedge accounting relationships that reference benchmarks subject to reform or replacement.

As at 30<sup>th</sup> June 2022, the details of derivative instruments designated in fair value hedge accounting relationships linked to IBORs, excluding the derivative instruments that will expire before the transition date, are as follows:

	30/6/2022	
	<u>Notional designated HK\$ Mn</u>	<u>Weighted average exposure years</u>
Interest rate swaps		
USD LIBOR	<u>49,397</u>	<u>4.86</u>

## Supplementary Financial Information (unaudited)

### A. Capital Adequacy

	30/6/2022	31/12/2021
	HK\$ Mn	HK\$ Mn
Capital base		
- Common Equity Tier 1 capital	81,321	86,487
- Additional Tier 1 capital	10,090	13,968
- Total Tier 1 capital	91,411	100,455
- Tier 2 capital	13,165	9,262
- Total capital	104,576	109,717
Risk weighted assets by risk type		
- Credit risk	482,978	467,566
- Market risk	7,082	11,788
- Operational risk	29,950	31,054
	520,010	510,408
Less: Deductions	(2,953)	(3,099)
	517,057	507,309
	30/6/2022	31/12/2021
	%	%
Common Equity Tier 1 capital ratio	15.7	17.0
Tier 1 capital ratio	17.7	19.8
Total capital ratio	20.2	21.6

Capital adequacy ratios are compiled in accordance with the 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](http://www.hkbea.com) or at the following direct link: [www.hkbea.com/regulatory\\_disclosures](http://www.hkbea.com/regulatory_disclosures).

## Supplementary Financial Information (unaudited) (Continued)

### **B. Leverage Ratio**

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
Total Tier 1 capital	91,411	100,455
Exposure measure	953,153	941,722
	<u>30/6/2022</u>	<u>31/12/2021</u>
	%	%
Leverage ratio	9.6	10.7

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

### **C. Liquidity Position**

#### Liquidity coverage ratio

	<u>30/6/2022</u>	<u>31/12/2021</u>
	%	%
Average liquidity coverage ratio		
- First quarter	184.3	189.4
- Second quarter	187.5	177.3
- Third quarter	N/A	180.9
- Fourth quarter	N/A	182.4

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

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

#### Net stable funding ratio

	<u>30/6/2022</u>	<u>31/12/2021</u>
	HK\$ Mn	HK\$ Mn
Total available stable funding	561,199	562,512
Total required stable funding	493,241	486,536
	<u>30/6/2022</u>	<u>31/12/2021</u>
	%	%
Net stable funding ratio	113.8	115.6

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

## Supplementary Financial Information (unaudited) (Continued)

### D. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances to customers

	30/6/2022		31/12/2021	
	HK\$ Mn	% of total advances to customers	HK\$ Mn	% of total advances to customers
Advances to customers overdue for				
- 6 months or less but over 3 months	1,012	0.2	948	0.2
- 1 year or less but over 6 months	1,054	0.2	1,014	0.2
- Over 1 year	406	0.1	489	0.1
	<u>2,472</u>	<u>0.5</u>	<u>2,451</u>	<u>0.5</u>
Rescheduled advances to customers	1,173	0.2	262	0.0
Total overdue and rescheduled advances	<u>3,645</u>	<u>0.7</u>	<u>2,713</u>	<u>0.5</u>
Covered portion of overdue advances	<u>1,708</u>	<u>0.3</u>	<u>1,932</u>	<u>0.4</u>
Uncovered portion of overdue advances	<u>764</u>	<u>0.2</u>	<u>519</u>	<u>0.1</u>
Current market value of collateral held against the covered portion of overdue advances	<u>4,109</u>		<u>3,518</u>	
Specific provisions made on advances overdue for more than 3 months	<u>1,148</u>		<u>1,310</u>	

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

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

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

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

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

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

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

## Supplementary Financial Information (unaudited) (Continued)

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

(b) Overdue and rescheduled advances to banks

	30/6/2022	31/12/2021
	HK\$ Mn	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

	30/6/2022		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	18	116	-
- 1 year or less but over 6 months	21	-	-
- Over 1 year	37	-	-
	76	116	-
Rescheduled assets	15	-	-
Total other overdue and rescheduled assets	91	116	-
Specific provisions made on other assets overdue for more than 3 months	-	58	-

	31/12/2021		
	Accrued Interest	Debt Securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	13	-	-
- 1 year or less but over 6 months	17	-	-
- Over 1 year	36	-	-
	66	-	-
Rescheduled assets	3	-	-
Total other overdue and rescheduled assets	69	-	-
Specific provisions made on other assets overdue for more than 3 months	-	-	-

\* Other assets refer to trade bills and receivables.

## **Supplementary Financial Information (unaudited) (Continued)**

### **D. Overdue, Rescheduled and Repossessed Assets (Continued)**

(d) Repossessed assets

	<u>30/6/2022</u> HK\$ Mn	<u>31/12/2021</u> HK\$ Mn
Reposessed land and buildings <i>(Note)</i>	136	195
Reposessed vehicles and equipment	-	-
Reposessed machines	-	-
Total reposessed assets	<u>136</u>	<u>195</u>

The amount represents the estimated market value of the reposessed assets as at 30<sup>th</sup> June, 2022 and 31<sup>st</sup> December, 2021.

*Note: The balance included HK\$26 million (31/12/2021: HK\$14 million) relating to properties that were contracted for sale but not yet completed.*

### **E. Banking Disclosure Statement**

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

## **INTERIM DIVIDEND**

The Board has declared an interim dividend for the six months ended 30<sup>th</sup> June, 2022 of HK\$0.16 per Share (the “2022 Interim Dividend”) (2021 Interim Dividend: HK\$0.35 per share). The 2022 Interim Dividend will be paid on or about Friday, 30<sup>th</sup> September, 2022 in cash with an option to receive new, fully paid Shares in lieu of cash (the “Scrip Dividend Scheme”), to shareholders whose names appear on the Register of Members of the Bank at the close of business on Thursday, 8<sup>th</sup> September, 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 Friday, 2<sup>nd</sup> September, 2022 (being the first day that the Shares were traded ex-dividend) to Thursday, 8<sup>th</sup> September, 2022 (both days inclusive). Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Thursday, 8<sup>th</sup> September, 2022.

The Scrip Dividend Scheme is conditional upon the Stock Exchange granting the listing of and permission to deal in the new Shares to be issued under the Scrip Dividend Scheme. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Friday, 30<sup>th</sup> September, 2022.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Bank will be closed from Tuesday, 6<sup>th</sup> September, 2022 to Thursday, 8<sup>th</sup> September, 2022 (both days inclusive). In order to qualify for the 2022 Interim Dividend, all transfer documents accompanied by the relevant share certificates should be lodged for registration with Tricor Standard Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by 4:00 p.m. on Monday, 5<sup>th</sup> September, 2022.

## **INTENTION TO INITIATE ON-MARKET SHARE BUY-BACK**

The Bank intends to initiate an on-market buy-back of its Shares pursuant to the general mandate granted to the Board by the Shareholders at the 2022 annual general meeting held on 6<sup>th</sup> May, 2022 in an amount of up to HK\$500 million, depending on the prevailing market conditions.

