BEA 東亞銀行

The Bank of East Asia, Limited

東亞銀行有限公司

(Incorporated in Hong Kong with limited liability in 1918)
(Stock Code: 23)

ANNOUNCEMENT OF 2023 FINAL RESULTS

SUMMARY OF RESULTS

The Board of Directors of the Bank is pleased to announce the audited results (Note 1(a)) of the Group for the year ended 31st December, 2023. This financial report, which has been reviewed by the Bank's Audit Committee, is prepared on a basis consistent with the accounting policies and methods adopted in the 2023 annual accounts.

Consolidated Income Statement

For the year ended 31st December, 2023

	Notes	2023 HK$ Mn	2022 HK$ Mn
Interest income	*4*	39,685	24,848
Interest income calculated using the effective interest method		36,788	24,871
Related interest income/(expense)		2,897	(23)
Interest expense	*5*	(22,811)	(11,340)
Net interest income		16,874	13,508
Fee and commission income	*6*	3,361	3,372
Fee and commission expense		(721)	(619)
Net fee and commission income		2,640	2,753
Net trading profit	*7*	1,225	943
Net result on financial instruments at FVTPL	*8*	(262)	(68)
Net result on financial assets measured at FVOCI	*9*	(26)	175
Net loss on sale of financial assets measured at amortised cost		(22)	(6)
Net hedging profit	*10*	30	201
Other operating income	*11*	287	448
Non-interest income		3,872	4,446
Operating income		20,746	17,954
Operating expenses	*12*	(9,432)	(9,224)
Operating profit before impairment losses		11,314	8,730
Impairment losses on financial instruments	*13*	(5,483)	(5,923)
Impairment losses on associate		(726)	-
Impairment losses on other assets		(6)	(3)
Impairment losses		(6,215)	(5,926)
Operating profit after impairment losses		5,099	2,804
Net profit on sale of assets held for sale	*14*	2	1,445
Net loss on disposal of subsidiaries/associates		(12)	(1)
Net profit on disposal of fixed assets	*15*	14	17
Valuation losses on investment properties		(86)	(179)
Share of profits less losses of associates and joint ventures		293	855
Profit for the year before taxation		5,310	4,941
Income tax	*16*	(1,174)	(563)
Profit for the year		4,136	4,378

Consolidated Income Statement (Continued)

	Notes	2023 HK$ Mn	2022 HK$ Mn
Attributable to:			
Owners of the parent		4,118	4,359
Non-controlling interests		18	19
Profit for the year		4,136	4,378
Earnings per share			
Basic	*1(b)*	HK$1.32	HK$1.32
Diluted	*1(b)*	HK$1.32	HK$1.32
Dividends per share		HK$0.54	HK$0.81

Consolidated Statement of Comprehensive Income
For the year ended 31st December, 2023

	2023	2022
	HK$ Mn	HK$ Mn
Net profit	4,136	4,378
Other comprehensive income for the year:		
Items that will not be reclassified to income statement:		
Premises:		
- unrealised surplus on revaluation of premises	13	354
- deferred taxes	2	(4)
Fair value reserve (equity instruments):		
- net change in fair value	120	127
- deferred taxes	-	(4)
Liability credit reserve:		
- net change in fair value attributable to Group's own credit risk	(13)	73
- deferred taxes	2	(12)
Items that may be reclassified subsequently to income statement:		
Fair value reserve (debt instruments):		
- net change in fair value	760	(1,849)
- amount transferred to income statement on disposal	82	13
- deferred taxes	(134)	298
Share of changes in equity of associates and joint ventures	51	54
Exchange differences arising from translation of accounts/disposal of overseas, Macau and Taiwan branches, subsidiaries, associates and joint ventures	(723)	(2,880)
Other comprehensive income	160	(3,830)
Total comprehensive income	4,296	548
Total comprehensive income attributable to:		
Owners of the parent	4,278	529
Non-controlling interests	18	19
	4,296	548

Consolidated Statement of Financial Position
As at 31st December, 2023

	Notes	2023 HK$ Mn	2022 HK$ Mn
ASSETS			
Cash and balances with banks		45,903	54,579
Placements with and advances to banks		43,691	60,203
Trade bills		373	529
Trading assets	*17*	3,049	1,530
Derivative assets	*23*	9,056	11,092
Loans and advances to customers	*18*	526,984	542,394
Investment securities	*19*	167,270	147,007
Investments in associates and joint ventures	*20*	8,384	9,061
Fixed assets		13,493	13,476
- Investment properties		5,105	5,166
- Other properties and equipment		7,603	7,593
- Right-of-use assets		785	717
Goodwill and intangible assets		1,852	1,870
Deferred tax assets		1,836	1,849
Other assets	*21*	38,470	39,235
Total Assets		860,361	882,825
EQUITY AND LIABILITIES			
Deposits and balances of banks		25,619	25,478
- Designated at fair value through profit or loss		3,199	4,545
- At amortised cost		22,420	20,933
Deposits from customers		628,598	648,093
- Demand deposits and current accounts		65,643	65,899
- Savings deposits		118,163	145,107
- Time, call and notice deposits		444,792	437,087
Trading liabilities		-	5
Derivative liabilities	*23*	4,007	4,145
Certificates of deposit issued		27,618	32,662
- Designated at fair value through profit or loss		9,415	19,001
- At amortised cost		18,203	13,661
Current taxation		1,602	1,252
Debt securities issued		844	2,892
- Designated at fair value through profit or loss		688	811
- At amortised cost		156	2,081
Deferred tax liabilities		468	226
Other liabilities		47,312	49,799
Loan capital – at amortised cost		15,967	11,927
Total Liabilities		752,035	776,479
Share capital	*1(c)*	41,915	41,856
Reserves	*24*	56,058	54,131
Total equity attributable to owners of the parent		97,973	95,987
Additional equity instruments		10,090	10,090
Non-controlling interests		263	269
Total Equity		108,326	106,346
Total Equity and Liabilities		860,361	882,825

Consolidated Statement of Changes in Equity
For the year ended 31st December, 2023

	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[4]	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 1st January, 2023	41,856	13,658	2,255	895	(1,822)	150	510	15	5,105	33,365	95,987	10,090	269	106,346
Changes in equity														
Profit for the year	-	-	-	-	-	-	-	-	-	4,118	4,118	-	18	4,136
Other comprehensive income	-	-	15	-	(723)	-	828	(11)	51	-	160	-	-	160
Total comprehensive income	-	-	15	-	(723)	-	828	(11)	51	4,118	4,278	-	18	4,296
Shares issued in lieu of dividend *(Note 1(c))*	59	-	-	-	-	-	-	-	-	-	59	-	-	59
Equity settled share-based transaction	-	-	-	-	-	24	-	-	-	-	24	-	-	24
Transfer	-	-	-	-	-	(35)	-	-	(2)	37	-	-	-	-
Distribution/Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	(2,008)	(2,008)	-	(24)	(2,032)
Share buy-back [1]	-	-	-	-	-	-	-	-	-	(367)	(367)	-	-	(367)
At 31st December, 2023	41,915	13,658	2,270	895	(2,545)	139	1,338	4	5,154	35,145	97,973	10,090	263	108,326
At 1st January, 2022	41,645	13,658	1,905	895	1,058	152	1,925	(46)	5,191	35,395	101,778	13,968	304	116,050
Changes in equity														
Profit for the year	-	-	-	-	-	-	-	-	-	4,359	4,359	-	19	4,378
Other comprehensive income	-	-	350	-	(2,880)	-	(1,415)	61	54	-	(3,830)	-	-	(3,830)
Total comprehensive income	-	-	350	-	(2,880)	-	(1,415)	61	54	4,359	529	-	19	548
Shares issued in lieu of dividend *(Note 1(c))*	211	-	-	-	-	-	-	-	-	-	211	-	-	211
Equity settled share-based transaction	-	-	-	-	-	22	-	-	-	-	22	-	-	22
Transfer	-	-	-	-	-	(24)	-	-	(140)	164	-	-	-	-
Distribution/Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	(3,455)	(3,455)	-	(48)	(3,503)
Share buy-back [2]	-	-	-	-	-	-	-	-	-	(3,051)	(3,051)	-	-	(3,051)
Redemption of additional equity instruments [3]	-	-	-	-	-	-	-	-	-	(47)	(47)	(3,878)	-	(3,925)
Change of ownership in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(6)	(6)
At 31st December, 2022	41,856	13,658	2,255	895	(1,822)	150	510	15	5,105	33,365	95,987	10,090	269	106,346

1. *During the year, the Bank bought back 36 million issued shares on the Stock Exchange at a total consideration of HK$366 million. Together with the direct transaction cost of approximately HK$1 million, a total amount of HK$367 million was accounted for as a deduction from retained profits. For details of the share buy-back, please refer to Note 1(c).*

2. *In 2022, the Bank bought back 262 million issued shares at a total consideration of HK$3,038 million. Together with the direct transaction cost of HK$13 million, a total amount of HK$3,051 million were accounted for as a deduction from retained profits. For details of the share buy-back, please refer to Note 1(c).*

3. *In 2022, the Bank redeemed HK$3,878 million (US$500 million) undated non-cumulative subordinated Additional Tier 1 capital securities issued in 2017.*

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

Consolidated Cash Flow Statement
For the year ended 31st December, 2023

	Notes	2023 HK$ Mn	2022 HK$ Mn
OPERATING ACTIVITIES			
Profit for the year before taxation		5,310	4,941
Adjustments for:			
Charge for impairment losses on financial instruments		5,483	5,923
Charge for Impairment losses on associate		726	-
Charge for impairment losses on other assets		6	3
Share of profits less losses of associates and joint ventures		(293)	(855)
Net loss on sale of financial assets measured at amortised cost		22	6
Net loss/(profit) on sale of debt securities measured at FVOCI		60	(142)
Net loss on disposal of subsidiaries and associates		12	1
Net profit on sale of assets held for sale		(2)	(1,445)
Net profit on disposal of fixed assets		(14)	(17)
Interest expense on debt securities issued		51	80
Interest expense on loan capital issued		949	454
Interest expense on lease liabilities		29	28
Depreciation on bank premises, furniture, fixtures and equipment		547	567
Depreciation on right-of-use assets		260	295
Dividend income from equity securities measured at FVOCI	*9*	(34)	(16)
Amortisation of intangible assets		13	13
Amortisation of premium/discount on debt securities and loan capital issued		11	7
Revaluation losses/(gains) on debt securities and loan capital issued		201	(298)
Valuation losses on investment properties		86	179
Equity settled share-based payment expenses	*12*	24	22
		13,447	9,746
(Increase)/decrease in operating assets:			
Cash and balances with banks with original maturity beyond three months		1,533	1,457
Placements with and advances to banks with original maturity beyond three months		(4,028)	1,618
Trade bills		156	10,244
Trading assets		(2,728)	2,228
Derivative assets		2,036	(7,711)
Loans and advances to customers		10,778	(3,374)
Debt investment securities measured at amortised cost		5,187	2,260
Investment securities measured at FVOCI		(17,193)	(2,761)
Debt investment securities mandatorily measured at FVTPL		1,194	1,095
Non-trading equity securities mandatorily measured at FVTPL		95	193
Other assets		182	624
Increase/(decrease) in operating liabilities:			
Deposits and balances of banks		141	(6,288)
Deposits from customers		(19,495)	14,588
Certificates of deposit issued		(5,056)	(31,595)
Trading liabilities		(5)	-
Derivative liabilities		(138)	(905)
Other liabilities		(2,727)	8,642
Exchange adjustments		453	1,476
NET CASH (OUTFLOW)/INFLOW FROM OPERATIONS		(16,168)	1,537
Income tax paid			
Hong Kong profits tax paid		(261)	(199)
Outside Hong Kong profits tax paid		(489)	(244)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		(16,918)	1,094

Consolidated Cash Flow Statement (Continued)

	Notes	2023 HK$ Mn	2022 HK$ Mn
INVESTING ACTIVITIES			
Dividends received from associates and joint ventures		71	209
Dividends received from equity securities measured at FVOCI		34	16
Purchase of fixed assets		(680)	(555)
Proceeds from disposal of other properties and equipment		42	174
Proceeds from sale of assets held for sale		22	2,290
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		(511)	2,134
FINANCING ACTIVITIES			
Ordinary dividends paid		(1,377)	(2,584)
Distribution to Additional Tier 1 issue holders	*2(c)*	(596)	(708)
Payment for repurchase of shares		(367)	(3,051)
Issue of debt securities		-	388
Issue of loan capital		3,893	5,793
Capital element of lease rentals paid		(245)	(274)
Interest element of lease rentals paid		(29)	(28)
Redemption of debt securities issued		(2,090)	(3,061)
Redemption of additional equity instruments		-	(3,925)
Interest paid on debt securities issued		(58)	(161)
Interest paid on loan capital		(873)	(374)
NET CASH USED IN FINANCING ACTIVITIES		(1,742)	(7,985)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(19,171)	(4,757)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		112,149	120,646
Effect of foreign exchange rate changes		(844)	(3,740)
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER		92,134	112,149
Cash flows from operating activities included:			
Interest received		39,022	23,960
Interest paid		20,771	9,079
Dividend received		10	34

Notes to the Financial Statements

1. (a) The financial information relating to the years ended 31st December, 2023 and 2022 included in this announcement of 2023 final results do not constitute the Group's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31st December, 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31st December, 2023 in due course.

