

Business Review

Cautious optimism returned to global financial and commercial markets in the first half of the year, buoyed by the growing availability of COVID-19 vaccines and the supportive policy initiatives of governments and central banks in major economies around the world. However, with the emergence and spread of new strains of the virus in the second half, the more upbeat investor and business outlook began to cool in the face of fresh uncertainties over the sustained recovery of trade flows and economic activity.

Despite the challenging market conditions, the Bank recorded good progress in key areas of long-term business focus, leveraging its position as a respected market leader with close connections to customers, digital innovator, and provider of 'people-first' value-added financial services. This strong proposition also supported good balance sheet growth.

Customer loans and advances (net of expected credit loss ('ECL') allowances) increased by HK\$53bn, or 6%, to HK\$997bn. Loans for use in Hong Kong grew by 3%. Lending to industrial, commercial and financial sectors decreased by 1%. Trade finance lending regained momentum and grew by 57%, reflecting a recovery in global trade volumes. Lending to individuals grew by 8%.

In commercial and corporate lending, loans for property development rose by 3%, while lending for property investment was broadly in line with 2020 year-end. There was increased lending to transport and transport equipment and 'other' sectors. These increases were partly offset by the decline in loans outstanding from the financial concerns, wholesale and retail trade, manufacturing, and information technology and telecom sectors.

In loans to retail customers, the more active property market drove a 7% increase in residential mortgages and a 13% rise in Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending.

Loans for use outside Hong Kong grew by 9%, partly reflecting increased lending by Hang Seng China.

Customer deposits, including certificates of deposit and other debt securities in issue, recorded a year-on-year increase of HK\$35bn, or 3%, to HK\$1,339bn. Current and savings deposits rose, but there was a drop in time deposits.



Seamless Cross-boundary Wealth Management

As a leading provider of personal wealth management services in Hong Kong, we are excited to offer customers in the Greater Bay Area access to a wide range of products through the Cross-boundary Wealth Management Connect Scheme. Leveraging our omni-channel strategy, dedicated Cross-boundary Wealth Management Connect team and the Hang Seng China network in the mainland, customers can benefit from our extensive investment expertise with personalised in-branch consultations and 'anytime' access through our digital banking network.

Wealth and Personal Banking

Wealth and Personal Banking recorded a 6% year-on-year decrease in net operating income before change in expected credit losses and other credit impairment charges to HK\$18,506m. Operating profit dropped by 9% to HK\$9,610m and profit before tax decreased by 8% to HK\$9,682m.

Loans grew by 6% year-on-year, due mainly to a strong performance by our mortgage lending business, and deposits were broadly on par with 2020 year-end. However, the persistent downward trend in market interest rates during the year resulted in an 11% drop in net interest income to HK\$13,013m.

Customers enjoyed the benefits of our investments in uplifting our data analytics and digital banking capabilities through more product choice and faster and easier transaction journeys. These enhanced customer experiences helped drive an 11% increase in wealth management business revenue. Overall, non-interest income increased by 8% to HK\$5,493m.

Our investments in technology also supported the further transition towards greater use of our digital channels, which will support improved operational efficiency over the longer term. Year-on-year, the number of users of our mobile banking app increased by 12%, mobile app log-ons rose by 26% and the total number of online transactions grew by 44%.

Branch of the Future

Our new landmark Central Branch showcases our 'Branch of the Future' concept, with a focus on upgrading customer journeys by seamlessly providing the best of in-person and digital banking services. The GO Digital Expert Team capitalises on the latest fintech innovations to offer customers fast, convenient and enhanced banking services without the need to wait in line. Customers can use our eAppointment service to book an appointment online or our mobile-based smart eTicketing channel to obtain a ticket for counter services before heading to a branch.



Key highlights among the 415 new digital innovations and enhancements we implemented during the year to make banking simpler and more convenient include the 'My Investment' mobile wealth dashboard, an all-in-one credit card management platform that delivers real-time transaction and payment information, the introduction of seamless, one-stop limit and payee management on our mobile Transfer & Pay platform. Customers benefitted from better control and choice in managing their wealth and health needs through our ongoing actions to enrich the functionalities and value-added service provided by our digital wealth management and insurance channels.