## **FINANCIAL REVIEW**

### **Financial Performance**

For the first six months of 2022, the BEA Group earned a profit attributable to owners of the parent of HK\$1,499 million, representing a decrease of 43.9% compared with the HK\$2,671 million earned in the same period in 2021.

The decrease in attributable profit was mainly due to a significant increase in impairment losses in Hong Kong and Mainland China. Continued difficulties for the Mainland property sector resulted in downgrades being made to certain sizeable accounts, and the Bank made appropriate provisions to cover this exposure.

Basic earnings per share were HK\$0.39 in the first half of 2022, compared to HK\$0.78 in the corresponding period in 2021.

The annualised return on average assets decreased to 0.2%, while the annualised return on average equity decreased to 2.2%.

Net interest income for the Group increased by HK\$307 million, or 5.6%, to HK\$5,830 million, with a 2.4% increase in average interest bearing assets. Net interest margin widened from 1.38% to 1.42% on the back of rising rates.

Net fee and commission income fell by 6.5% to HK\$1,440 million. Investment sentiment was impacted by the spread of Omicron and the macro conditions, resulting in a decrease in net commission income from sales of investment products and securities brokerage. This was partially offset by a growing contribution from bancassurance.

Net insurance profit was lower compared to the first half of 2021, mainly due to the disposal of BEA Life Limited in September 2021.

Taken together, net trading and hedging results and net results from other financial instruments fell by HK\$265 million, or 32.8%, to HK\$541 million. Non-interest income fell by 20.9% to HK\$2,288 million.

Overall, total operating income decreased by 3.5% to HK\$8,118 million.

Total operating expenses decreased by HK\$241 million, or 5.2%, to HK\$4,406 million. The cost-to-income ratio for the first half of 2022 was 54.3%, compared to 55.2% in the first half of 2021.

Impairment losses on financial instruments rose from HK\$581 million in the first half of 2021 to HK\$2,136 million in the first half of 2022. The Group's impaired loan ratio increased from 1.09% at the end of December 2021 to 1.58% at the end of June 2022. The impaired loan ratio for Hong Kong operations rose from 1.09% to 1.76%, while that for Mainland China operations rose from 1.54% to 2.12%.

Operating profit after impairment losses amounted to HK\$1,576 million, a decrease of HK\$1,611 million, or 50.6%.

The Group's shared after-tax profits less losses from associates and joint ventures increased by HK\$61 million to a profit of HK\$190 million.

After accounting for income taxes, profit fell to HK\$1,510 million, a decrease of 44.0% compared to the HK\$2,697 million recorded in the first half of 2021.

## **Financial Position**

Total consolidated assets of the Group stood at HK\$908,211 million at the end of June 2022, a slight increase of 0.1% compared to HK\$907,470 million at the end of 2021.

Gross advances to customers slightly increased by 0.5% to HK\$551,372 million.

Total equity attributable to owners of the parent fell by 5.7% to HK\$95,968 million. During the reporting period, the Bank completed the previously announced off-market share buy-back transaction with a total consideration of HK\$2,904 million.

Total deposits from customers increased by 1.7% to HK\$644,564 million. Of the total, demand deposits and current account balances decreased by HK\$10,157 million, or 12.8%; savings deposits decreased by HK\$11,681 million, or 5.9%; and time deposits increased by HK\$32,897 million, or 9.2%. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, decreased by 0.9% to HK\$691,221 million.

The loan-to-deposit ratio stood at 79.8% at the end of June 2022, compared to 78.6% at the end of 2021.

As at 30<sup>th</sup> June, 2022, the total capital ratio, tier 1 capital ratio, and common equity tier 1 capital ratio were 20.2%, 17.7%, and 15.7%, respectively. The average liquidity coverage ratio for the quarter ended 30<sup>th</sup> June, 2022 was 187.5%, well above the statutory minimum of 100%.

## **BUSINESS REVIEW**

### **Economic Review**

The global economic outlook is clouded by numerous uncertainties, including the Ukraine conflict, on-going COVID-19 pandemic and related lockdowns, continued supply chain bottlenecks, elevated inflation pressure and a rapidly changing monetary policy environment.

In June, the World Bank projected global GDP growth for 2022 will be 2.9%, 1.2 percentage points lower than its projection in January. The World Bank also warned of a heightened risk of stagflation. As inflation in advanced economies is expected to stay high for the remainder of the year, major central banks will continue to raise policy rates to alleviate inflationary pressure, even as the economic outlook becomes increasingly bleak.

The US Federal Reserve raised the fed funds rate target range by 225 basis points from March to July 2022, far exceeding market expectations earlier in the year. Meanwhile, the Bank of England raised the Bank Rate



by 150 basis points to 1.75% in the current rate hike cycle. On-going monetary tightening by major central banks is likely to negatively impact consumer and business sentiment as the cost of borrowing rises, and as volatility in financial and asset markets increases.

The Hong Kong economy was hit hard by the fifth wave of COVID-19, contracting by 2.6% year-on-year in the first half of 2022. Unemployment once surged to above 5%, with several sectors – including retail, accommodation and food services – registering even higher levels. After the number of cases in the fifth wave peaked in mid-March, economic and consumption activities gradually recovered, supported by the relaxation of social distancing measures and a new round of the Consumption Vouchers Scheme.

Looking ahead, Hong Kong domestic consumption will likely be the key driver of economic recovery, with the disbursement of 2022 (Phase II) Consumption Voucher Scheme started in August. Nonetheless, overall growth momentum will depend on how the pandemic and its related social distancing measures evolve, and whether or not international and Mainland travel restrictions are eased later this year.

Meanwhile, policy tightening by major central banks and elevated geopolitical tensions will continue to affect the world at large. Higher interest rates may also weigh on financial and property market sentiment. The HKSAR Government forecasts that the local economy will grow between -0.5% and 0.5% in 2022, with inflation remaining moderate.

Mainland China's economy was impacted by regional COVID-19 outbreaks and consequent strict social distancing measures in the first half of 2022. Small outbreaks continue to impact economic activity, as the Mainland struggles to contain more virulent Omicron strains.

Retail sales recorded 3.1% year-on-year growth in June after three consecutive months of decline. Meanwhile, industrial production rebounded modestly by 0.7% and 3.9% year-on-year in May and June respectively, after a 2.9% decline in April. The growth of fixed asset investment climbed by 6.1% year-on-year between January and June.

For the rest of the year, Mainland China's economy is expected to recover further, driven by strengthening policy support, and better management of COVID-19 and consequent social distancing measures. Industrial production and infrastructure investment will play an increasingly key role in supporting the recovery, and will lead that of the consumption and services sectors.

It is believed that authorities on the Mainland still have the fiscal, monetary, regulatory and industrial tools to stimulate the country's economy in the near term. The Mainland will focus on its previously announced development agenda, including developing advanced technologies and achieving balanced growth. The Mainland's economy is expected to grow by a pace slightly above 4% in 2022, while inflation will remain moderate.

## **Business – Hong Kong**

Profit before tax for Hong Kong operations declined by 63.1% year-on-year. Performance was affected by weak market sentiment and continued liquidity issues for clients in the Mainland property sector.