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

(b) (i) The calculation of basic earnings per share is based on the consolidated profit for the year attributable to owners of the parent of HK$3,522 million (2022: HK$3,651million) after accounting for the distribution of HK$596 million (2022: HK$708 million) to Additional Tier 1 issue holders, and on the weighted average of 2,668 million ordinary shares outstanding during the year (2022: 2,759 million).

(ii) The calculation of diluted earnings per share is the same as the calculation of basic earnings per share, except that the weighted average of ordinary shares is adjusted for the effects of all dilutive potential shares. For the year ended 31st December, 2023, the weighted average of ordinary shares adjusted for the effects of all dilutive potential shares was 2,668 million (2022: 2,759 million).

(c) Share capital

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

	2023		2022	
	No. of shares Million	HK$ Mn	No. of shares Million	HK$ Mn
Ordinary shares, issued and fully paid:				
At 1st January	2,680	41,856	2,923	41,645
Shares issued in lieu of dividend	6	59	19	211
Share repurchased and cancelled	(36)	-	(262)	-
At 31st December	2,650	41,915	2,680	41,856

Share buy-back

In 2023, 35,940,800 shares were repurchased on the Stock Exchange at an aggregate consideration (excluding expenses) of HK$366 million and 35,797,200 shares were cancelled (including 686,200 shares repurchased in 2022), representing 1.34% and 1.34% of the ordinary shares in issue at the beginning of the year, respectively. The remaining 829,800 shares repurchased in 2023 were cancelled on 8th January, 2024.

In 2022, the Bank repurchased 246,510,173 shares of the Bank by share buy-back deed with Elliot Investment Management's affiliate entities at a consideration of HK$2,904 million, and 15,744,800 shares on the Stock Exchange at a consideration of HK$134 million. As at 31st December, 2022, the total number of shares repurchased and cancelled were 262,254,973 and 261,568,773 respectively, representing 8.97% and 8.95% of the ordinary shares in issue at the beginning of the year.

Below table shows the details of the shares repurchased and cancelled during 2023.

1. (c) Share capital (Continued)

Month	Number of shares	Highest price per share	Lowest price per share	Average price per share	Aggregate consideration
		HK$	HK$	HK$	HK$ Mn
Share repurchased:					
On-market share buy-back					
- February 2023	2,932,400	11.24	10.50	10.86	32
- April 2023	3,991,200	10.50	9.88	10.16	41
- May 2023	6,884,000	10.72	9.58	10.18	70
- June 2023	4,032,600	10.56	9.77	10.17	41
- July 2023	3,906,800	12.20	10.38	11.28	44
- August 2023	1,494,400	11.34	10.92	11.14	17
- September 2023	259,400	11.42	11.18	11.33	3
- October 2023	4,754,600	10.34	9.23	9.66	46
- November 2023	4,455,400	9.92	9.01	9.46	42
- December 2023	3,230,000	9.72	9.09	9.39	30
- Settled	2,919,400				27
- Not yet settled at year end	310,600				3
	35,940,800				366
Share cancelled	35,797,200				

Staff Share Option Schemes

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

There were no options exercised and shares issued under the Schemes during the years 2023 and 2022.

2. Distribution/Dividends

(a) Dividends payable to equity owners of the parent attributable to the year

	2023	2022
	HK$ Mn	HK$ Mn
Interim dividend declared and paid of HK$0.36 per share on 2,658 million shares (2022: HK$0.16 per share on 2,689 million shares)	957	430
Special dividend declared and paid (2022: HK$0.48 per share on 2,695 million shares)	-	1,294
Second interim dividend of HK$0.18 per share on 2,650 million shares (2022: HK$0.17 per share on 2,680 million shares)	477	456
	1,434	2,180

The total dividend attributable to the year is HK$0.54 per share (2022: HK$0.81 per share). The second interim dividend has not been recognised as a liability at the end of the reporting period.

2. Distribution/Dividends (Continued)

(b) Dividends payable to equity owners of the parent attributable to the previous financial year, approved and paid during the year

	2023	2022
	HK$ Mn	HK$ Mn
Second interim dividend in respect of the previous financial year, approved and paid during the year, of HK$0.17 per share on 2,677 million shares (2022: HK$0.35 per share on 2,923 million shares)	455	1,023

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

	2023	2022
	HK$ Mn	HK$ Mn
Distribution paid on the Additional Tier 1 capital instruments	596	708

3. Changes in Accounting Policies

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

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

New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In June 2022, the Hong Kong SAR Government (the "Government") gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance"), which will come into effect from 1st May, 2025 (the "Transition Date"). Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund ("MPF") scheme to reduce the long service payment ("LSP") in respect of an employee's service from the Transition Date (the abolition of the "offsetting mechanism"). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" that provides accounting guidance relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP.

Applying this approach, upon the enactment of the Amendment Ordinance in June 2022, it is no longer permissible to apply the practical expedient in paragraph 93(b) of HKAS 19 that previously allowed such deemed contributions to be recognised as reduction of service cost (negative service cost) in the period the contributions were made. Instead, these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit. The Amendment Ordinance has no material impact on the Group's LSP liability and staff cost.

4. Interest Income

	2023	2022
	HK$ Mn	HK$ Mn
Loans, placements with banks, and trade bills	31,179	20,624
Investment securities		
– measured at amortised cost or FVOCI	8,269	4,076
– mandatorily measured at FVTPL	141	120
Trading assets	96	28
	39,685	24,848

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$36,788 million (2022: HK$24,871 million), before hedging effect, for financial assets that are not recognised at fair value through profit or loss.

5. Interest Expense

	2023	2022
	HK$ Mn	HK$ Mn
Customer deposits and deposits of banks		
– at amortised cost	19,914	9,713
– designated at FVTPL	202	84
Certificates of deposit and debt securities issued		
– at amortised cost	581	511
– designated at FVTPL	914	485
Subordinated notes carried at amortised cost	960	460
Lease liabilities	29	28
Other borrowings	211	59
	22,811	11,340

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$21,491 million (2022: HK$10,782 million), before hedging effect, for financial liabilities that are not recognised at fair value through profit or loss.

6. Fee and Commission Income

Fee and commission income is disaggregated by services:

	2023 HK$ Mn	2022 HK$ Mn
Loans, overdrafts and guarantees	888	846
Credit cards	759	692
Sale of third party insurance policies	528	484
Other retail banking services	208	197
Trust and other fiduciary activities	177	224
Investment products	162	195
Securities brokerage	141	203
Trade finance	96	92
Others	402	439
Total fee and commission income	3,361	3,372
Net fee income on financial assets and financial liabilities that are not measured at FVTPL (other than those included in determining the effective interest rate)	2,648	2,762
Fee income	3,361	3,372
Fee expenses	(713)	(610)

7. Net Trading Profit

	2023 HK$ Mn	2022 HK$ Mn
Profit on dealing in foreign currencies and funding swaps	382	501
Profit/(loss) on trading securities	22	(124)
Net gain on derivatives	811	549
Loss on other dealing activities	-	(1)
Dividend income from trading equity securities	10	18
	1,225	943

8. Net Result on Financial Instruments at FVTPL

	2023 HK$ Mn	2022 HK$ Mn
Net (loss)/gain from financial instruments designated at FVTPL	(263)	292
Net gain/(loss) from financial instruments mandatorily measured at FVTPL (other than those included in net trading profit)	1	(360)
	(262)	(68)

9. Net Result on Financial Assets Measured at FVOCI

	2023 HK$ Mn	2022 HK$ Mn
Net (loss)/profit on sale of debt securities	(60)	159
Dividend income from equity securities	34	16
	(26)	175

10. Net Hedging Profit

	2023	2022
	HK$ Mn	HK$ Mn
Fair value hedges		
- Net gain/(loss) on hedged items attributable to the hedged risk	1,735	(8,541)
- Net (loss)/gain on hedging instruments	(1,705)	8,742
	30	201

11. Other Operating Income

	2023	2022
	HK$ Mn	HK$ Mn
Net insurance profit	-	158
Rental from safe deposit boxes	117	120
Rental income on properties	129	133
Government subsidy – Employment Support Scheme	-	8
Others	41	29
	287	448

12. Operating Expenses

	2023	2022
	HK$ Mn	HK$ Mn
Contributions to defined contribution plan *(Note 1)*		
- Hong Kong	191	170
- Outside Hong Kong	223	223
Equity settled share-based payment expenses	24	22
Salaries and other staff costs	5,007	5,078
Total staff costs	5,445	5,493
Premises and equipment expenses excluding depreciation		
- Expenses relating to short-term leases	8	15
- Expenses relating to low value assets	10	6
- Variable lease payments not included in the measurement of lease liabilities *(Note 2)*	1	(2)
- Maintenance, repairs and others	739	702
Total premises and equipment expenses excluding depreciation	758	721
Depreciation and amortisation	820	875
Other operating expenses		
- Internet platform charges	560	460
- Legal and professional fees	457	423
- Communications, stationery and printing	295	294
- Advertising and business promotion expenses	294	298
- Others	803	660
Total other operating expenses	2,409	2,135
Total operating expenses *(Note 3)*	9,432	9,224

Notes:

1. *Forfeited contributions totalling HK$27 million (2022: HK$36 million) were utilised to reduce the Group's contribution during the year. There were no forfeited contributions available for reducing future contributions at the year end (2022: Nil).*

2. *For the year ended 31st December, 2022, there were a credit of HK$2 million of COVID-19-related rent concessions and a credit of HK$1 million of rent concession for the purpose of entering into a new lease. There was no such rental concession during the year.*

3. *Included direct operating expenses of HK$10 million (2022: HK$7 million) in respect of investment properties which generated rental income during the year.*

13. Impairment Losses on Financial Instruments

	2023	2022
	HK$ Mn	HK$ Mn
Loans and advances to customers	5,164	5,416
Debt securities	211	345
Others	108	162
	5,483	5,923

14. Net Profit on Sale of Assets Held for Sale

	2023	2022
	HK$ Mn	HK$ Mn
Net loss on sale of properties	(2)	(1)
Net profit on sale of disposal groups	4	1,446
	2	1,445

15. Net Profit on Disposal of Fixed Assets

	2023	2022
	HK$ Mn	HK$ Mn
Net profit on disposal of bank premises, furniture, fixtures and equipment	14	18
Net loss on termination of lease	-	(1)
	14	17

16. Income Tax

Taxation in the consolidated income statement represents:

	2023	2022
	HK$ Mn	HK$ Mn
Current tax – Hong Kong		
Tax for the year	482	485
Over-provision in respect of prior years	(63)	(57)
	419	428
Current tax – outside Hong Kong		
Tax for the year	693	325
Over-provision in respect of prior years	(17)	(16)
	676	309
Deferred tax		
Origination and reversal of temporary differences	79	(174)
	1,174	563

The provision for Hong Kong profits tax is calculated at 16.5% (2022: 16.5%) of the estimated assessable profits for the year.