We made good progress with using our open banking ecosystem to further integrate our services into the fabric of people's everyday lives and meet our customers when and where they need us. Developments during the year included an exclusive partnership between Hang Seng insurance and the 'yuu' rewards programme mobile app, bringing Trip.com into our Cash Dollars rewards ecosystem, and launching 'Pay with Hang Seng', a new online payment service.

Our service and product innovations enjoyed positive recognition in the market, reflected in our winning of nine major awards for our various digital offerings from industry watchers such as *The Asian Banker* and *The Asset*.





Evolving with Lifestyle Trends

Our commitment to providing agile banking has inspired the launch of a range of new initiatives, seamlessly integrating financial services into customers' day-to-day activities to enhance the quality and convenience of their lives. From the new online payment service 'Pay with Hang Seng', to the expanded Cash Dollars credit card reward scheme, to our wellness platform Hang Seng Olive, we have lifted the customer service experience to new levels to align with evolving trends for virtually integrated lifestyles.

In volatile market conditions, we recorded a 4% increase in total investment services income. We leveraged our all-weather portfolio of wealth management products and enhanced data analysis capabilities to provide personalised solutions for customers at all stages of life and diverse financial needs. We added new products, particularly for the mid-to-mass segments, to provide more choice for portfolio diversification, and we were the first bank in Hong Kong to extend equity-linked investment product subscription services for retail investors to include US securities. In October, we were one of the first batch of banks to launch a Cross-boundary Wealth Management Connect service. With our strong wealth management experience and service proposition and the close connectivity between our operations in Hong Kong and in the mainland, we are well-positioned to meet the needs of customers and capture a growing proportion of the tremendous business potential and client base that exists in the Greater Bay Area ('GBA').



Insurance income rose by 17%, reflecting our effective management of the life insurance investment portfolio in fluid financial markets. Facilitated by the launch of new Whole Life products and enhanced annuity products, we achieved strong growth in our distribution business through our ability to fulfil a diverse range of customer needs for lifetime protection, legacy planning and long-term asset growth. Our Olive Wellness App built up a robust and expandable ecosystem by providing customers with a one-stop digital health and wellness proposition. Olive users took up the call to adopt healthy lifestyle habits and recorded over 2.4 billion tracking step counts through the app by the end of the year in 2021. By increasing our insurance touchpoints with customers, the app also represents a sizable and sustainable pipeline for the future growth of our insurance business.

Leveraging our extensive network of service channels, dedicated sales mortgage teams and the strong momentum of the property market, we achieved a 34% year-on-year increase in new mortgage drawdowns, representing both primary and secondary market business, and grew our mortgage balances by 7% in Hong Kong. Our competitive pricing and customer-centric end-to-end services saw our new mortgage business outpace the market, and continued to rank among the top three in Hong Kong for new mortgage registrations.

Amid improved retail consumption sentiment, we achieved strong growth in our credit card market position through effective product and marketing initiatives. Riding on the shift in consumer preference towards e-commerce spending, we further expanded our online-to-offline partnerships with leading merchants to provide our cardholders with enhanced lifestyle benefits and offers for their everyday spending. Year-on-year, card spending grew by 10%.

We continued to invest in transforming our branch infrastructure and digitalised service model to deliver enhanced, customer-centric service experiences. As part of our 'Future Branch' concept, our GO Digital Expert Team at our new Central Branch uses a variety of technological tools, including one-time password authentication, to digitally assist customers with various account services and help drive our progress towards paperless banking. We were the first bank to begin accepting Hong Kong's 'iAM Smart' mobile app, which gives individuals a convenient alternative to presenting their physical Hong Kong ID card, for identity verification purposes across our branch network for enquiries and application services.

With our strengthened customer proposition based on closer connections with customers and better understanding their needs, we achieved 23% year-on-year increase in the Signature customer base and grew our Prestige and Preferred Banking customer base by 12%.

Commercial Banking

Commercial Banking recorded a 12% year-on-year decrease in net operating income before change in expected credit losses and other credit impairment charges to HK\$8,936m. Operating profit and profit before tax both dropped by 18% to HK\$4,147m.

We achieved strong growth of 8% in customer deposits and customer lending was up by 2%. Nevertheless, the adverse effects of the low interest rate resulted in a 15% year-on-year drop in net interest income.