Repayment difficulties for Chinese developers have been particularly acute for offshore lending. A number of clients with significant exposure were subject to downgrades during the period under review, and appropriate provisions were made accordingly. As a result, impairment losses rose by HK\$949 million to HK\$1,207 million.

Loan growth was muted and total balances were impacted by the Bank's risk mitigation efforts, as well as client deleveraging. Customers loans in Hong Kong were flat at HK\$302,998 million during the period under review, while total deposits grew by 3.0% to HK\$424,412 million.

In face of challenging external conditions, pre-provision operating profit fell by 17.7%. Operating income was affected by unfavourable results from trading as valuations declined with the broader market sell-off. However, core revenues held up well as the Bank focussed on operational resilience.

Net interest income recorded a solid increase of 6.4%, driven by higher yields on assets. Net interest margin improved by 6 basis points. Under the interest rate hike cycle, the Bank will continue to deepen its relationships with customers and optimise funding costs.

The partial COVID-19 lockdown in Hong Kong brought a temporary pause to certain retail wealth activities. Despite this, net fee and commission income saw a modest drop of 3.7%. With promising results from the Bank's bancassurance partnership with AIA, an increase in income from sale of third-party insurance policies mitigated the decline in both lending and investment activity.

Operating expenses were held flat as efficiencies from BEA's digitalisation and transformation programmes started to materialise. The Bank maintained a tight control on costs through streamlining operations, helping to fund investments in technology, digital and data capabilities to future-proof its business. Meanwhile, frontline sales staff are being added to support revenue growth.

### ***Retail Banking***

Net profit for the Bank's retail operations increased by 22.7%. Reduced costs, wider margins and sustained customer onboarding more than compensated for a slowdown in investment activity under the fifth wave of COVID-19.

Non-interest income rose by 3.3% despite the impact of weak market sentiment and pandemic restrictions, particularly in the first quarter. Solid growth in income from insurance sales and linked deposits helped to offset the decline in commissions from unit trusts and stock broking.

Business momentum was maintained via the Bank's mobile and online platforms, which ensured service continuity even during temporary branch closures. Financial transactions made via mobile rose by 24.6% during the period.

Net interest income increased by 8.0%, driven by a wider net interest margin and higher average balances year-on-year in both loans and deposits. Overall, operating income rose by 6.4%.

Operating expenses were 7.4% lower as cost synergies from the Bank's branch rationalisation programme were realised. BEA will continue to optimise its network and digitalise customer journeys to drive further efficiency gains.

With a continued focus on enhancing services for affluent customers across all channels, growth in key target segments remained strong. In particular, new client intake for BEA's premium wealth management service, SupremeGold Private, was encouraging, bringing in significant new assets under management ("AUM"). The SupremeGold all-in-one account also recorded a 10.3% increase in customers.

Looking ahead, the Bank sees considerable potential in the youth segment and is launching a new digital all-in-one account, BEA GOAL, to cater to their preference for mobile-first banking. Key features include an enhanced mobile account-opening procedure, a virtual credit card, consolidated digital payment solutions, and an advanced fund selection service.

### ***Wholesale Banking***

In light of the ongoing challenges facing the Mainland property sector, the Bank made sizeable provisions on offshore lending made in Hong Kong following downgrades to certain affected clients. Profit from wholesale banking operations was dragged down as a result.

Despite these difficulties, underlying business remained sound. Operating income increased by 14.4% year-on-year.

Net interest income recorded growth of 18.3%, driven by higher average loan balances and an improvement in margins year-on-year. Meanwhile, non-interest income was flat. Income from treasury sales more than doubled as the Bank supported clients' hedging strategies under the volatile market conditions, while that from trade finance and corporate wealth management also grew. This offset lower fees from debt capital markets activity.

Operating expenses rose as a result of an upfront investment in the Bank's new digital platform for business customers, due to launch later this year, and other one-off items.

The restructured Wholesale Banking Division has integrated capabilities in corporate lending, trade services, debt capital markets solutions, insurance and channel management, enabling the Bank to provide

comprehensive solutions to corporates of all sizes. BEA will continue to enhance its Global RM service model to ensure a seamless One Bank experience for cross-border customers. Meanwhile, upcoming partnerships with fintech companies and sustainability experts will further expand the Bank's range of value-added services.

### ***Wealth Management***

Private banking operations were hindered by weak investor sentiment in the first half of the year, with COVID-19, inflation fears and heightened geopolitical tensions leading to market volatility. Investment AUM and loans declined as valuations dropped and clients de-risked their portfolios.

Net interest income fell by 6.9% due to a lower average loan balance. This trend was mitigated by an improved spread on both loans and deposits. New lending began to pick up in the second quarter as the pandemic situation in Hong Kong stabilised. Business is expected to improve in the second half, particularly when the Mainland border reopens and pent up demand from cross-border customers is released.

Non-interest income was solid under challenging conditions. A decline in income from client fund and stock trading activity was offset by improved fees and commissions from foreign exchange, structured products and insurance.

Overall, operating income recorded a slight fall of 4.6%. Operating expenses rose, driven by a 25% increase in frontline staff.

BEA will continue to expand its salesforce and capabilities to serve high-net-worth customers. The Bank is developing a fully digitalised discretionary portfolio management solution for Private Banking clients that will launch towards the end of the year.

To complement the Bank's retail wealth business, an innovative Fund Portfolio Builder was launched in May. Additional digital initiatives are being pursued to cater to younger, more tech-savvy individuals.

### ***Insurance and MPF Services***

Excluding mark-to-market revaluations, profit from BEA's core insurance business fell by 58.0% year-on-year. The decline was mainly due to lower underwriting profit from life insurance business following the disposal of BEA Life Limited last year.

BEA's life insurance bancassurance partnership with AIA commenced in July 2021, and results to date have been positive. The bancassurance model has successfully leveraged the Bank's strengths in distribution and its sizeable customer base in Hong Kong, generating opportunities for cross-selling to new and existing customers.

In March 2022, BEA announced that it would expand the scope of its partnership with AIA to include general insurance. The sale of Blue Cross, as well as the Bank's 80% stake in healthcare service provider Blue Care JV (BVI) Holdings Limited, to AIA is expected to close in the third quarter. As part of this transaction, Blue Cross will be the exclusive provider of non-life insurance products for BEA's personal banking customers in Hong Kong for a period of 15 years.

BEA continues to be a top 10 MPF provider in Hong Kong by AUM. Total membership of BEA's MPF schemes grew to 861,000 at the end of June 2022. Members have benefited from BEA's broader digitalisation strategy, with a 91% utilisation rate of the Bank's digital MPF channels. BEA maintained its position as the leading Industry Scheme provider with a market share of 71% as of June 2022. With significant annual expenditure expected on infrastructure and other construction works in Hong Kong, the Bank will continue to source new business from major contractors.

## Business – Mainland China

The first half of 2022 was a challenging period for the Mainland economy, and the recorded GDP growth of 2.5% year-on-year was the weakest since COVID-19 first emerged in 2020. Recurrent outbreaks of COVID-19, geopolitical tensions, supply chain issues and a weak property sector weighed on economic activity and consumer sentiment.