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

17. Trading Assets

	2023	2022
	HK$ Mn	HK$ Mn
Treasury bills (including Exchange Fund Bills)	-	292
Debt securities	2,764	983
Equity securities	285	255
	3,049	1,530

18. Loans and Advances to Customers

(a) Loans and advances to customers

	2023	2022
	HK$ Mn	HK$ Mn
Gross carrying amount before impairment allowances	532,111	549,014
Less: Impairment allowances	(5,127)	(6,620)
	526,984	542,394

(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.

	2023		2022	
	Gross advances	% of gross advances covered by collateral	Gross advances	% of gross advances covered by collateral
	HK$ Mn	%	HK$ Mn	%
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	28,590	59.39	36,872	59.19
- Property investment	50,155	92.35	52,366	92.57
- Financial concerns	14,171	54.48	14,892	67.56
- Stockbrokers	1,218	91.77	708	99.54
- Wholesale and retail trade	5,996	53.85	6,560	56.18
- Manufacturing	3,219	39.40	4,485	29.00
- Transport and transport equipment	4,106	50.05	5,495	42.22
- Recreational activities	108	99.41	347	93.76
- Information technology	2,093	63.13	1,438	34.22
- Others	20,868	54.76	16,262	49.00
Sub-total	130,524	70.14	139,425	69.69
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,081	99.10	1,200	99.97
- Loans for the purchase of other residential properties	96,147	99.53	91,944	99.95
- Credit card advances	4,740	0.00	4,115	0.00
- Others	20,555	58.71	24,367	55.23
Sub-total	122,523	88.83	121,626	87.61
Total loans for use in Hong Kong	253,047	79.19	261,051	78.07
Trade finance	5,592	32.97	5,110	38.56
Loans for use outside Hong Kong *(Note)*	273,472	35.82	282,853	35.50
Total advances to customers	532,111	56.41	549,014	55.75

18. Loans and Advances to Customers (Continued)

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

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

	2023		2022	
	Gross advances	% of gross advances covered by collateral	Gross advances	% of gross advances covered by collateral
	HK$ Mn	%	HK$ Mn	%
Loans for use in Chinese Mainland				
Industrial, commercial and financial				
- Property development	29,598	43.16	38,339	33.92
- Property investment	7,796	67.72	10,918	76.61
- Financial concerns	43,746	10.19	43,747	0.79
- Stockbrokers	440	100.00	678	100.00
- Wholesale and retail trade	8,509	10.42	9,331	13.91
- Manufacturing	14,255	7.35	13,291	7.76
- Transport and transport equipment	1,921	61.89	2,077	81.44
- Information technology	1,194	0.74	1,994	0.27
- Others	18,123	14.07	18,709	11.63
Sub-total	125,582	22.80	139,084	20.56
Individuals				
- Loans for the purchase of other residential properties	10,398	99.96	13,139	100.00
- Credit card advances	3,825	0.00	4,962	0.00
- Others	18,552	3.67	16,340	3.34
Sub-total	32,775	33.79	34,441	39.73
Total loans for use in Chinese Mainland	158,357	25.08	173,525	24.37
Loans for use outside Hong Kong and Chinese Mainland				
Industrial, commercial and financial				
- Property development	8,239	50.27	11,335	56.55
- Property investment	33,696	77.20	40,054	78.58
- Financial concerns	14,109	73.80	3,379	41.54
- Wholesale and retail trade	4,808	15.39	4,184	18.43
- Manufacturing	15,032	1.41	13,440	3.69
- Transport and transport equipment	2,693	44.13	3,069	44.94
- Recreational activities	885	80.27	517	94.78
- Information technology	4,741	3.66	4,063	8.12
- Others	27,536	40.97	25,444	45.35
Sub-total	111,739	49.11	105,485	51.47
Individuals				
- Loans for the purchase of other residential properties	3,297	99.91	3,767	100.00
- Credit card advances	1	0.00	2	0.00
- Others	78	99.65	74	87.24
Sub-total	3,376	99.86	3,843	99.70
Total loans for use outside Hong Kong and Chinese Mainland	115,115	50.60	109,328	53.16
Total loans for use outside Hong Kong	273,472	35.82	282,853	35.50

18. Loans and Advances to Customers (Continued)

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

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

	2023	2022
	HK$ Mn	HK$ Mn
(i) Property development		
a. Individually impaired loans	7,581	8,114
b. Specific provisions	2,162	2,643
c. Collective provisions	404	502
d. New provision charged to income statement	2,157	2,949
e. Written off	3,934	659
(ii) Property investment		
a. Individually impaired loans	4,094	3,325
b. Specific provisions	441	956
c. Collective provisions	67	286
d. New provision charged to income statement	227	589
e. Written off	910	605
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	359	318
b. Specific provisions	12	13
c. Collective provisions	25	40
d. New provision charged to income statement	17	34
e. Written off	1	3
(iv) Financial concerns		
a. Individually impaired loans	640	43
b. Specific provisions	50	27
c. Collective provisions	121	118
d. New provision charged to income statement	140	107
e. Written off	45	-

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.

18. Loans and Advances to Customers (Continued)

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

The information concerning the breakdown of the gross amount of advances to customers by 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 22 which is prepared in a manner consistent with the way in which information is reported internally to the Group's Senior Management. The specific provisions represent lifetime expected credit loss provisions for credit impaired (Stage 3) exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions for non-credit impaired (Stage 1 and Stage 2) exposures.

	2023				
	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	251,929	2,329	4,863	825	215
Chinese Mainland	174,954	5,393	8,567	2,648	1,072
Other Asian Countries and Regions	31,279	61	111	31	121
Others	73,949	297	793	32	183
Total	532,111	8,080	14,334	3,536	1,591
% of total advances to customers			2.69%		

	2022				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Specific provisions	Collective provisions
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Hong Kong	270,332	552	1,924	813	450
Chinese Mainland	183,886	4,405	10,824	3,623	1,069
Other Asian Countries and Regions	30,227	48	58	8	109
Others	64,569	-	339	74	474
Total	549,014	5,005	13,145	4,518	2,102
% of total advances to customers			2.39%		

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

19. Investment Securities

	2023					
	Treasury bills (including Exchange Fund Bills)	Certificates of deposit held	Debt securities	Equity securities	Investment funds	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Investment securities measured at amortised cost						
Gross carrying amount before impairment allowances	2,660	1,103	8,099	-	-	11,862
Less: Impairment allowances	-	-	(672)	-	-	(672)
	2,660	1,103	7,427	-	-	11,190
Investment securities measured at FVOCI	27,914	-	124,347	959	-	153,220
Investment securities mandatorily measured at FVTPL	-	-	2,076	-	784	2,860
	30,574	1,103	133,850	959	784	167,270

	2022					
	Treasury bills (including Exchange Fund Bills)	Certificates of deposit held	Debt securities	Equity securities	Investment funds	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Investment securities measured at amortised cost						
Gross carrying amount before impairment allowances	2,428	809	11,630	-	-	14,867
Less: Impairment allowances	-	-	(405)	-	-	(405)
	2,428	809	11,225	-	-	14,462
Investment securities measured at FVOCI	22,390	-	105,167	839	-	128,396
Investment securities mandatorily measured at FVTPL	-	-	3,270	37	842	4,149
	24,818	809	119,662	876	842	147,007

19. Investment Securities (Continued)

Equity securities designated at FVOCI

	2023		2022	
	Fair value	Dividend income recognised	Fair value	Dividend income recognised
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Equity investments held for long-term strategic purposes	959	34	839	16

As at 31st December, 2023, equity securities designated at FVOCI amounting to HK$959 million (2022: HK$839 million) were held for long-term strategic purposes, of which HK$809 million (2022: HK$694 million) was attributable to the fair value of the Bank's investment in China UnionPay Co., Ltd. None of these strategic investments was disposed of during 2023 and 2022, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

20. Investments in Associates and Joint Ventures

	2023	2022
	HK$ Mn	HK$ Mn
Share of net assets	9,469	9,408
Goodwill	440	452
	9,909	9,860
Less: Impairment allowances	(1,525)	(799)
	8,384	9,061

At 31st December, 2023, 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. 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$3,012 million. The recoverable amount was lower than the carrying value of HK$3,738 million, thus an additional impairment charge of HK$726 million was recognised in 2023 (2022: no impairment charge). The VIU calculation uses discounted cash flow projections based on AFFIN's latest forecast of financial results and estimates made by the Group's management for the next five years and extrapolating in perpetuity using a long-term growth rate of 3% to derive a terminal value. Discount rate of 12.03% (2022: 11.95%), which is based on a Capital Asset Pricing Model calculation for AFFIN, is used in the VIU calculation.

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

	Favourable change			Unfavourable change		
		Increase in VIU	VIU		Decrease in VIU	VIU
		HK$ Mn	HK$ Mn		HK$ Mn	HK$ Mn
At 31st December, 2023						
Discount rate	-50 bps	199	3,211	+50 bps	(177)	2,835
Long-term growth rate	+50 bps	2	3,014	-50 bps	(3)	3,009
Expected cash flows	+10%	302	3,314	-10%	(301)	2,711

21. Other Assets

	2023	2022
	HK$ Mn	HK$ Mn
Accrued interest	4,200	3,537
Customer liabilities under acceptances	26,771	27,796
Other accounts	7,776	8,094
Gross carrying amount before impairment allowances	38,747	39,427
Less: Impairment allowances	(292)	(219)
	38,455	39,208
Assets held for sale	15	27
	38,470	39,235

22. 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 eight reportable segments.

Hong Kong operations divided into the following five reportable segments.

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

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

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

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.

22. Segment Reporting (Continued)

	2023										
	Hong Kong operations										
	Personal banking	Wholesale banking	Treasury markets	Wealth management	Others	Total	Chinese Mainland operations	Overseas, Macau and Taiwan 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
Net interest income/(expense)	5,653	2,888	1,352	387	(251)	10,029	4,082	2,637	126	-	16,874
Non-interest income/(expense)	1,189	676	(42)	554	345	2,722	978	202	-	(30)	3,872
Operating income	6,842	3,564	1,310	941	94	12,751	5,060	2,839	126	(30)	20,746
Operating expenses	(1,792)	(485)	(194)	(399)	(2,378)	(5,248)	(3,409)	(805)	-	30	(9,432)
Operating profit/(loss) before impairment losses	5,050	3,079	1,116	542	(2,284)	7,503	1,651	2,034	126	-	11,314
(Charge for)/Write back of impairment losses on financial instruments	(128)	(3,652)	95	(261)	(3)	(3,949)	(1,657)	123	-	-	(5,483)
Impairment losses on associate	-	-	-	-	-	-	-	(726)	-	-	(726)
Impairment losses on other assets	-	-	-	-	-	-	(6)	-	-	-	(6)
Operating profit/(loss) after impairment losses	4,922	(573)	1,211	281	(2,287)	3,554	(12)	1,431	126	-	5,099
Net profit/(loss) on sale of assets held for sale	-	-	-	-	4	4	(2)	-	-	-	2
Net loss on disposal of subsidiaries/associates	-	-	-	-	1	1	-	(13)	-	-	(12)
Net profit/(loss) on disposal of fixed assets	(4)	-	-	-	1	(3)	17	-	-	-	14
Valuation losses on investment properties	-	-	-	-	(84)	(84)	-	(2)	-	-	(86)
Share of profits less losses of associates and joint ventures	-	-	-	-	(9)	(9)	51	251	-	-	293
Profit/(loss) before taxation	4,918	(573)	1,211	281	(2,374)	3,463	54	1,667	126	-	5,310
Depreciation for the year	(207)	(19)	(12)	(9)	(206)	(453)	(295)	(59)	-	-	(807)
Segment assets	124,381	150,293	233,644	17,488	11,299	537,105	231,335	128,647	-	(45,125)	851,962
Investments in associates and joint ventures	-	-	-	-	48	48	3,843	4,493	-	-	8,384
Other assets – Assets held for sale	-	-	-	-	15	15	-	-	-	-	15
Total assets	124,381	150,293	233,644	17,488	11,362	537,168	235,178	133,140	-	(45,125)	860,361
Total liabilities	358,753	41,148	37,547	33,026	3,139	473,613	206,654	116,422	-	(44,654)	752,035
Capital expenditure incurred during the year	225	26	12	11	245	519	457	32	-	-	1,008