Through our proactive and prudent approach to credit risk management, we maintained good overall asset quality and recorded a 25% year-on-year improvement in expected credit losses and other credit provisions.



Empowering Businesses Through Innovation

As a trusted partner of businesses in Hong Kong, we help SMEs bring their visions to life. We offer innovative and attractive financial solutions for companies such as Ecoinno, which manufactures environmentally friendly meal boxes, and provide convenient digital tools such as Virtual Account to make cash flow and transaction management easier for customers. Our position as a customer-centric banking pioneer is reflected in ground-breaking service enhancements for SMEs, such as Remote Account Opening with immediate access to our key banking products. From our state-of-the-art digital proposition to the tailor-made solutions developed by our specialist advisers, our goal is to champion local enterprises by facilitating innovation and the exploration of new business horizons.



We continued to actively participate in syndicated loan markets, achieving a 10% increase in credit facilities fee income, and maintained our third-place ranking in the League Table for Hong Kong Mandated Arranger in terms of number of deals. We also captured market opportunities to increase our foreign exchange income by 9% and trade fee income by 3%. Working against this, however, was the decrease in investment services income amid market volatility and the significant decline in cross-boundary commercial activity due to the pandemic. Overall, non-interest income was on par with the previous year.

We accelerated our actions to encourage improved environmental, social and governance ('ESG') performance among our customers and facilitate their transition to the low-carbon economy. We introduced sustainability-linked loans and enhanced existing trade finance products with green and sustainable features. We also stepped up our collaboration with Hong Kong Quality Assurance Agency to help customers use green financing to pursue business growth in the GBA.

Supporting entrepreneurs and start-ups with the expansion of their business activities in the GBA remained a central element of our strategic alliance with Hong Kong Cyberport Management Company. We formed a new strategic partnership with Hong Kong Trade Development Council in 2021 to co-create 'InnoClub', a one-stop platform to help SMEs to digitalise their operations and adopt innovative business solutions. We also provided financial support to drive innovation through our InnoTech Fund.

Enhancements to our digital services infrastructure during the year include the deployment of Contour, a global blockchain network, that enables documentary trade to be conducted digitally via a web-based portal. We also participated in eTradeConnect, a blockchain network established by banks in Hong Kong, which expanded its coverage during the year by connecting to The People's Bank of China ('PBoC') Trade Finance platform in the mainland. With our successful piloting of the connection to PBoC in November, we now have a strong foundation from which to capture business arising from digital cross-border trade finance activities.



We strengthened our main bank proposition via the introduction of 'Virtual Account', a tool that gives customers faster and more effective management of their accounts collection and reconciliation. To help SMEs capture business opportunities arising from the Hong Kong Government's Consumption Voucher Scheme, we worked with a fintech partner to provide static QR Code Collection solution. With improvements to our GBA remittance services, Hang Seng China customers making US dollar payments to Hong Kong can now complete their transaction within five minutes. We are also partnering with various fintech firms to further integrate our services into the day-to-day operational ecosystems of businesses in a variety of industrial sectors, including medical services, educational services and retail catering.

Supported by the roll-out of Remote Account Opening incorporating an e-sign feature, we shortened account onboarding times. Our customers can now open a 'Biz Virtual+' account in as fast as three working days. These

efficiency and customer experience enhancements helped drive the more than doubling of our monthly average customer acquisition rate compared with 2020.

To better serve customers through our physical network, we upgraded our Business Banking Centres in Tsim Sha Tsui and Kwun Tong, including the introduction of dedicated transaction counters.

Our drive to provide best-in-class services was recognised with a number of awards during the year, including 'Hong Kong Domestic COVID Management Initiative of the Year' and 'Hong Kong Domestic AI Initiative of the Year' awards from *Asian Banking & Finance*, and 'Best Payment Bank in Hong Kong' and 'Frictionless Transaction Awards – Best Productivity, Efficiency and Automation Initiative, Application or Programme' awards from *The Asian Banker*.

Global Banking and Markets

Global Banking and Markets recorded an 11% year-on-year decrease in net operating income before change in expected credit losses and other credit impairment charges to HK\$5,426m, and a 40% decrease in both operating profit and profit before tax to HK\$2,965m.