The COVID-19 outbreaks triggered strict control measures by the government, including various degrees of lockdown in different cities, which affected local in-branch services of BEA China. For the first half, BEA China recorded a net profit of HK\$2 million, a sharp decrease compared to the same period in the previous year due to a higher amount of provision for impairment losses amidst the challenging economic environment. Nevertheless, loan growth momentum was maintained as the total loan portfolio increased to HK\$151,641 million. Meanwhile, the proportion of property-related loans was further managed downward.

Total operating income up-ticked only by 1.4% year-on-year. Despite strong growth in the loan book, there was little change in net interest income compared to 2021, as net interest margin was lower due to a reduction in the average high-margin consumer finance loan balance. Non-interest income was driven up by revaluation gain due to US dollar appreciation and growth in trading income due to favourable market movement; whilst COVID-related lockdowns, economic uncertainty and volatile market conditions dampened demand for fee-based services.

On the wholesale banking side, BEA China continued to diversify and expand its loan portfolio. During the first six months of the year, the bank grew its non-property related loans to non-bank financial institutions, companies engaged in wholesale and retail trade, and manufacturers. A large proportion of the growth in the corporate loan book was from new-to-bank customers, with state-owned enterprises accounting for a large share. In addition, good progress has been made in implementing the One Bank strategy, with encouraging growth in revenue booked in Hong Kong and overseas from customers originated by BEA China. The bank also responded swiftly to new opportunities arising in green finance and recorded a significant growth in green loans.

Overall, operating income from wholesale banking achieved steady growth compared to the same period in 2021. Net interest income from wholesale banking grew by 10.4% year-on-year. The benefits of a larger loan portfolio were partially offset by thinner margins due to BEA China targeting quality customers, keen market competition, and loan prime rate cuts. Non-interest income from corporate banking fell, as the outbreaks of COVID-19 suppressed business activities.

On the retail banking side, income from retail lending in the first half of 2022 dropped compared to the same period last year. However, the high-margin internet finance portfolio has since returned to growth, and will begin to benefit the top line in the second half of the year.

While income from wealth management business fell in the first half, BEA China recorded an increasing number of southbound referrals through Wealth Management Connect. Meanwhile, the initial performance of the bancassurance partnership with AIA China, which was launched last year, is promising, and the partnership is expected to make a healthy contribution to BEA China's wealth management income in the future. BEA China has stepped up efforts to leverage its extensive network in the Greater Bay Area, promoting its wealth management and digital banking capabilities in the region to capture emerging business opportunities.

Operating expenses decreased by 12.8% year-on-year to HK\$1,483 million. Excluding a one-time reversal of a non-credit related provision of HK\$145 million, operating expenses fell by 4.3%, evidencing our strong discipline in cost control.

Regarding asset quality, the impaired loan ratio increased by 0.58 percentage points from the end of December 2021 to 2.12% as of the end of June 2022. Non-performing loan formation rose to HK\$1,561 million, an increase of 59.6% compared to the previous year, mainly due to the downgrade of a number of real estate accounts. Impairment losses also increased, rising by 211.3% year-on-year to HK\$990 million as BEA China took a prudent approach when assessing the impact of the weakened economy and the prolonged downturn in the property sector on its loan portfolio. Over the first half of the year, BEA China took a number of proactive steps to improving our lending positions, including by seeking early repayment and better collateral. The bank will continue to closely manage its asset quality.

BEA China operated 30 branches and 36 sub-branches covering 38 cities on the Mainland as of 30<sup>th</sup> June, 2022.

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

The performance of the Bank's overseas operations remained robust in the first half of 2022. BEA's overseas branches maintained a prudent stance in accepting new business and exited challenging relationships.

Although the strong US dollar put pressure on the currencies of several overseas markets in which the Bank operates, the Bank recorded growth of 3.5% in customer advances over the first six months of the year. Asset quality remained sound, with the impaired loan ratio improving to 0.17% at the end of June 2022, down from 0.35% at the end of December 2021. Pre-provision operating profit grew by 27.3% year-on-year, primarily driven by loan growth and increases in net interest margins.

Net profit after tax increased by 41.7% to HK\$620 million, driven by a net release in expected credit losses as a result of the improving performance of borrowers. The cost-to-income ratio was lower at 33.6% compared with 39.3% a year earlier, on the back of higher revenue and good cost discipline.

Turning to the performance of individual branches.

The Bank's UK operations continued to deliver positive growth in both loans and profitability through continued diversification into syndicated financing for borrowers with strong balance sheets and a positive business outlook.

BEA's operations in the US also registered steady operating results on the back of higher loan balances and stronger profitability, whilst asset quality remained sound. In response to expectations that the US Federal Reserve Board will raise interest rates aggressively, possibly tipping the economy into recession, US operations are focusing on selective expansion of the loan book.

In Asia (excluding Hong Kong and Mainland China), further to the completion of the strategic repositioning exercise and network rationalisation initiative in 2021, both Singapore and Macau branches showed significant improvement in pre-provision operating profit and cost-to-income ratios in the first half of 2022. These two branches continue to maintain financial discipline by focusing on cost management. Branch operations in Taiwan took a cautious approach, and primarily catered to large local corporates in view of the prevailing economic headwinds faced by the island. Taiwan Branch continues to prioritise asset quality over aggressive loan growth.

The Bank's overseas operations are actively participating in the Bank's digital transformation journey and are increasing investment in technology to improve the customer experience and enhance operational efficiency. UK Branch operations have been enhanced by launching digital solutions for financial data management and analytics. Singapore Branch, in line with its business repositioning strategy to focus on wholesale banking business, is in the process of revitalising its corporate Cyberbanking platform by expanding online functionalities to provide convenient banking services to corporate customers. Meanwhile, Taiwan Branch is replacing its legacy core banking system to accommodate the latest technology developments, automate processes and increase operational efficiency.

Looking ahead, to pursue the One Bank strategy of the Bank, overseas branches will leverage their local expertise and cooperate with other business units of the Bank Group to deliver seamless banking experience to customers and enhance the customers' total value to the Bank.

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

BEA Union Investment Management Limited ("BEA Union Investment") continues to assist clients to manage their investments under current volatile market conditions by adopting a rigorous risk management process.

Global asset owners remain keen to expand their investments in Asia, and BEA Union Investment successfully won several new advisory mandates based on its well-respected investment capabilities in Greater China equities and Mainland China bonds. BEA Union Investment is confident that its high conviction investment strategies focusing on Asia, together with its comprehensive risk management process, will continue to attract clients seeking risk-adjusted returns in Asia.

## Our People

As of 30<sup>th</sup> June, 2022, the BEA Group employed 8,636 people:

	As of 30 <sup>th</sup> June, 2022	As of 31 <sup>st</sup> December, 2021	As of 30 <sup>th</sup> June, 2021
Hong Kong	4,965	5,057	5,359
Mainland China	3,121	3,211	3,277
Macau and Taiwan	129	130	140
Overseas	421	426	439
Total	8,636	8,824	9,215

The Bank continues to build a progressive culture and nurture talent as key drivers of its focus on business transformation and sustainable growth. Since the future of banking depends on a strong talent pipeline, BEA is actively recruiting recent graduates, expanding its capability in technology and data analysis, and supporting mid-career staff to further enhance their potential.