22. Segment Reporting (Continued)

	2022											
	Hong Kong operations (Restated) Note											
	Personal banking	Wholesale banking	Treasury markets	Wealth management	Others	Total	Chinese Mainland operations	Overseas, Macau and Taiwan 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
Net interest income/(expense)	4,007	2,859	(19)	367	(106)	7,108	3,997	2,177	226	-	13,508
Non-interest income	1,249	657	373	565	592	3,436	860	179	-	(29)	4,446
Operating income	5,256	3,516	354	932	486	10,544	4,857	2,356	226	(29)	17,954
Operating expenses	(1,713)	(500)	(168)	(358)	(2,401)	(5,140)	(3,374)	(739)	-	29	(9,224)
Operating profit/(loss) before impairment losses	3,543	3,016	186	574	(1,915)	5,404	1,483	1,617	226	-	8,730
Impairment losses on financial instruments	(127)	(3,258)	(70)	(40)	-	(3,495)	(2,088)	(340)	-	-	(5,923)
Impairment losses on other assets	-	-	-	-	-	-	(3)	-	-	-	(3)
Operating profit/(loss) after impairment losses	3,416	(242)	116	534	(1,915)	1,909	(608)	1,277	226	-	2,804
Net profit/(loss) on sale of assets held for sale	-	-	-	-	1,446	1,446	(1)	-	-	-	1,445
Net loss on disposal of subsidiaries/associates	-	-	-	-	(1)	(1)	-	-	-	-	(1)
Net profit/(loss) on disposal of fixed assets	(16)	-	-	-	-	(16)	34	(1)	-	-	17
Valuation losses on investment properties	-	-	-	-	(177)	(177)	-	(2)	-	-	(179)
Share of profits less losses of associates and joint ventures	-	-	-	-	(9)	(9)	221	643	-	-	855
Profit/(loss) before taxation	3,400	(242)	116	534	(656)	3,152	(354)	1,917	226	-	4,941
Depreciation for the year	(239)	(16)	(12)	(7)	(246)	(520)	(286)	(56)	-	-	(862)
Segment assets	120,111	163,414	231,299	22,679	11,560	549,063	245,349	126,730	-	(47,405)	873,737
Investments in associates and joint ventures	-	-	-	-	56	56	3,893	5,112	-	-	9,061
Other assets – Assets held for sale	-	-	-	-	15	15	12	-	-	-	27
Total assets	120,111	163,414	231,299	22,679	11,631	549,134	249,254	131,842	-	(47,405)	882,825
Total liabilities	342,982	54,275	51,773	35,141	2,940	487,111	220,008	116,307	-	(46,947)	776,479
Capital expenditure incurred during the year	108	33	63	9	114	327	442	28	-	-	797

Note: The financials of Hong Kong operations have been restated to conform to the current year's presentation that reflected the organisational restructure during the year. The restructure includes regrouping MPF business from "Others" segment to "Personal banking" segment, regrouping merchant acquiring business from "Personal banking" segment to "Wholesale banking" segment, and combining previous "Centralised operations" segment and "Others" segment into one single "Others" segment under Hong Kong operations.

23. 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.

	2023	2022
	HK$ Mn	HK$ Mn
Contingent liabilities		
Direct credit substitutes	3,522	4,220
Transaction-related contingencies	3,927	3,846
Trade-related contingencies	7,741	6,143
	15,190	14,209
Commitments		
Commitments that are unconditionally cancellable without prior notice	332,203	303,920
Other commitments with an original maturity		
- up to 1 year	2,531	2,229
- over 1 year	25,168	32,043
	359,902	338,192
Total	375,092	352,401
Credit risk-weighted amounts	17,458	23,651

(b) Derivatives

	2023	2022
	HK$ Mn	HK$ Mn
Fair value of derivatives		
Assets		
Exchange rate contracts	1,650	1,781
Interest rate contracts	7,307	9,220
Equity contracts	99	91
	9,056	11,092
Liabilities		
Exchange rate contracts	1,733	1,749
Interest rate contracts	2,169	2,297
Equity contracts	105	99
	4,007	4,145
Notional amounts of derivatives		
Exchange rate contracts	314,909	292,921
Interest rate contracts	318,824	319,625
Equity contracts	6,245	4,774
	639,978	617,320

24. Reserves

	2023	2022
	HK$ Mn	HK$ Mn
General reserve	13,658	13,658
Revaluation reserve on bank premises	2,270	2,255
Capital reserve	895	895
Exchange revaluation reserve	(2,545)	(1,822)
Capital reserve – staff share options issued	139	150
Fair value reserve	1,338	510
Liability credit reserve	4	15
Other reserves	5,154	5,105
Retained profits*	35,145	33,365
	56,058	54,131
Dividends declared, not provided for	477	456

* *A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the HKMA. As at 31st December, 2023, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK$2,138 million (2022: HK$1,742 million).*

25. Comparative Figures

Certain 2022 comparative figures have been restated to conform to current year's presentation. Please refer to Note 22 for the effect of restatement.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy

	2023	2022
	HK$ Mn	HK$ Mn
Capital base		
- Common Equity Tier 1 capital	83,590	81,282
- Additional Tier 1 capital	10,090	10,090
- Total Tier 1 capital	93,680	91,372
- Tier 2 capital	12,682	12,048
- Total capital	106,362	103,420
Risk-weighted assets by risk type		
- Credit risk	430,128	483,104
- Market risk	3,758	4,053
- Operational risk	35,221	30,580
- Capital floor adjustment	16,579	-
	485,686	517,737
Less: Deductions	(2,829)	(2,864)
	482,857	514,873

	2023	2022
	%	%
Common Equity Tier 1 capital ratio	17.3	15.8
Tier 1 capital ratio	19.4	17.7
Total capital ratio	22.0	20.1

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules ("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 securities and insurance companies that are authorised and supervised by a regulator and 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 Common Equity Tier 1 capital subject to the thresholds as determined in accordance with Part 3 of the Capital Rules.

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

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

B. Leverage Ratio

	2023	2022
	HK$ Mn	HK$ Mn
Total Tier 1 capital	93,680	91,372
Exposure measure	907,840	935,197

	2023	2022
	%	%
Leverage ratio	10.3	9.8

The leverage ratio is computed on the same consolidated basis as specified in a notice from the HKMA in accordance with section 3C of the Capital Rules. The relevant disclosures can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at www.hkbea.com or at the following direct link: www.hkbea.com/regulatory_disclosures.

C. Liquidity Position

Liquidity coverage ratio

		2023	2022
		%	%
Average liquidity coverage ratio	- First quarter	182.9	184.2
	- Second quarter	208.9	187.5
	- Third quarter	191.4	179.1
	- Fourth quarter	201.5	197.7

The liquidity coverage ratio is calculated in accordance with the Banking (Liquidity) Rules. The information for the regulatory disclosure can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at www.hkbea.com or at the following direct link: www.hkbea.com/regulatory_disclosures.

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

Net stable funding ratio

	2023	2022
	HK$ Mn	HK$ Mn
Total available stable funding	589,018	568,204
Total required stable funding	469,180	489,801

	2023	2022
	%	%
Net stable funding ratio	125.5	116.0

The net stable funding ratio is calculated in accordance with the Banking (Liquidity) Rules. The information for the regulatory disclosure can be found on the Bank's website accessible through the "Regulatory Disclosures" link on the home page of the Bank's website at www.hkbea.com or at the following direct link: www.hkbea.com/regulatory_disclosures.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

D. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances to customers

	2023		2022	
	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	3,039	0.6	2,257	0.4
- 1 year or less but over 6 months	2,772	0.5	1,630	0.3
- Over 1 year	2,269	0.4	1,118	0.2
	8,080	1.5	5,005	0.9
Rescheduled advances to customers	1,002	0.2	1,193	0.2
Total overdue and rescheduled advances	9,082	1.7	6,198	1.1
Covered portion of overdue advances	3,958	0.7	2,745	0.5
Uncovered portion of overdue advances	4,122	0.8	2,261	0.4
Current market value of collateral held against the covered portion of overdue advances	7,201		5,454	
Specific provisions made on advances overdue for more than 3 months	2,262		1,830	

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

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

(a) The market value of the asset is readily determinable or can be reasonably established and verified;

(b) The asset is marketable and there exists a readily available secondary market for disposing of the asset;

(c) The Bank’s right to repossess the asset is legally enforceable and without impediment; and

(d) The Bank is able to secure control over the asset if necessary.

The two main types of “Eligible Collateral” are as follows:

(i) “Eligible Financial Collateral” mainly comprises cash deposits and shares.

(ii) “Eligible Physical Collateral” mainly comprises land and buildings, vehicles and equipment.

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

(a) Debt rescheduling/restructuring

(b) Enforcement of security

(c) Legal action

(d) Recovery via debt collector

D. Overdue, Rescheduled and Repossessed Assets (Continued)

(b) Overdue and rescheduled advances to banks

	2023	2022
	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

	2023		
	Accrued interest	Debt securities	Other assets*
	HK$ Mn	HK$ Mn	HK$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	44	374	-
- 1 year or less but over 6 months	140	144	-
- Over 1 year	181	319	-
	365	837	-
Rescheduled assets	26	-	-
Total other overdue and rescheduled assets	391	837	-
Specific provisions made on other assets overdue for more than 3 months	119	576	-

	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	31	124	-
- 1 year or less but over 6 months	48	114	-
- Over 1 year	68	-	-
	147	238	-
Rescheduled assets	23	-	-
Total other overdue and rescheduled assets	170	238	-
Specific provisions made on other assets overdue for more than 3 months	78	166	-

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

D. Overdue, Rescheduled and Repossessed Assets (Continued)

(d) Repossessed assets

	2023	2022
	HK$ Mn	HK$ Mn
Repossessed land and buildings *(Note)*	1,703	416
Repossessed vehicles and equipment	1	-
Repossessed machines	-	-
Total repossessed assets	1,704	416

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

Note: For the year ended 31st December, 2023, no repossessed assets were contracted for sale but not yet completed. For the year ended 31st December, 2022, the repossessed assets included HK$26 million related to properties that were contracted for sale but not yet completed.

E. Banking Disclosure Statement

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

STATEMENT OF COMPLIANCE

(1) In preparing the accounts for 2023, the Bank has fully complied with the Banking (Disclosure) Rules and the disclosure requirements in Part 6 of Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules.

(2) The Group is committed to maintaining high standards of corporate governance and considers such commitment essential in balancing the interests of shareholders, customers, employees and other relevant stakeholders; and in upholding accountability and transparency.

(3) During the financial year ended 31st December, 2023, the Bank has complied with all Code Provisions set out in the CG Code.

(4) During the financial year ended 31st December, 2023, the Bank has followed the modules on CG-1, CG-5, Guidance on Empowerment of INEDs and the circular on Bank Culture Reform.

PAYMENT OF SECOND INTERIM DIVIDEND FOR 2023

The Board has declared a second interim dividend for the year ended 31st December, 2023 ("2023 Second Interim Dividend") of HK$0.18 per Share (2022 Second Interim Dividend: HK$0.17 per Share) which, together with the 2023 interim dividend of HK$0.36 per Share paid in October 2023, will constitute a total dividend of HK$0.54 per Share (2022 total dividend: HK$0.81 per Share (including a special dividend of HK$0.48 per Share)) for the full year. The 2023 Second Interim Dividend will be paid on or about Monday, 8th April, 2024 in cash with an option to receive new, fully paid Shares in lieu of cash ("Scrip Dividend Scheme"), to shareholders whose names appear on the Register of Members of the Bank at the close of business on Tuesday, 12th March, 2024. 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 Wednesday, 6th March, 2024 (being the first day that the Shares will be traded ex-dividend) to Tuesday, 12th March, 2024 (both days inclusive). Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Tuesday, 12th March, 2024.

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 Monday, 8th April, 2024.