Global Banking

Global Banking reported a 3% year-on-year growth in net operating income before change in expected credit losses and other credit impairment charges to HK\$2,757m. Operating profit and profit before tax both dropped by 55% to HK\$962m, due mainly to increased ECL provisions made in the second half of the year in light of tightening liquidity and increased refinancing risk in the mainland commercial real estate sector, which led us to update our outlook on such

sector to reflect the higher risk level. However, the overall credit quality of the lending portfolio remained robust.

Our success in delivering highly tailored, industry-specific cash management solutions for clients across a diverse range of industries drove strong year-on-year growth of 21% in the current and saving deposits base, giving us greater flexibility to manage the acquisition cost of time deposits, and we achieved robust growth in net interest income from deposits. As customers benefitted from the speed and convenience of the Bank's award-winning digital cash management services, we saw 22% of total customer transactions shift from in-branch counters to mobile and online channels compared with the previous year.

In a challenging operating environment, we achieved strong growth of 11% in customer lending, driven in part by our efforts to further diversify the loans portfolio by acquiring new customers in 'new economy' sectors. However, with



keen market competition serving to maintain downward pressure on credit spreads, net interest income from lending was down by 3% year-on-year. In support of the Hong Kong market's LIBOR transition, we completed our first risk-free rate (Sterling Overnight Index Average ('SONIA')) loan for the bank. We also accelerated initiatives to support greater sustainability in market through our green financing services and achieved good growth in the green loans portfolio during the year.

The combined performances of our interest-earning businesses kept net interest income broadly on par with the previous year.

Non-interest income rose by 24% to HK\$388m. Leveraging our strong customer relationships, we stepped up initiatives to diversify and expand our sources of non-fund income. Strong growth in trade service business, including factoring, supply chain finance and performance bonds helped drive

an increase in commissions revenue. Our syndicated lending business continued to perform well and remained a key income driver. The completion of several breakthrough deals involving dim-sum and green bonds together with other business completed by our Debt Capital Markets origination team also helped support the increase in fee income.

Global Markets

Global Markets reported a 22% decrease in net operating income before change in expected credit losses and other credit impairment charges to HK\$2,669m. Operating profit and profit before tax both decreased by 29% to HK\$2,003m, reflecting a decrease in revenue from Markets Treasury, partly offset by a small increase in income from business by sales and trading departments.

Net interest income decreased by 12% to HK\$1,792m and non-interest income decreased by 36% to HK\$877m. Markets Treasury revenue was adversely affected by the flattened yield curve and tightened credit spreads under the low interest rate environment.

Revenue from sales and trading was maintained at similar level to the previous year. We recorded a 7% year-on-year increase in corporate foreign exchange turnover as signs in the first half of the year that the worst of the pandemic might be coming to an end encouraged corporate clients become more active. We also recorded significant growth in Hong Kong dollar and renminbi trading revenue. Our Repo Trading business continued to build good momentum and we made further progress with initiatives to deepen the penetration of Global Markets' products among the Bank's other customer groups.

As one of the market's key primary dealers, we actively participated and submitted our tender in the Hong Kong Monetary Authority's issuance its first one-year HONIA-indexed Floating Rate Note in November under its Institutional Bond Issuance Programme this issuance.

We are also moving forward with our use of fintech to enhance our services. In 2021, this included onboarding our first Robotics Process Automation solution in partnership with a technology company in Hong Kong Science and Technology Parks to support the equities derivative quotation process.

Growing Sustainable Financing

ESG is fast becoming a prerequisite for doing business and we are proactive in supporting clients to transition to a low-carbon economy through our sustainability-linked loans and enhanced finance products with green features. With a targeted set of key performance indicators tailored to reflect the nature of individual businesses, we incentivise companies to embrace environmentally friendly practices. From improving energy efficiency to reducing greenhouse gas emissions, our loans encourage businesses to identify meaningful and achievable changes.