For a number of years, BEA has participated in youth-oriented programmes such as the HKMA Banking Graduate Trainee Programme and the FinTech Career Accelerator Scheme. This year, the Bank further expanded its efforts to develop young talent, launching functional trainee programmes on Personal Banking, Wholesale Banking and Internal Audit. These programmes provide structured training and on-the-job experience for recent graduates, offering them the essential knowledge required to become future relationship managers and specialists in Audit, Risk and Compliance.

BEA is also making substantial investments to enhance staff capability in the application of technology and data analysis in banking. The Bank kicked-off the year with a Digital Leadership Virtual Bootcamp for a group of senior leaders at division head and department head level to build a strong leadership team to support BEA's digitalisation strategy. A new mobile micro-learning module on Fintech 101 was rolled out across all levels, ensuring that all staff are conversant with the latest developments in the industry. This customised programme enabled staff to learn the essence of Fintech on-the-go in bite-sized portions that could easily be fit into their daily schedules. As part of its Fintech Strategy 2025, the Bank will also be launching a series of data literacy empowerment programmes to develop a strong data culture and strengthen data leadership.

For mid-career staff, the BEA Future Leader Accelerated Programme supports personal growth through a range of development opportunities specially chosen for high-potential executives. This year, BEA extended the programme to include high-potential executives from overseas branches, further strengthening the Bank's talent and succession pipeline. BEA also provides ongoing training support and sponsorship for obtaining HKMA's Enhanced Competency Framework ("ECF") certification and, with the launch of the ECF-FinTech certification by the HKMA last December, BEA is actively encouraging relevant staff to complete the required training and obtain the new credential. In the coming months, the Bank will further step up training momentum.

With respect to bank culture, the Bank Culture Work Group ("BCWG") has been revamped with a mandate to reinforce efforts to monitor and evaluate the status of bank culture reform and devise division-specific plans based on employee feedback from the staff survey conducted in 2021. In 2022, monitoring of human rights breaches was incorporated into the Bank Culture Dashboard to allow BCWG to scrutinise related areas across the Bank. In the second quarter of 2022, the Bank launched the Bright Ideas, Big Impact Programme with the aim of fostering a speak-up and innovate culture within the Bank. Over 200 ideas were received in the first round of submissions, including broad-based staff engagement that reflects a strong "echo from the bottom".

Later this year, BEA will conduct a full-scale employee survey that will streamline and improve upon the 2021 survey scope in order to gauge employee sentiment and gather feedback on the past 12 months. BEA will also introduce more frequent "skip-level exchange sessions" in relaxed settings to create opportunities for staff to share, network and learn from more senior staff, in order to enhance management-employee engagement.

Aside from strengthening collaboration within the Bank, BEA fosters social connections and promotes a caring community. In the second quarter of 2022, the Bank launched the “Join Hands, Reach Further!” programme to promote an engaging and positive work environment by encouraging staff to contribute to society. Working alongside employees from other Bank divisions, teams direct their volunteer efforts towards the Bank’s key community service programmes, including BEA Upcycles, BEA Golden Adventures, BEA Festival (Beyond Environmental Arts Festival) and other outreach opportunities to build on BEA’s century-long commitment to improving lives in the communities we serve.

Staff members’ health and safety, as well as that of the public, has long been a key focus of the Bank Group. With the COVID-19 pandemic, this focus has gained new urgency. The Bank distributed Rapid Antigen Test kits to all staff to run self-tests as the fifth wave spread in March. Flexible work arrangements, such as split-team and work-from-home, were widely adopted. Staff were also provided additional days of leave allowance so that they may be vaccinated against COVID-19. As we move beyond the pandemic, we are continuing in our efforts to create an agile workforce, improve business continuity and increase productivity.

## **Outlook**

The severe disruptions to global trade arising from supply disruptions, geopolitical tensions, COVID-19 and military conflict in Europe have tipped the world into a period of sustained high inflation. Although multiple rounds of interest hikes by central banks have made financial markets uneasy, economic growth and employment have remained resilient in the West through the first half of 2022. Though the spectre of recession – or worse, stagflation – remains.

China, meanwhile, has trod a different path. Its strict COVID Zero policies and regulatory adjustments have reduced both output and consumption, but also kept inflation low. As a result, China has wide fiscal, monetary and policy leeway for stimulus.

However, in contrast to past broad-based stimulus actions, this time Chinese planners are pushing through more focussed policies. This approach avoids the excesses and leakages associated with the broad sweep monetary loosening of the past, but could also take longer to show results.

This has set the conditions for what may be divergent growth paths for China and the rest of the world for the rest of this year and into 2023. As the impact of higher interest rates destabilises developed and developing economies alike, China may gradually return to a domestic investment driven growth path. This growth path may be slower than in the past, but it also may not cause the commodity price inflation that typically accompanied China’s previous expansionary periods.

The pandemic has not been kind to Hong Kong’s economy. However, like Mainland China it has experienced low inflation. While interest rates will rise in tandem with the US as a result of the dollar peg, Hong Kong stands to benefit from Mainland China’s efforts to stimulate growth through targeted measures.

Meanwhile, any easing of border restrictions will bring an immediate economic bounce, with the revival of tourism, a renewed push to integrate Hong Kong into the Greater Bay Area and revival of the local financial sector with the shift of US listings of Chinese corporations to Hong Kong.

BEA has not been idle during the past year. We have pressed ahead with the digital transformation of the Bank, managed our exposure to the troubled China real estate developers, and maintained a strong balance sheet in these times of economic duress. The Bank has become leaner, more nimble and focussed on disciplined, risk managed growth. As we manage the challenges in front of us, we are also positioning ourselves to embrace the opportunities of the Greater Bay Area and support the realisation of China’s dual circulation strategy.

## Major Recognition – Business

During the first six months of 2022, the Bank received a number of awards in recognition of its achievements. These included:

- “2022 Best SME’s Partner Gold Award” (for the fifth consecutive year) from The Hong Kong General Chamber of Small and Medium Business;
- “Best Personal Banking Brand - Hong Kong”, “Best Bank for Customer Experience – Hong Kong”, and “Best Banking Product - Virtual Card – Hong Kong” from Global Brands Awards 2022;
- Outstanding Achievement Award in the “Retail Bank of Year”, “Premium Segment Client Service”, “Client Service/Customer Engagement”, and “Digital Transformation Strategy categories” from Bloomberg Businessweek Financial Institution Awards 2022; and
- “Best for HNW in Hong Kong” and “Highly Regarded Domestic Private Bank in Hong Kong” from Asia Money Private Banking Awards 2022.

BEA China received “The Best Banking News Stories on Safeguarding People’s Livelihood of 2021” from China Banking Association. Blue Cross received “10Life Outstanding VHIS Award 2022” from 10Life, while Bank of East Asia (Trustees) Limited received Gold Ratings for the BEA (MPF) Value Scheme in the MPF Ratings’ 2022 MPF Scheme Ratings and Awards programme from MPF Ratings Limited.