CLOSURE OF REGISTER OF MEMBERS

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

a) For the purpose of determining shareholders who qualify for the 2023 Second Interim Dividend, the Register of Members of the Bank will be closed from Friday, 8th March, 2024 to Tuesday, 12th March, 2024 (both days inclusive). In order to qualify for the 2023 Second Interim Dividend, all transfer documents accompanied by the relevant share certificates should be lodged for registration with Tricor Standard Limited (Address: 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong) by 4:00 p.m. on Thursday, 7th March, 2024.

b) For the purpose of determining shareholders who are entitled to attend and vote at the 2024 AGM, the Register of Members of the Bank will be closed from Tuesday, 7th May, 2024 to Friday, 10th May, 2024 (both days inclusive). In order to qualify for attending and voting at the 2024 AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with Tricor Standard Limited (Address: 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong) by 4:00 p.m. on Monday, 6th May, 2024.

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

On-market Share Buy-back

During the year ended 31st December, 2023, the Bank bought back a total of 35,940,800 Shares on the Stock Exchange at an aggregate consideration (excluding expenses) of approximately HK$365.53 million. Details of the Shares bought back are set out below:

Month (2023)	No. of Shares bought back	Purchase price per Share		Aggregate consideration (excluding expenses) (HK$)
		Highest (HK$)	Lowest (HK$)	
February	2,932,400	11.24	10.50	31,847,248
April	3,991,200	10.50	9.88	40,559,740
May	6,884,000	10.72	9.58	70,067,298
June	4,032,600	10.56	9.77	40,994,740
July	3,906,800	12.20	10.38	44,058,544
August	1,494,400	11.34	10.92	16,642,356
September	259,400	11.42	11.18	2,940,172
October	4,754,600	10.34	9.23	45,925,242
November	4,455,400	9.92	9.01	42,152,396
December	3,230,000	9.72	9.09	30,342,632
Total	**35,940,800**			**365,530,368**

Out of the 35,940,800 Shares bought back:

- 35,111,000 Shares were cancelled prior to the end of the year 2023;
- the remaining 829,800 Shares were cancelled on 8th January, 2024;
- 9,299,400 Shares were bought back pursuant to the general mandate granted by the shareholders at the 2022 AGM held on 6th May, 2022 at an aggregate consideration of approximately HK$97.24 million; and
- the remaining 26,641,400 Shares were bought back pursuant to the general mandate granted by the shareholders at the 2023 AGM held on 11th May, 2023 at an aggregate consideration of approximately HK$268.29 million.

The on-market share buy-backs were conducted in the interest of the Bank and the shareholders as a whole.

Save for the on-market share buy-backs as disclosed herein, there was no purchase, sale or redemption by the Bank or any of its subsidiaries, of the listed securities of the Bank during the year ended 31st December, 2023.

EXECUTIVE CHAIRMAN'S STATEMENT

The Chinese Mainland and Hong Kong lifted all COVID-related travel restrictions during the course of 2023, removing a major constraint that had limited growth and productivity for the previous three years. However, with the US Federal Funds rate at the highest level in 23 years and geopolitical tensions rising, investors remained cautious. Equity markets in the Chinese Mainland and Hong Kong underperformed their global peers; commercial and residential property remained in disfavour and prices declined.

In the face of these challenges, the Bank's core operations performed well. The Bank benefitted from widened margins under the current high-interest-rate environment. In addition, the Bank is now reaping the rewards of the heavy emphasis placed in recent years on diversifying revenue sources, developing cross-boundary business and improving operational efficiency. The Bank generated a pre-provision operating profit of HK$11,314 million in 2023, 29.6% higher than in 2022.

During the course of the year, BEA devoted considerable effort to maintaining the quality of the Bank's asset base, and the Bank worked closely with clients to resolve troubled loans in the real estate sector. However, the industry as a whole continued to suffer liquidity issues and the Bank took appropriate provisions in line with its exposure. Meanwhile, exercising prudence, the Bank wrote down a portion of its investment in AFFIN Bank Berhad in Malaysia.

Following these prudential measures, net profit attributable to shareholders declined by 5.5% year-on-year.

Strategic Focus

As Hong Kong and the Mainland draw inextricably closer, BEA is at the forefront of efforts to provide a seamless GBA banking experience.

On 12th January, 2024, BEA celebrated the grand opening of BEA Tower, located in the Qianhai Shenzhen-Hong Kong Cooperation Zone. This landmark building will serve as the Bank's strategic hub for the GBA, facilitating closer collaboration between members of the BEA Group in order to better provide customers with a wide range of local and cross-boundary services.

In addition, this new regional headquarters will enable BEA to tap into the thriving tech scene within the Qianhai-Shenzhen area, drawing on local talent to support BEA's fintech ambitions, while also offering local entrepreneurs a rich start-up collaboration platform to commercialise their innovations.

Concurrently, the Bank continued its transformation journey with the goal of emerging as a lean, asset-efficient, digital-led bank, delivering superior service to customers and greater returns to stakeholders with more efficient deployment of assets.

As part of this journey, BEA is changing the way it works, striving to build on previous gains to achieve even more effective use of its rich data resources and further develop its digital capabilities.

Efforts are ongoing to centralise, streamline, and automate back-end processes and – where it makes sense – near-shore support to BEA's service centre in Guangzhou. Already, BEA has cut turnaround times for a wide range of services significantly, improving service quality and cost efficiency.

In Hong Kong, BEA relaunched its mobile and corporate internet banking platforms in 2023, incorporating industry-leading technologies to provide a more customer-centric interface and better serve personal and corporate clients' transaction banking needs.

In so doing, more banking transactions are moving online, allowing the Bank to optimise the use of branches as wealth management and bancassurance hubs. This greatly enhances the Bank's ability to generate fee income.

Reflecting the new BEA that is emerging from the transformation journey, the Bank refreshed its brand in December 2023. The new BEA is more dynamic and focused on enabling customers to "Live every moment". Each and every staff member is committed to the goal of furthering the financial well-being of customers and local communities.

In addition, as part of its broader social mission, the Bank has set targets to achieve net zero emissions in its own operations by 2030 and net zero emissions in its financed activities by 2050. BEA has been recognised by external agencies as one of the top performers in the GBA sustainability index. In addition, BEA is the first bank from China to join the Net-Zero Banking Alliance, an industry-led group of international banks convened under the auspices of the United Nations.

Outlook

The Chinese Mainland economy is transitioning from high-speed growth to high-quality development. Sectors that led the economy in the past are giving way to emerging trailblazers. From electric vehicles to major retail brands, Chinese champions are forging into the lead both domestically and abroad. The Bank is targeting the future by developing a wide range of clients both on the Chinese Mainland and in Hong Kong that will profit from these exciting trends.

Hong Kong is an international financial gateway for Mainland companies, and will benefit from the Mainland's shift to higher-value-added industries and stronger domestic consumption. In 2023, the number of Mainland-based companies opening offices in Hong Kong recorded a notable increase. Further, Hong Kong's Top Talent Pass Scheme, launched on 28th December, 2022, proved highly attractive to professional talent from the Mainland. With its seamless cross-boundary banking services, BEA is particularly well-placed to serve these emerging financial needs.

The Bank will continue to strengthen its wealth management services, establishing new relationships to further diversify its client portfolio and generate stronger fee-income streams. Cross-boundary services will be further enhanced, following the opening of BEA Tower in Qianhai.

The recent upgrade to the Bank's mobile platform offers a streamlined, personalised view of daily banking and investment holdings. The platform includes a number of innovative, customisable features, and is further evidence of BEA's commitment to be a leader in digital banking. New features will continue to be rolled out in 2024.

In closing, I take pleasure in thanking the Bank's Board of Directors and the directors of subsidiaries and associated companies for their invaluable advice and support during the past year. Their experience, covering different industries and geographies, is particularly valuable in this era of emerging global challenges.

I thank the Bank's international partners, in particular Criteria Caixa S.A. and Sumitomo Mitsui Banking Corporation, for the excellent working relationship that we enjoy with them. The end of COVID travel restrictions has enabled us to reconnect with our overseas partners, and we have been delighted at their warm reception.

We deeply appreciate the strength of our bonds to our major markets, and I thank our clients and shareholders for their loyalty and the faith that they place in us to help them achieve their goals.

And I thank our loyal and hard-working management and staff throughout the Group. Without their commitment and initiative, we could not achieve so much.

David LI Kwok-po
Executive Chairman

Hong Kong, 21st February, 2024

REPORT OF THE CO-CHIEF EXECUTIVES

FINANCIAL REVIEW

Financial Performance

The external environment remained complex for the banking industry across Asia in 2023. The post-COVID economic recovery was slower than expected, and many businesses remained under pressure.

For the full year, BEA and its subsidiaries earned a profit attributable to owners of the parent of HK$4,118 million. The year-on-year comparison was influenced by the extraordinary gain recorded in August 2022 on the disposal of Blue Cross (Asia-Pacific) Insurance Limited ("Blue Cross") and Blue Care JV (BVI) Holdings Limited ("Blue Care"), as well as the one-time shared gain arising from AFFIN Bank Berhad's ("AFFIN") disposal of AFFIN Hwang Asset Management in 2022.

Basic earnings per share were unchanged from 2022 at HK$1.32. The return on average assets remained stable at 0.4%, while the return on average equity decreased by 0.1 percentage point to 3.6%.

Nevertheless, core business results improved as the Group benefitted from the end of the ultra-low interest rate environment.

Net interest income increased by HK$3,366 million, or 24.9%, to HK$16,874 million. Net interest margin widened by 49 basis points year-on-year, from 1.65% to 2.14%, on the back of rising rates.

Net fee and commission income year-on-year slightly decreased by 4.1% to HK$2,640 million amid the continued weak market sentiment. The decline in income from customer investment activity was offset by a growing contribution of fees from lending business and sale of third-party insurance policies.

Taken together, net trading and hedging results and net results from other financial instruments decreased by HK$300 million, or 24.1%, to HK$945 million. Non-interest income fell by 12.9% to HK$3,872 million.

Overall, total operating income increased by 15.5% to HK$20,746 million.

Operating expenses were well contained at HK$9,432 million, an increase of HK$208 million or 2.2%. The Bank continued to invest in talent, sales, and digital capabilities while realising efficiency gains from its transformation initiatives. The cost-to-income ratio for 2023 improved by 5.9 percentage points to 45.5%.

Impairment losses on financial instruments decreased by HK$440 million, or 7.4%, to HK$5,483 million. The Chinese commercial real estate ("CRE") sector continued to be the main concern for asset quality, accounting for some 82% of loan loss provisions. The Group's impaired loan ratio increased from 2.39% at the end of December 2022 to 2.69% at the end of December 2023.

Meanwhile, an impairment of HK$726 million was made on the Group's investment in AFFIN, as a result of a drop in AFFIN's value-in-use.

Net profit on sale of assets held for sale decreased by HK$1,443 million, mainly due to the aforementioned one-off gain of HK$1,446 million on the disposal of Blue Cross and Blue Care in 2022.

Financial Position

Total equity attributable to owners of the parent rose by 2.1% to HK$97,973 million.

The BEA Group remained cautious in its approach to new lending, focusing instead on risk management and portfolio diversification. Continued efforts were made to reduce risk-weighted assets. As a result, gross advances to customers decreased by 3.1% to HK$532,111 million. Total consolidated assets of the Group stood at HK$860,361 million at the end of December 2023, down by HK$22,464 million, or 2.5%, compared to HK$882,825 million at the end of 2022.

Deposits were managed in line with loan demand. Total deposits from customers decreased by 3.0% to HK$628,598 million. Of the total, demand deposits and current account balances decreased by HK$256 million, or 0.4%; savings deposits decreased by HK$26,944 million, or 18.6%; and time deposits increased by HK$7,705 million, or 1.76%. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, amounted to HK$656,216 million.

The loan-to-deposit ratio stood at 81.1% at the end of December 2023, compared to 80.6% at the end of 2022.

The Group continued its on-market share buyback programme. During 2023, 35,940,800 shares were repurchased on the Stock Exchange for a total consideration of HK$366 million.

A new budget of HK$500 million has been announced for the continuation of the programme.

As at 31st December, 2023, the total capital ratio, tier 1 capital ratio, and common equity tier 1 capital ratio remained solid at 22.0%, 19.4%, and 17.3%, respectively. The estimated average liquidity coverage ratio for the period ended 31st December, 2023 was 201.5%, well above the statutory minimum of 100%.

MAJOR RECOGNITION

The Bank of East Asia, Limited

Private Banking Awards 2023
Best for HNW in Hong Kong
Asiamoney

Asian Private Banker 12th Awards for Distinction 2022
Highly Commended Private Bank Hong Kong
Asian Private Banker

Asian Private Banker 5th China Wealth Awards 2022
Best Private Bank – GBA (Silver)
Asian Private Banker

Financial Institution Awards 2023
Retail Bank of the Year - Outstanding Achievement
Premium Segment Client Service - Outstanding Achievement
Customer Engagement - Excellence Award
Bloomberg Businessweek (Chinese Edition)

Asian Banking and Finance Retail Banking Awards 2023
Domestic Retail Bank of the Year – Hong Kong
Digital Consumer Banking Initiative of the Year – Hong Kong
Asian Banking and Finance Magazine

Global Brand Awards 2023
Best Personal Banking Brand
Best New Digital Banking Product – BEA GOAL
Best Banking Product – Virtual Card
Global Brands Magazine

Hong Kong Green and Sustainable Finance Awards 2023
Outstanding Award for Green and Sustainable Loan Facilitator (Garment and Textile Industry) - Visionary Sustainability-linked Loan Performance Metrics
Outstanding Award for Green and Sustainable Loan Facilitator (Electronic Component Industry) - Visionary Green Loan Framework
HKQAA

2023 Best SME's Partner Award
Best SME's Partner Gold Award
Hong Kong General Chamber of Small and Medium Business

The Bank of East Asia (China) Limited

World's Best Consumer Digital Banks 2023
Best Consumer Digital Banks in Asia-Pacific-China
Global Best User Experience (UX) Design
Best User Experience (UX) Design in Asia-Pacific
Global Finance

Outstanding Case for High Quality Green Finance 2023
Best Practice Award for Sustainable Disclosure
Shenzhen Green Finance Association

Green Development Annual Tribute Award 2023
Outstanding Climate Ambition
Phoenix Satellite TV

Bank of East Asia (Trustees) Limited

2023 Refinitiv Lipper Fund Awards
BEA (MPF) Value Scheme – BEA Balanced (10 Years)
BEA (MPF) Value Scheme – BEA Stable (10 Years)
Lipper

BEA Union Investment Management Limited

BENCHMARK Fund of the Year Awards 2023
Fund of the Year House Awards 2023 – Asia Fixed Income – Best-In-Class
BEA (IS) MPF Conservative Fund – Outstanding Achiever
BEA (MTS) Conservative Fund – Outstanding Achiever
BENCHMARK

BUSINESS REVIEW

Economic Review

The global economy experienced an eventful year in 2023. The Federal Reserve and other major central banks raised interest rates at a pace unseen in decades in order to combat inflation, exposing vulnerabilities in the financial system – including a string of bank failures in the US and Europe in March 2023. Meanwhile, geopolitical tensions remained high, with unresolved US-China strategic competition and the prolonged Russia-Ukraine and Israel-Hamas conflicts. Furthermore, consumers remained cautious while corporations continued to hold back investment and reduce their inventories, posing a drag on global trade and manufacturing activities.

Despite the above downside risks, the global economy has proven to be more resilient than expected. Importantly, a recession has been avoided, bolstered by solid labour markets, excess savings, and strong pent-up demand for spending on services. The global supply chain has also witnessed a visible pickup, with easing of disruptions and reduced shipping costs. Meanwhile, inflation began to show a meaningful downward trend towards the end of 2023.

The International Monetary Fund forecasted that global economic growth would moderate from 3.5% in 2022 to 3.1% in 2023, with inflation coming down from 8.7% to 6.8%.

In the Chinese Mainland, 2023 was the first year of economic recovery after the pandemic. The economy has gradually regained momentum, driven by economic reopening, a solid rebound in services spending, higher investment in strategic emerging industries, and supportive macro policies. Meanwhile, sluggish external demand and a subdued property market constrained the advance. Overall, the Chinese Mainland economy grew by 5.2% in 2023, up from 3.0% in 2022.

In Hong Kong, domestic consumption and inbound tourism have taken the lead in powering a new expansion cycle. Despite pressure from weak trade flows and global monetary tightening, the economy rebounded, boosted by the return to normalcy, border reopening, low unemployment, and the Government's expansionary fiscal stance. In 2023, the Hong Kong economy grew by 3.2%, following a 3.7% contraction in 2022.

Looking ahead to 2024, the global economic outlook remains challenging and uncertain, as the risks from geopolitical tensions and tight financial conditions weigh on global growth, particularly in the advanced economies. Nonetheless, Asian economies are poised to continue their recovery.

Crucially, the Mainland authorities have intensified their support for the economy. A well-coordinated package of measures has been implemented to foster long-term, high-quality development by promoting growth in strategic sectors, defusing property market risks, and boosting consumer confidence. With the promise of more policy support ahead, the Chinese Mainland economy is expected to recover steadily. We forecast that GDP will grow by around 5.0% in 2024, with inflation remaining moderate.

For Hong Kong, significant pent-up demand for services and inbound tourism will continue to lay a solid foundation for the economic recovery. Trade flows have shown signs of stabilising, in part due to a low base of comparison. The Government's implementation of large-scale investment projects and measures to actively align with national development strategies, together with an expected unwinding of tight monetary policies globally as inflation comes under control, will help boost business confidence and investment spending. We forecast Hong Kong's GDP growth for 2024 at around 3.5% in 2023, with inflation ticking up slightly.

Business – Hong Kong

Notwithstanding the challenging operating environment, the Bank's Hong Kong operations recorded improved results in 2023. Profit before tax increased by 9.9% to HK$3,463 million.

Core business remained solid, with pre-provision operating profit rising by 38.9%. The improvement was driven by a 41.1% increase in net interest income. NIM expanded by 62 basis points on the back of higher interbank interest rates.

Fee income continued to be impacted by reduced customer investment activity under the prevailing weak market sentiment. This was largely offset by higher income from product sales to private banking clients, as well as strong growth in fees and commissions from bancassurance.

Growth in operating expenses was held to 2.1%, despite investments in technology and sales capabilities, as efficiency gains from the Bank's digital transformation initiatives were realised.

Meanwhile, the liquidity problems facing Mainland property developers have affected offshore lending in particular. As the situation deteriorated in the second half, the Bank made additional provisions. Impairment losses for Hong Kong operations reached HK$3,949 million for the full year.

In view of the difficulties facing borrowers, we maintained a prudent stance. Overall, the Hong Kong loan balance recorded a mild decline, primarily due to proactive measures to de-risk the corporate loan book. Deposits were closely managed to optimise funding costs.

Business development focused on diversifying the client portfolio and exploring new growth opportunities, particularly in the GBA. Under the OneBank initiative, Hong Kong worked closely with BEA teams on the Chinese Mainland and overseas to provide seamless cross-border corporate and wealth management solutions to customers.

We have also made continuous enhancements to our digital and data capabilities that are now starting to bear fruit. A major upgrade to the Bank's mobile banking and investment trading infrastructure was conducted in 2023. Revamped client-facing apps will provide a significant uplift in functionality and user experience, supported by a new, more efficient back-end that leverages advanced data analytics.

Retail Banking

Performance for the Bank's retail operations improved in 2023, driven by higher interest rates and resurgent sales activity. Net profit increased by 44.6% year-on-year.

Growth was led by a 41.1% rise in net interest income on higher volume and widened margins. The customer loan balance increased by 3.7%, primarily due to a stable rise in mortgage lending and higher credit card spending. Retail deposits rose by 4.5% following efforts to diversify the deposit mix.

Net fee and commission income recorded a fall of 4.1%. Customer investment activity remained subdued throughout the year on weak market sentiment. The impact was partially offset by a strong performance from bancassurance. Annualised new premiums rose by 80.9%, generating growth in related fee income.

We have continued to strengthen our frontline service delivery capabilities in recent years. With an expanded salesforce, enhanced digital channels and strategic branch locations, strong momentum has been maintained in customer acquisition. Double-digit growth was achieved across key target segments including affluent and young professionals.

Notably, the retail cross-boundary customer base increased by 37% year-on-year and 75% from pre-pandemic levels as a result of initiatives to capture demand from the GBA. BEA also provides a Type II account opening attestation service for Hong Kong residents seeking payment convenience on the Chinese Mainland.

Wholesale Banking

The situation for the Chinese CRE sector deteriorated further in the second half of 2023. With tightened liquidity conditions, certain sizeable corporate accounts faced sustained repayment difficulties. Additional provisions were made to cover the associated risk, affecting the performance of the Bank's wholesale banking unit.

Nevertheless, underlying business was sound. Operating income rose by 1.4% year-on-year. Net interest income was higher, despite a reduction in the customer loan balance on continued efforts to de-risk the corporate portfolio.

Non-interest income rose by 2.9% as a result of successful initiatives to generate sustainable fee income. In particular, solid growth was achieved in credit-related fees from syndicated loans following enhancements to the Bank's structured finance capabilities. Meanwhile, revenues from cross-border business, particularly from intra-group referrals, also increased as we continued to strengthen our OneBank service proposition.

BEA has restructured its enterprise banking team for more effective targeting of different segments within the small and medium enterprise ("SME") sector. An improved payment and collection services offering will enable us to better serve the transaction banking needs of corporate clients, and SMEs in particular. Data-assisted credit rating profiles have streamlined the approval process for the Bank's Enterprise Easy Fund loan products, which provide secured and unsecured lending with faster turnaround times. We shall further expand the scope of this product offering in areas such as trade finance.

BEA remains committed to promoting the development of green and sustainable finance ("GSF") in Hong Kong. In 2023, the proportion of green lending in the wholesale banking portfolio increased satisfactorily from 9.5% to 12.2% as the Bank worked with businesses to fund sustainable projects. To further this trend, a new GSF advisory team has been established to assist clients in setting sustainability targets and monitoring performance.

Wealth Management

For Private Banking, performance was constrained by external market conditions throughout the past year. Investment sentiment remained weak on higher interest rates, slower-than-expected economic growth, and heightened geopolitical tensions. Against this backdrop, investment AUM and loans declined, driven by client de-leveraging activities.

Despite these challenges, top-line performance for Private Banking business held steady. Non-interest income increased by 14.5% year-on-year, with strong results from structured products and wealth planning solutions. Overall, operating income rose by 6.5%.

Private Banking continued to ramp up its frontline capabilities to drive customer acquisition. The number of relationship managers increased by around 11.5% compared to December 2022, bringing double digit growth in the intake of new clients compared to the previous year. The new assets acquired will provide a solid base to grow income and AUM. Under the prevailing investment climate, Private Banking will focus on providing advisory strategies in portfolio risk management, medium- to long-term asset allocation as well as cross-generational wealth transfer.

To cater to customer preferences and generate recurring fee revenues, we have further enhanced our digital wealth management capabilities. Following a significant upgrade, the Bank's new internet trading platform will be launched for retail and high-net-worth clients in early 2024. The new platform will enable customers to trade Hong Kong, US, and China A-shares with ease.

Going forward, significant opportunities are expected to arise from the Government's new talent and capital investment schemes. BEA Hong Kong shall continue to work closely with BEA China to enhance the Bank's regional capabilities, and capture growing demand for wealth management services in the GBA and beyond.

Meanwhile, the opening of a wealth management centre in Singapore will enable us to expand BEA's footprint in Southeast Asia and extend the Bank's reach to a diversified client base.

Business – Chinese Mainland

The Chinese Mainland economy grew by 5.2% in 2023, meeting the official target, but the recovery from the pandemic has been uneven. Although domestic consumption rebounded, the sluggish property sector and subdued exports weighed on growth. Together with the widening interest rate differentials, the Renminbi also weakened against the US dollar.