BEA Union Investment received “BENCHMARK Provider of the Year (Onshore) 2021”, “Outstanding Achiever - Asia Allocation Mixed Asset”, “Outstanding Achiever - China Equity”, “Outstanding Achiever - Asia Fixed Income” from BENCHMARK House Award 2021.

## **RISK MANAGEMENT**

The Group recognises that a sound risk culture is the 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.

### **Principal Risks**

The Group faces a variety of risks that could affect its franchise, operations and financial health. The principal risks identified by the Group include credit risk, interest-rate risk, market risk, liquidity risk, operational risk, reputation risk, strategic risk, legal risk, compliance risk and technology risk. The description of principal risks, and how they are managed, is set out in the “Risk Management” section of the Bank’s Annual Report 2021.

### **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 the first half of 2022:

- Proactive risk management of special assets and credit monitoring has been further enhanced so as to identify risk in the loan book and mitigate risks in a timely manner. On top of enhanced credit control, thematic reviews have been performed for high-risk sectors and loan exposures most susceptible to the COVID-19 pandemic and Ukraine conflict.
- The operational risk management framework is under constant review. 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 anti-fraud control measures; and strengthening of the policy and assessment methodology for managing third-party risk. To this end, an expanded operational risk plan is in place to enhance capability in incident analysis and monitoring, communication and reporting.



- To support the Group's ESG initiatives, the Group's risk appetite statement on ESG risks aligns strategically with the Group's Sustainability Vision and Mission Statements. In order to incorporate sustainable practices into all business and operational initiatives, the Group launched the Green and Sustainability-linked Lending Policy and enhanced the ESG risk-rating mechanism for conducting a systematic assessment of customers' ESG performance and vulnerability to climate-related risk. In 2022, the Group is further enhancing the risk management infrastructure by introducing an internal green finance framework including sector policies, green and brown taxonomy, and key ESG risk indicators to support customers' transition to a low-carbon economy, develop green finance, incorporate climate risk considerations into the Group's strategy formulation, and control the Group's risk exposure to extreme climate events.
- In coordination with the Group's automation initiative and digital strategy, the Bank has implemented a new workflow system and is enhancing processes by adopting the latest technologies in order to improve the efficiency of the daily risk management process, data capture capability and accuracy, and manpower allocation.

## Principal Uncertainties

During the first half of 2022, the Group identified a number of emerging risks. The key uncertainties currently facing the Group and the mitigating measures implemented are set out below.

Principal Uncertainties	Mitigating Measures
<p><b>Macro-economy</b></p> <p><b>The COVID-19 pandemic and US-China tensions have impacted a wide range of industries in recent years. Although the global economy rebounded in 2021, the economic outlook has worsened this year. The rise of the Omicron variants of COVID-19, social distancing measures imposed in major cities in Mainland China, geopolitical tensions resulting from the Ukraine conflict, worsening inflation and the rapidly changing global monetary environment all weighed on sentiment.</b></p> <p><b>Hong Kong's economy suffered in the first half of 2022 due to the fifth wave of the pandemic. Recovery remains uneven, with some sectors outperforming others. The Hong Kong property market was subdued in the first half of the year, and the local stock market was volatile. Regulatory risk for technology and real estate companies operating in Mainland China remained high, and the liquidity crisis facing the Mainland property sector continued to worsen. The credit risk environment outlook remains challenging.</b></p>	<p>The Group will continue to monitor the market situation and its portfolios closely in order to manage risk exposure.</p> <p>From a credit risk perspective, the Bank continues to identify potential adverse events and devise ways to mitigate any impact on its capital adequacy and asset quality. Such measures include enhanced credit control on loan exposures most susceptible to the COVID-19 pandemic and the Ukraine conflict, thematic reviews on high-risk sectors, and stress testing on capital adequacy and loan-loss allowances. In response to the uncertainties arising from the liquidity and refinancing risk of the Mainland property sector, the Group is taking a conservative approach, with accounts being monitored closely. Overall credit exposure to the sector is being reduced amidst the Group's broader diversification strategy. The Bank remains alert to the development of the Mainland property market, and lending appetite has become highly selective, with prudent and proactive credit risk management adopted to control loan asset quality.</p> <p>From market and interest rate risks perspective, the Bank continues to assess trends, manage exposures, review its risk-taking strategy and formulate mitigating actions as necessary.</p> <p>From a compliance risk perspective, the Bank continues to track the development of relevant sanctioned regimes and mitigate risk exposure where appropriate.</p>

## Cyber-Security Risk

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

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

- Engage external consultants to assess the Group's cyber-security controls against relevant information-security standards and emerging risks to identify and implement necessary improvements
- Analyse different intelligence sources to monitor the latest worldwide threats and establish industry-wide collaborations on 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 e-mail tests to promote security awareness among staff and improve security practices

Cyber and information security risks and controls are regularly reviewed and reported to directors in Risk Committee meetings quarterly.

## ESG Risks

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**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, the Bank has:

- Developed a Green and Sustainability-linked Lending Policy
- Enhanced its ESG risk checklist for screening and additional assessment of credit applications by incorporating climate risk considerations
- Conducted a Climate Risk Stress Test to assess the Bank's resilience against extreme climate events
- Introduced various ESG / climate risk indicators to enhance monitoring capability in a proactive manner
- Expanded the prohibited lending list to include wider business activities that create material environmental or social impacts
- Began disclosing the Bank's ESG / climate risks and opportunities in accordance with the reporting framework of the Task Force on Climate-related Financial Disclosures in the Group's 2021 ESG Report
- Promoted ESG awareness and capacity building among staff members through external and internal events including industry webinars, mandatory training, and internal communications

## **Interbank Offered Rate (“IBOR”) Transition**

Following the decision of global regulators to phase out London Interbank Offered Rates (“LIBORs”) and replace them with risk free rates as alternative reference rates (“ARRs”), LIBORs of CHF, EUR, GBP and JPY were ceased available after 2021. 1-week and 2-month USD LIBORs were also ceased. Other tenors of USD LIBOR will cease available after June 2023. With the completion of the IBOR Reform Project, the Group has the operational capability to trade in ARR and manage the transition of the aforesaid LIBORs and the IBORs linked up with those LIBORs to ARR.

The Group will continue closely managing and monitoring the risks arisen from IBOR reform, including but not limited to the following:

- 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; and
- Risk on mismatch of hedging relationships as financial instruments transition to ARR resulting in unrepresentative income statement volatility.

Further details are given in note 43 on the financial instruments referencing IBORs to be transitioned to ARR but not yet transitioned as at 30<sup>th</sup> June, 2022.

## **SUSTAINABILITY**

The BEA Group is committed to integrating sustainability principles into its business and operations, and managing its social and environmental impacts. The established governance structure together with an ESG strategy framework guide the Bank Group’s ESG strategy and goal formulation. For 2022, two goals have been prioritised through stakeholder engagement and placed on the Bank-wide scorecard.

The first is to drive the development of green and sustainable finance (“GSF”) through target-setting. Targets for total GSF loans and ESG bond investments as a percentage of total loan and investment assets have been set for business units across the Group. Progress is reported on a regular basis at meetings of BEA’s ESG Steering Committee and Board-level ESG Committee.