Against challenging conditions, BEA China grew its pre-provision operating profit by 13.3% to HK$1,742 million. Impairment losses on financial instruments fell by 20.6% to HK$1,657 million and successful bad debt recovery efforts reduced the impaired loan ratio by 0.07 percentage points to 2.68% year-on-year. Net profit came in at HK$56 million, reversing a net loss of HK$424 million in 2022.

BEA China's total loans and advances fell by 3.9% in Hong Kong dollar terms. Total deposits fell by 7.3% with the run off of higher-cost deposits.

Net interest income rose by 2% to HK$4,072 million, as NIM expanded by 22 basis points to 2.07%. Despite a low interest rate environment, this was achieved through higher-yielding internet lending and a reduction in the weighting of structured deposits. Non-interest income expanded by 13.8% to HK$984 million, driven by a rise in fee income from cross-boundary banking services, syndicated loans, treasury sales and bancassurance.

On the wholesale banking side, BEA China maintained a prudent approach to new business while emphasising risk mitigation and portfolio diversification. The proportion of property-related loans was further managed downward. Non-property related loans accounted for 78% of the total wholesale banking portfolio at year-end, compared to 73% a year ago.

A large proportion of the increase has come from extending new facilities to targeted strategic industries supported by national policies. BEA China is also actively expanding its GSF portfolio, which accounted for 15.1% of the total wholesale banking segment at year-end.

Wholesale banking operating income rose by 4.9%, boosted by 17.7% growth in non-interest income. BEA China holds a leading position in syndication loan origination among foreign banks and treasury sales have shown consistent growth momentum. The growth in trade finance business also contributed a stable source of fee income and low-cost deposits.

Meanwhile, personal banking operating income grew by 9% year-on-year. The growth was primarily driven by a 25.8% increase in internet lending and the auto finance portfolio, which offer relatively higher yields with stable risk performance.

Non-interest income from the affluent segment was up 26.02%, largely within the GBA, Shanghai, and Beijing. This was fuelled by a 19% rise in bancassurance income as well as a 69.53% increase in treasury sales.

To better serve customers, BEA China has launched an enhanced mobile banking application offering with improved user interface and functionalities. The application received multiple awards by the respected *Global Finance magazine*.

Operating expenses were largely flat at HK$3,314 million. Excluding an increase in business volume-related platform fees in 2023 and a one-off write-back in 2022, BEA China's controllable operating expenses fell by 3.3% on a constant currency basis. This was made possible through strict cost discipline and a productivity uplift facilitated by the Bank's digital transformation initiatives and process automation.

Furthermore, BEA China has successfully upgraded its core banking system and is seeking further efficiency gains through continued investment in data and technology infrastructure. BEA China was honoured with the "Data Governance Innovation" award by the Data Management Association China, the first foreign bank in the Chinese Mainland to win this award.

In January 2024, BEA Tower in Qianhai officially opened. BEA's new GBA headquarters serves the rapidly expanding financial needs in the region and facilitates the delivery of seamless cross-boundary services to customers. BEA Tower also houses BEA's fintech platform – **BEA**ST (BEA + Startups), connecting the Bank with the Mainland's robust fintech community. **BEA**ST Qianhai benefits BEA and its customers with co-created solutions, while also facilitating broader intragroup collaboration.

BEA China maintains a strong network presence in the Mainland, with 30 branches and 32 sub-branches covering 38 cities as at the end of 2023. In the GBA, BEA China operates 20 outlets and will continue to leverage the Group's extensive network to capture future opportunities.

Business – International, Macau, and Taiwan

In 2023, the Bank's overseas, Macau, and Taiwan operations reported steady financial results, despite heightened economic uncertainties arising from elevated geopolitical tensions, sticky inflation, and restrictive monetary policies of the major central banks.

During the period under review, the pre-provision operating profit ("PPOP") of the Bank's overseas, Macau, and Taiwan branches soared by 25.6% year-on-year to HK$2,076 million as NIM widened during the year.

Net profit after tax increased 50.5% to HK$1,588 million. The result was driven by a write-back of expected credit loss ("ECL") provisions on post-COVID macro-economic conditions in the US and UK, as well as a change to the ECL model. The impaired loan ratio stood at 1.10% at the end of December 2023.

The cost-to-income ratio improved to 26.9% compared with 29.9% in 2022, on the back of strong revenue growth.

The Bank's operations in the US and UK achieved solid growth in both revenue and profit. Branches in these regions will continue to diversify from the commercial real estate segment and seek new opportunities in sectors where borrowers exhibit sound balance sheets and strong cash flows.

Singapore Branch achieved a significant increase in PPOP and net profit, benefiting from the interest rate hike cycle. Going forward, the Branch will proactively manage its portfolio by replacing loans with lower risk-weighted asset density.

Macau Branch is well-positioned to capitalise on the growing cross-boundary business opportunities in the GBA. Taiwan Branch, on the other hand, maintains a cautious approach given the economic headwinds facing the island.

Sustainability remains a priority for the overseas, Macau, and Taiwan branches, and they are actively exploring green and sustainable financing opportunities aligned with the Bank's ESG strategies.

Given the uncertain business landscape, overseas operations will continue to optimise risk-weighted assets, bolster returns, and exercise prudent cost management. Meanwhile, investments in digital capabilities will be enhanced in order to uplift operational efficiency and improve the overall customer experience.

Looking ahead, the OneBank strategy will continue to be a key focus of the overseas, Macau, and Taiwan branches as they further strengthen collaboration with the Bank's other business units and ultimately offer our customers a seamless banking experience across the Group.

BEA Union Investment Management Limited

US treasury yields reached a 16-year high in 2023, stoking market volatility and pushing many investors to the sidelines. With investor sentiment subdued, BEA Union Investment Management Limited ("BEA Union Investment") focused on its core competencies, positioning clients' portfolios to benefit from value-adding opportunities. Assets under management and advisory stood at US$7 billion as at 31st December, 2023. With inflation and US treasury yields moderating towards the end of the year, investors' risk appetite has been improving steadily.

BEA Union Investment is committed to sustainable investing. In 2023, BEA Union Investment joined Climate Action 100+ (CA100+) as a Contributing Investor, expanding the sustainability pledge that it made as a signatory to the United Nations Principles for Responsible Investments (PRI) in 2021. As a Contributing Investor in CA100+, BEA Union Investment joins more than 700 investors globally aiming to encourage a reduction in greenhouse gas emissions by strengthening climate-related financial disclosures and improving the overall governance of climate impacts.

In line with these international commitments, BEA Union Investment launched the BU Asia Impact Bond Fund in June 2023, offering investors the opportunity to benefit from the efforts of companies that place a high value on sustainability.

Looking ahead, BEA Union Investment will continue to stay abreast of the latest trends and identify fruitful investment opportunities for clients.

Our People

As at 31st December, 2023, the BEA Group employed 8,140 people:

	As at 31st December, 2023	As at 31st December, 2022
Hong Kong	4,672	4,833
Chinese Mainland	2,906	3,060
Macau and Taiwan	118	130
Overseas	444	430
Total	8,140	8,453

People lie at the heart of BEA's transformation strategy, and the Bank is continuously making investments to attract and retain a diverse and digitally adept workforce that embraces the challenge to meet evolving customer needs.

To employ top talent, Head Office has expanded its recruitment strategy to the Chinese Mainland, particularly in respect of digital and other specialist business expertise. The Bank runs a series of trainee programmes, such as Group Management Trainees and Wholesale Banking Trainees to develop young talent. The Bank also participates in a number of outside youth-oriented programmes, including the FinTech Career Accelerator Scheme initiated by the HKMA and Corporate Summer Internship in Chinese Mainland organised by the Home and Youth Affairs Bureau. These programmes provide structured training and on-the-job experience for recent graduates and students, equipping them with essential knowledge and skills to become future bankers, relationship managers, and specialists in fintech and GBA cross-boundary business.

The Bank is also committed to providing opportunities for staff to develop a range of transferable and future-proof skills. Through programmes on Design Thinking, the Bank encourages staff to embrace a culture of innovation and co-create human-centric solutions. A newly-developed mobile micro-learning platform allows staff to access training on a wide range of timely content, anytime, anywhere. These programmes supplement existing training on technology, data application, and culture building. Beyond Hong Kong, the Bank has extended courses on data literacy, ESG, and GBA to staff in Chinese Mainland and overseas.

In another sign of the Bank's commitment to building strong leadership and talent pipelines, a new cohort of high-potential executives have embarked on the BEA Future Leader Accelerated Programme. A new Group Management Trainee Programme kick-started in July to provide exposure across Hong Kong, the Chinese Mainland, and overseas for young future leaders. BEA also provides ongoing training support and sponsorship for obtaining the HKMA's Enhanced Competency Framework ("ECF") certification. With the launch of the ECF-FinTech certification by the HKMA, BEA is actively supporting relevant staff to complete the required training and obtain the new credential.

Leveraging new technology and data science, centralisation and streamlining was a key focus in 2023. New operating models, particularly in compliance and operations, were developed to foster greater satisfaction and higher productivity amongst staff. The most recent employee pulse survey, with an overall 98% response rate, suggests that most employees feel proud to work for BEA and are positive about the Bank's commitment to its transformation journey. Following the lifting of all COVID restrictions, regular in-person town hall gatherings were resumed for closer and more interactive communications.

To celebrate BEA's 105th anniversary, a bank-wide sports carnival was held in West Kowloon Art Park, Hong Kong, in January 2024. Some 4,000 employees, together with family and friends, immersed themselves in a range of family-friendly activities and themed workshops throughout the day.

Going forward, the Bank is committed to building an inclusive and collaborative workplace where each and every employee can share their views and develop their unique talents, both supporting and supported by BEA's transformation journey.

RISK MANAGEMENT

Approach to Risk

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.

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

Risk and Return

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

Capital Adequacy

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

Liquidity & Funding Management

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

Regulatory Compliance

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

Operational Resilience

The Group is committed to being operationally resilient and maintaining critical operations through disruptions, including those due to pandemics, cyber incidents, technology failures, and natural disasters, as these have the potential to affect the viability of the Bank, and in turn, the stability of the wider financial system.

Cybersecurity

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

Reputation

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

ESG Risks (Including Climate Risk)

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

Risk Management Framework

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

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

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

Enterprise Risk Management

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

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

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

Risk Governance

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

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

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

Three Lines of Defence

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

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

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

Principal Risks

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

Principal risk type	How it is managed
Credit Risk	The Group has established control limits, delegated lending authorities, underwriting criteria, monitoring processes, internal rating structures, recovery procedures, and provisioning policies, and these are set out in the Group's policies, guidelines and manuals in line with regulatory requirements and above all, to address the market situations.
Interest Rate Risk	The Group has established control limits and assesses the gap risk, basis risk, and options risk primarily through the monitoring of repricing mismatches and the impact of changes in interest rates on earnings and economic value.
Market Risk	The Group measures and monitors potential loss due to adverse price movements and market volatility in accordance with the control limits set out in the Group's polices, guidelines and manuals.
Liquidity Risk	The Group conducts cash-flow analysis to monitor funding needs and has a contingency funding plan in place that clearly stipulates the procedures and mitigating actions required to meet liquidity needs in crisis situations.
Operational Risk	The Group has established and implemented a framework that defines the standards, processes, and internal controls for managing operational risks against risk appetite through various tools and systems in a cost-effective manner.

Reputation Risk	The Group identifies, assesses, monitors, mitigates, and controls reputation risk systematically. Specific procedures and guidelines are in place to facilitate timely and effective communication with various stakeholders in order to defuse any potential reputation-risk incidents.
Strategic Risk	The Group formulates and updates its strategic plan (covering a period of five years) annually to set strategic goals and objectives, evaluate strategic positions and develop appropriate strategies according to the changing external environment and internal capabilities.
Legal Risk	The Group has adopted comprehensive policies, guidelines, and manuals. Qualified internal personnel and/or external professionals are engaged to provide advice and training courses.
Compliance Risk	The Group has established various policies, guidelines, and manuals to ensure compliance with legal and regulatory requirements. A risk-based approach is in place to complement the management of compliance risk.
Technology Risk	The Group strengthens cybersecurity awareness of all staff through comprehensive training programmes and further mitigates technology risk by implementing a range of control measures.