In support of the Bank’s GSF targets, BEA strengthened its List of Prohibited Lending in February 2022. Among the prohibited activities, BEA will not knowingly extend financing to activities resulting in degradation or destruction of areas designated as High Conservation Value, High Carbon Stock forests or peatlands, or wetlands under the Ramsar Convention. Going forward, the Bank will broaden its GSF framework to cover high carbon emitting sectors, as defined by the HKMA.

To build internal capability, practical training on GSF was provided in May 2022 to more than 370 frontline staff of the Bank’s Wholesale Banking Division in Hong Kong and colleagues at overseas branches and in related risk management functions.

For its corporate customers, BEA jointly organised a number of events during the period under review with the aim of supporting their efforts to improve their sustainability performance and transition to a low-carbon economy. Besides enabling companies to learn about GSF, these events served as opportunities for companies to learn from one another through experience sharing and case studies. In addition, Bank representatives spoke at GSF seminars hosted by business and professional associations, including CPA Australia and the Hong Kong General Chamber of Commerce.

The second goal is to drive the reduction of carbon emissions in the Bank Group’s business and operations. In June 2022, a focus group comprising representatives of the Group’s operations teams reviewed the Group’s existing targets for reducing its direct emissions from owned or controlled sources (Scope 1) and

indirect emissions, primarily from the generation of purchased electricity (Scope 2). Further assessments will be conducted, after which BEA will formulate a roadmap to reduce Scopes 1 and 2 carbon emissions by 2030.

Financed emissions are a component of BEA's Scope 3 emissions, which are generated indirectly along the Group's value chain. A screening exercise conducted in the first half of 2022 revealed that BEA's corporate loan and bond portfolios account for over 90% of the Group's financed emissions. In the second half of 2022, BEA aims to complete its measurement of emissions in a number of high-emitting sectors, which will help shape BEA's Scope 3 reduction strategies.

Signalling the Group's commitment to emissions reduction, in May 2022, BEA became the first signatory headquartered in Hong Kong to the Partnership for Carbon Accounting Financials ("PCAF"), a collaboration among financial institutions worldwide to enable harmonised assessments and disclosures of greenhouse gas emissions associated with their loans and investments.

The Group's subsidiaries are equally involved in the Group's ESG strategies. BEA China established a dedicated Sustainability Section in the first half of 2022 to drive ESG development. To further strengthen ESG awareness and support collaboration, an extensive ESG training programme was conducted between Head Office and BEA China colleagues during the reporting period.

BEA believes that it also has an important role to play in promoting financial literacy in the markets where it operates. In support of the efforts of the Investor and Financial Education Council to enhance digital financial literacy levels in Hong Kong, BEA launched an in-branch programme in May 2022 across nine branches to promote the adoption of digital banking services by older customers. Retired staff members, customer experience managers, and frontline staff equipped with training materials have been stationed at the branches to introduce the BEA App to walk-in customers. The Bank also actively engaged older customers through targeted approaches, and offered incentives for these customers to adopt digital channels.

For information about BEA's staff-related efforts in the first half of 2022, please refer to the "Our People" section under "Business Review".

Through the Bank's charitable arm – The Bank of East Asia Charitable Foundation (the "BEA Foundation") – approximately HK\$3 million-worth of anti-epidemic supplies were donated via The Salvation Army and St. James' Settlement in the first half of 2022. These supplies aided over 43,000 under-resourced families and frontline staff members of the two non-governmental organisations serving the community during the pandemic. This initiative also benefited the unemployed and underemployed by creating short-term packing and delivery jobs during a period of uncertainty and economic downturn.

As an expression of gratitude to the healthcare workers who worked tirelessly in support of the people of Hong Kong, the BEA Foundation distributed over 10,000 soup vouchers through the Hospital Authority. Meanwhile, the BEA Volunteer Team made phone calls to elderly residents in the "Sending Blessings in the Air" campaign to lift the spirits of the elderly during the pandemic.

On the Mainland, 125 staff volunteers from BEA China celebrated the Year of the Tiger by contributing approximately 760 hours to Chinese New Year charity programmes, which included the provision of daily necessities and hygiene kits to more than 1,900 senior citizens and disabled children. In March 2022, more than 630 BEA China staff members, together with their friends and families, participated in various Arbour Day charity campaigns. In addition to planting trees and shrubs, the volunteers took part in hikes, bike rides, and other activities that promoted a green and healthy lifestyle.

For more information on BEA's ESG performance including community investment initiatives, please refer to the Group's 2021 ESG Report, which is available via the Bank's corporate website at [www.hkbea.com](http://www.hkbea.com) (About BEA / Sustainability).

### **Major Recognition - Sustainability**

During the first six months of 2022, the Bank received a number of awards in recognition of its achievements. These included:

- "Award of Excellence" and "Diamond Award" in the Corporate & Employee Contribution Programme 2021/2022 (for the 28th consecutive year) by The Community Chest of Hong Kong;

- Named “Caring Company” (for the 19th consecutive year) by The Hong Kong Council of Social Service;
- "Manpower Developer" (since 2012) under the ERB Manpower Developer Award Scheme by the Employees Retraining Board;
- Indoor Air Quality Certificate – Good Class and Commendation Scheme on Source Separation of Commercial and Industrial Waste – Certificate of Merit (Mixed Office) by the Environmental Protection Department; and
- “Golden Promise” Award – Outstanding Annual Corporate Social Responsibility Programme in the Chinese Financial Industry by the China Banking and Insurance News.

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

### Off-market Share Buy-back

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

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

Reasons for the Share Buy-back are set out below:

- (i) the Share Buy-back is a good opportunity for the Bank to enhance its return on equity and its earnings per share;
- (ii) the Share Buy-back resulted in an increase in the consolidated net asset value per share attributable to the Bank’s shareholders of approximately 6% based on the audited consolidated balance sheet of the Group as at 31<sup>st</sup> December, 2021;
- (iii) the Share Buy-back facilitated the exit of the Elliott Parties, a sizeable shareholder of the Bank, in an orderly fashion; and
- (iv) given the stock price of the Bank at the then prevailing time, the Bank considered the Share Buy-back an efficient use of capital for the Bank.

### Redemption of Capital Securities

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

Save for the Share Buy-back and the redemption of the Capital Securities as disclosed herein, there was no purchase, sale or redemption by the Bank or any of its subsidiaries, of the listed securities of the Bank during the six months ended 30<sup>th</sup> June, 2022.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

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.

The Bank has in place a Corporate Governance Framework which identifies all the key participants of the Group and their roles in the application of effective governance policies and processes. A *Corporate Governance Policy* has also been established to direct and guide the business conducts and affairs of the Group. The Framework is reviewed and updated (where appropriate) from time to time to ensure it complies with the evolving regulatory requirements and meets the needs of the Bank Group.

Throughout the six months ended 30<sup>th</sup> June, 2022, the Bank has complied with all Code Provisions set out in the CG Code.

During the six months ended 30<sup>th</sup> June, 2022, the Bank has also followed the modules on CG-1, CG-5, Guidance on Empowerment of INEDs, and the circular on Bank Culture Reform issued by the HKMA.

The Bank received confirmations from Directors that they have spent sufficient time performing their responsibilities as Directors of the Bank and have given sufficient time and attention to the Bank Group's affairs. All Directors acknowledged that they have participated, from time to time, in continuous professional development to develop and refresh their knowledge and skills for carrying out their duties and responsibilities as Directors of the Bank.

The Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30<sup>th</sup> June, 2022 and the Bank's Interim Report 2022.

## **COMPLIANCE WITH MODEL CODE**

The Bank has adopted its own code of securities transactions by the Directors and Chief Executive, i.e. *Policy on Insider Dealing – Directors and Chief Executive* ("Bank's Policy") on terms no less exacting than the required standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of the Listing Rules.

The Bank has also adopted a *Policy on Insider Dealing – Group Personnel* to be observed by the employees of the Bank or directors or employees of the Bank's subsidiaries, in respect of their dealings in the securities of the Bank.

Following specific enquiries by the Bank, all Directors confirmed that they had complied with the required standard set out in the Model Code and the Bank's Policy at all the applicable time during the six months ended 30<sup>th</sup> June, 2022.

By order of the Board

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

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

Hong Kong, 18<sup>th</sup> August, 2022

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

# Executive Director

\* Non-executive Director

\*\* Independent Non-executive Director

## GLOSSARY

### 詞彙

AIA 「友邦保險」	AIA Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of AIA Group Limited 友邦保險有限公司，於香港註冊成立之有限責任公司，為友邦保險控股有限公司之全資附屬公司
Bank Group or BEA Group or Group 「集團」或「本集團」	The Bank and its subsidiaries 東亞銀行及其附屬公司
Bank or BEA 「本行」或「東亞銀行」	The Bank of East Asia, Limited, a limited liability company incorporated in Hong Kong 東亞銀行有限公司，於香港註冊成立的有限公司
Bank Culture Reform 「銀行企業文化改革」	The circular in respect of Bank Culture Reform, issued by the HKMA on 2 <sup>nd</sup> March, 2017 金管局於 2017 年 3 月 2 日發出之銀行企業文化改革通告
Banking Ordinance 「《銀行業條例》」	The Banking Ordinance (Chapter 155 of the Laws of Hong Kong) 《銀行業條例》（香港法例第 155 章）
BEA China 「東亞中國」	The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank 東亞銀行（中國）有限公司，本行的全資附屬公司
Blue Cross 「藍十字」	Blue Cross (Asia-Pacific) Insurance Limited, a wholly-owned subsidiary of the Bank 藍十字（亞太）保險有限公司，本行的全資附屬公司
Board 「董事會」	Board of Directors of the Bank 本行的董事會
Capital Rules 「《資本規則》」	Banking (Capital) Rules issued by the HKMA 金管局頒布之《銀行業(資本規則)》
CG Code 「《企業管治守則》」	Corporate Governance Code, Appendix 14 to the Listing Rules 《上市規則》附錄 14 內所載的《企業管治守則》
CG-1 「CG-1」	Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorized Institutions, issued by the HKMA 金管局頒布之監管政策手冊 CG-1 內有關《本地註冊認可機構的企業管治》
CG-5 「CG-5」	Supervisory Policy Manual CG-5 on Guideline on a Sound Remuneration System, issued by the HKMA 金管局頒布之監管政策手冊 CG-5 內有關《穩健的薪酬制度指引》
CHF 「瑞士法郎」	Swiss franc, the lawful currency of Switzerland 瑞士法定貨幣
China, Mainland, Mainland China or PRC 「中國」或「內地」	People's Republic of China 中華人民共和國
Companies Ordinance 「《公司條例》」	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong) 《公司條例》（香港法例第 622 章）

Director(s) 「董事」	includes any person who occupies the position of a director, by whatever name called, of the Bank or otherwise as the context may require 包括任何任職本行董事職位的人士（不論其職銜如何），或文義另有所指的人士
ECL 「預期信貸損失」	Expected credit loss 預期信貸損失
ESG 「環境、社會及管治」	Environmental, social, and governance 環境、社會及管治
EUR 「歐羅」	Euro, the lawful currency of 19 of the 27 member states of the European Union 歐洲聯盟 27 個成員國內，其中 19 個成員國採納的法定貨幣
FVOCI 「通過其他全面收益以反映公平價值」	Fair value through other comprehensive income 通過其他全面收益以反映公平價值
FVTPL 「通過損益以反映公平價值」	Fair value through profit or loss 通過損益以反映公平價值
GBP 「英鎊」	Pound sterling, the lawful currency of the UK 英國法定貨幣
Greater Bay Area 「大灣區」	Guangdong-Hong Kong-Macao Greater Bay Area 「粵港澳大灣區」
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
HKAS 「香港會計準則」	Hong Kong Accounting Standards 香港會計準則
HKEX 「香港交易所」	Hong Kong Exchanges and Clearing Limited 香港交易及結算所有限公司
HKFRS 「香港財務報告準則」	Hong Kong Financial Reporting Standards 香港財務報告準則
HKICPA 「香港會計師公會」	Hong Kong Institute of Certified Public Accountants 香港會計師公會
HKMA 「金管局」	Hong Kong Monetary Authority 香港金融管理局
Hong Kong or HKSAR 「香港」	Hong Kong Special Administrative Region of the 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



<b>LCR</b> 「流動性覆蓋比率」	<b>Liquidity Coverage Ratio</b> 流動性覆蓋比率
<b>LIBOR</b> 「倫敦銀行同業拆借利率」	<b>London Interbank Offered Rate</b> 倫敦銀行同業拆借利率
<b>Listing Rules</b>  「《上市規則》」	<b>The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, modified or otherwise supplemented from time to time)</b> 《香港聯合交易所有限公司證券上市規則》，經不時修訂、修改或以其他方式補充
<b>MPF</b> 「強積金」	<b>Mandatory Provident Fund</b> 強制性公積金
<b>RMB</b> 「人民幣」	<b>Renminbi, the lawful currency of the PRC</b> 中國法定貨幣
<b>Senior Management</b> 「高層管理人員」	<b>The Co-Chief Executives and Deputy Chief Executives of the Bank</b> 本行的聯席行政總裁及副行政總裁
<b>SG Swap Offer Rate</b> 「新加坡元掉期利率」	<b>Singapore Swap Offer Rate</b> 新加坡元掉期利率
<b>Share(s)</b> 「股份」	<b>Ordinary share(s) of the Bank</b> 本行普通股
<b>SIBOR</b> 「新加坡銀行同業拆借利率」	<b>Singapore Interbank Offered Rate</b> 新加坡銀行同業拆借利率
<b>Stock Exchange</b> 「聯交所」	<b>The Stock Exchange of Hong Kong Limited</b> 香港聯合交易所有限公司
<b>UK</b> 「英國」	<b>United Kingdom</b> 英國
<b>US</b> 「美國」	<b>United States of America</b> 美利堅合眾國
<b>US\$ or USD</b> 「美元」	<b>United States dollar, the lawful currency of the US</b> 美國法定貨幣