Risk Appetite

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

Risk Profile

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

Key Developments

The Group faced multiple headwinds and challenges in 2023, including the downturn in the real estate sector in Hong Kong and the Chinese Mainland as well as in the US and UK, and global economic uncertainties stemming from monetary tightening, elevated interest rates, and geopolitical tensions. At the same time, cyberattacks and fraud cases have also been on the rise around the globe.

In response to these challenges, the Group has actively managed the associated risks, with enhanced risk management in the following areas in 2023:

- Additional resources were allocated for management of special assets and credit monitoring to proactively identify risk in the loan book and mitigate risks in a timely manner. In addition to enhanced credit control, thematic reviews were regularly conducted on high-risk sectors and loan exposures that were most susceptible to the challenges.

- The Group constantly reviews the Operational Risk Management Framework to manage material operational risk, assure sustainability, and enhance incident management and third-party risk management capabilities. The Operational Resilience Framework is developed to set out the core principles and standards to govern the resilience-related controls. Operational resilience parameters include critical operations, tolerance for disruption and severe but plausible scenarios. Through performing pilot process mapping and scenario testing, the Bank enhances its resilience by mitigating the vulnerabilities identified and revising business continuity plans.

- The Bank has worked collaboratively with other stakeholders to enhance anti-fraud controls amidst the constantly evolving threat landscape, including the implementation of initiatives proposed by the HKMA and the Hong Kong Police Force, for example, becoming one of the participating banks of the Anti-Deception Alliance.

- Complementing the detection and protection control measures, the Group continues to enhance its data backup arrangements as proposed by the HKMA and Hong Kong Association of Banks ("HKAB"), and performs regular testing to address the risk of destructive cyberattacks.

- The risk appetite statement is aligned strategically with the Group's Sustainability Vision and Mission Statements, and continuous efforts have been made to expand green and sustainable lending to support customers to realise their transition plans to a low-carbon economy. Furthermore, under the Group's GSF framework, sector policies have been developed to establish a consistent Bank-wide stance towards lending to high-carbon emitting sectors.

Principal Uncertainties

During 2023, 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**
Macro-economy	
Global economic recovery has remained slow and uneven. Headwinds from unprecedented monetary tightening to combat inflation led to a slowdown in growth momentum in 2023. The global economy has been affected by rising geopolitical tensions, which could potentially result in supply chain disruption, cross-border capital outflows, increased funding cost, asset price corrections, and financial instabilities. Meanwhile, the rising threats of cyberattacks and climate change might further impede global recovery. Although the US economy maintained moderate growth momentum and defied recession fears in 2023, inflation stayed above the policy target and the federal funds rate is expected to stay high for longer. While interest rates are believed to have peaked, the possibility of a rate cut by the Federal Reserve would depend on incoming employment and inflation data. Under this scenario, and factoring in the normalisation of excess saving and fiscal stimulus, the prospects of rate-sensitive sectors will remain gloomy, undermining consumer and business confidence and thus leading to a soft growth outlook. In the Chinese Mainland, steady economic growth in 2023 was boosted by an enhanced policy mix. Services-led consumption maintained robust growth while infrastructure and high-tech investment expanded steadily. Faced with the uncertain global economic and geopolitical outlook as well as its own domestic challenges, in particular the still-sluggish property market, the path of economic recovery will be gradual and possibly bumpy. In Hong Kong, private consumption and inbound tourism served as the key growth drivers in 2023, offsetting subdued government spending and weak merchandise trade. Looking ahead, despite the elevated interest rate environment and geopolitical tensions, robust private consumption, inbound tourism, low unemployment, as well as numerous large-scale public investment projects are expected to keep Hong Kong on a continuous recovery path.	The Group will continue to closely monitor the market situation and its portfolios in order to manage risk exposure. From a credit risk perspective, the Bank continues to identify potential adverse events and devise ways to mitigate any impact on its capital adequacy and asset quality. Such measures include enhanced credit control on loan exposures, 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 amid the Group's broader diversification strategy. While remaining alert to the development of the Mainland property market, the Bank is also closely monitoring its commercial real estate exposure in Hong Kong, the US and the UK. The Group's lending appetite has become highly selective, with prudent and proactive credit risk management adopted to control loan asset quality. From a market and interest rate risk perspective, the Bank continues to assess trends, manage exposures, perform hedging scenario analysis and stress-testing, review its risk-taking strategy, and formulate mitigating actions as necessary. From a compliance risk perspective, the Bank continues to track the development of relevant sanction regimes and mitigate risk exposure where appropriate.

Cybersecurity Risk	
Cybersecurity 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' cybersecurity and operations.	The Group takes a multi-pronged approach to tackle cybersecurity risk and improve cyber resilience: • Engage external consultants to assess the Group's cybersecurity controls against relevant information security standards and emerging risks to identify and implement necessary improvements • Engage independent parties to perform Intelligence-led Cyber Attack Simulation Testing ("iCAST") based on the HKMA's Cyber Resilience Assessment Framework ("C-RAF") and continue to enhance the Group's cybersecurity capabilities • Analyse different intelligence sources to monitor the latest worldwide threats and establish industry-wide collaborations on sharing of cyber threat intelligence • Maintain a proper incident response management process, including cybersecurity insurance • Enhance cyber and information security training programmes to promote security awareness among staff and improve security practices • Regularly report to Directors in Risk Committee meetings
ESG Risks	
Climate change poses both short and long-term risks to the banking industry. "Physical risk" refers to the impacts of weather and climate-related events, which could lead to disruptions to the business and operations of banks and their clients. "Transition risk" refers to the risk related to the adjustment process towards a low-carbon economy, which can be prompted by policy, legal, technology, and market changes as climate change mitigation and adaptation measures are adopted.	To manage the potential risks from ESG and cultivate ESG awareness throughout the Group, BEA has: • Refined the GSF framework to manage the Group's risk exposure to "brown sectors" and to capture GSF business opportunities and support customers' transition to a low-carbon economy • Conducted second round of climate risk stress test • Introduced quantitative and qualitative risk appetite statements to monitor the Group's performance and risk tolerance on ESG/climate risk • Formulated a climate risk heat map framework to assess and monitor physical and transition risk of vulnerable industries • Integrated ESG/climate risk considerations when deriving the internal Pillar 2 capital requirement, and incorporated greenness together with ESG/ climate risk/ greenwashing risk assessment for new green/ ESG-themed products and services

COMPLIANCE

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

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

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

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

By order of the Board

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

Hong Kong, 21st February, 2024

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

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

GLOSSARY
詞彙

2011 Scheme	Staff Share Option Scheme approved by the shareholders of the Bank on 19th April, 2011 and adopted on 19th April, 2011
「2011 計劃」	於 2011 年 4 月 19 日經股東批准及於 2011 年 4 月 19 日採納的僱員認股權計劃
2016 Scheme	Staff Share Option Scheme approved by the shareholders of the Bank on 8th April, 2016 and adopted on 19th April, 2016
「2016 計劃」	於 2016 年 4 月 8 日經股東批准及於 2016 年 4 月 19 日採納的僱員認股權計劃
2021 Scheme	Staff Share Option Scheme approved by the shareholders of the Bank on 6th May, 2021 and adopted on 6th May, 2021
「2021 計劃」	於 2021 年 5 月 6 日經股東批准及於 2021 年 5 月 6 日採納的僱員認股權計劃
2023 AGM	An AGM of the Bank held in the Grand Ballroom, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Thursday, 11th May, 2023 at 10:30 a.m.
「2023 股東周年常會」	本行於 2023 年 5 月 11 日(星期四)上午 10 時 30 分在香港中環金融街 8 號四季酒店大禮堂舉行的股東周年常會
2024 AGM	An AGM of the Bank to be held in the Grand Ballroom, Four Seasons Hotel, 8 Finance Street, Central, Hong Kong on Friday, 10th May, 2024 at 11:30 a.m. or any adjournment thereof
「2024 股東周年常會」	本行將於 2024 年 5 月 10 日(星期五)上午 11 時 30 分在香港中環金融街 8 號四季酒店大禮堂舉行的股東周年常會，或其任何續會
AGM	An Annual General Meeting of the Bank
「股東周年常會」	本行的股東周年常會
AUM	Assets under management
「管理資產」	管理資產
Bank or BEA	The Bank of East Asia, Limited, a limited liability company incorporated in Hong Kong
「本行」或「東亞銀行」	東亞銀行有限公司，於香港註冊成立的有限公司
Bank Culture Reform	Bank Culture Reform as elaborated in the circular issued by the HKMA on 2nd March, 2017
「銀行企業文化改革」	金管局於 2017 年 3 月 2 日發出之通告所闡述的銀行企業文化改革
Bank Group or BEA Group or Group	The Bank and its subsidiaries
「集團」或「本集團」	東亞銀行及其附屬公司
Banking Ordinance	The Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
「《銀行業條例》」	《銀行業條例》（香港法例第 155 章）
BEA China	The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank
「東亞中國」	東亞銀行（中國）有限公司，本行的全資附屬公司
Board	Board of Directors of the Bank
「董事會」	本行的董事會
Capital Rules	Banking (Capital) Rules issued by the HKMA
「《資本規則》」	金管局頒布之《銀行業（資本）規則》
CG Code	Corporate Governance Code, Appendix C1 to the Listing Rules
「《企業管治守則》」	《上市規則》附錄 C1 內所載的《企業管治守則》
CG-1	Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorised Institutions, issued by the HKMA
「CG-1」	金管局頒布之監管政策手冊 CG-1 內有關《本地註冊認可機構的企業管治》

CG-5	Supervisory Policy Manual CG-5 on Guideline on a Sound Remuneration System, issued by the HKMA
「CG-5」	金管局頒布之監管政策手冊 CG-5 內有關《穩健的薪酬制度指引》
China or PRC	People's Republic of China
「中國」	中華人民共和國
Companies Ordinance	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
「《公司條例》」	《公司條例》（香港法例第 622 章）
Director(s)	Includes any person who occupies the position of a director, by whatever name called, of the Bank or otherwise as the context may require
「董事」	包括任何任職本行董事職位的人士（不論其職銜如何），或文義另有所指的人士
ESG	Environmental, social, and governance
「環境、社會及管治」	環境、社會及管治
FVOCI	Fair value through other comprehensive income
「通過其他全面收益以反映公平價值」	通過其他全面收益以反映公平價值
FVTPL	Fair value through profit or loss
「通過損益以反映公平價值」	通過損益以反映公平價值
GBA	Guangdong-Hong Kong-Macao Greater Bay Area
「大灣區」	粵港澳大灣區
Guidance on Empowerment of INEDs	The guidance on Empowerment of Independent Non-Executive Directors (INEDs) in the Banking Industry in Hong Kong, issued by the HKMA
「提升獨立非執行董事的專業能力指引」	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	Hong Kong dollar, the lawful currency of Hong Kong
「港幣」	香港法定貨幣
HK$ Mn	HK$ Million
「港幣百萬元」	港幣百萬元
HKAS	Hong Kong Accounting Standards
「香港會計準則」	香港會計準則
HKFRS	Hong Kong Financial Reporting Standards
「香港財務報告準則」	香港財務報告準則
HKICPA	Hong Kong Institute of Certified Public Accountants
「香港會計師公會」	香港會計師公會
HKMA	Hong Kong Monetary Authority
「金管局」	香港金融管理局
Hong Kong or HK or HKSAR	Hong Kong Special Administrative Region of the PRC
「香港」	中華人民共和國香港特別行政區
LCR	Liquidity Coverage Ratio
「流動性覆蓋比率」	流動性覆蓋比率
Listing Rules	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)
「《上市規則》」	《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
MPF	Mandatory Provident Fund
「強積金」	強制性公積金

NIM 「淨息差」	Net interest margin 淨息差
Senior Management 「高層管理人員」	The Co-Chief Executives and Deputy Chief Executives of the Bank 本行的聯席行政總裁及副行政總裁
Share(s) 「股」或「股份」	Ordinary share(s) of the Bank 本行普通股
Stock Exchange 「聯交所」	The Stock Exchange of Hong Kong Limited 香港聯合交易所有限公司
US$ or USD 「美元」	United States dollar, the lawful currency of the United States of America 美國法定貨幣