Hang Seng Indexes

Wholly owned subsidiary Hang Seng Indexes Company Limited ('Hang Seng Indexes') further strengthened its position as the market leader in Hong Kong for compiling and managing innovative indexes that facilitate the development of a diverse range of investment strategies and products. The company continues to enjoy positive industry recognition for its efforts. Recent accolades include 'Best ESG Index Provider – Hong Kong' and 'Most Innovative Index – Hong Kong' in *Asia Asset Management's* 'Best of the Best Awards 2022'.

Leveraging its deep understanding of the Hong Kong and mainland markets and emerging investment trends, Hang Seng Indexes launched 62 new indexes, including ESG-related and Smart Beta indexes. New indexes to support the growing emphasis on ESG and drive towards a low-carbon future include the HSI ESG Enhanced Index and HSI Low Carbon Index.

The newest of Hang Seng Indexes' three flagship benchmarks, the Hang Seng TECH Index ('HSTECH'), continued to attract international interest as the basis for the development of various financial products. As at 2021 year-end, Hang Seng Indexes had licensed the HSTECH for use as the basis for launching 28 exchange-traded funds in 11 markets, including Hong Kong, Singapore, South Korea, the US and the UK. Futures linked to the HSTECH recorded an all-time high trading volume of 89,967 on 28 December 2021.

Another major initiative during the year was the rolling out of significant enhancements to the Hang Seng Index ('HSI'), the internationally acknowledged benchmark of the Hong Kong stock market, following a month-long industry consultation exercise. The changes to the HSI will ensure the index keeps pace with developments in market composition. Enhancements to maintain HSI's position as the most representative and important benchmark of the Hong Kong stock market include increasing the number of constituents and applying a new selection method. In December 2021, the number of constituents in the HSI was increased to 64.

As at the end of 2021, there were 106 exchange-traded products based on the Hang Seng Family of Indexes worldwide – with listings on 16 different stock exchanges. Assets under management in products passively tracking indexes in the Hang Seng Family of Indexes at 2021 year-end had reached a total of about US\$44bn.

The total number of futures and options contracts traded on the HSI, the Hang Seng China Enterprises Index and the HSTECH Index in 2021 was over 95 million.

As at the end of 2021, Hang Seng Indexes was compiling more than 1,400 indexes covering Hong Kong and mainland markets, including 221 real-time indexes.

Awards and Recognition 2021

Best Bank – Domestic (Hong Kong)
(22nd consecutive year)
THE ASSET

Most Respected Organisations Award
THE HONG KONG MANAGEMENT ASSOCIATION

Best Bank for SMEs, Hong Kong
ASIAMONEY

Best in Treasury and Working Capital for SMEs, Hong Kong
THE ASSET

Best Digital/Mobile Banking Service, Hong Kong
THE ASIAN BANKER

Best Financial Asset/Market Trading Service
THE ASIAN BANKER

High-quality Development Bank
SECURITIES TIMES

Most Innovative Bank of the Year
CAI LIAN NEWS AGENCY

Best Trade Finance Foreign Bank
TRADING FINANCE

Best Supply Chain Finance Service
TRADING FINANCE



Driving Innovation Through Collaboration

As we push the boundaries of banking, we are proud to empower the next generation of innovators. In collaboration with distinguished partners such as Hong Kong Cyberport Management Company, Hong Kong Trade Development Council, and Hong Kong Science and Technology Parks Corporation, we offer tailored banking services, exchange programmes, business advisory, financing solutions and development of new income streams and new business models. We are committed to acting as a springboard for entrepreneurs in Hong Kong and across the Greater Bay Area to scale new heights.

Best Social Responsibility Award (Since 2020)
CHINA SOCIAL WELFARE FOUNDATION

Best Liquidity Management and Investment Solution
THE ASSET

Constituent stock of FTSE4Good Developed Index
(Since 2001)
FTSE RUSSELL

Constituent stock of MSCI Pacific ex Japan SRI Index
(Since 2015)
MSCI

Constituent stock of Hang Seng Corporate Sustainability Index (Since 2010)
HANG SENG INDEXES

Constituent stock of Hong Kong Business Sustainability Index (Since 2015)
THE CHINESE UNIVERSITY OF HONG KONG
CENTRE FOR BUSINESS SUSTAINABILITY

Caring Company (Since 2003)
HONG KONG COUNCIL OF SOCIAL SERVICE

Junzi Corporation Award
(10th consecutive year)
Junzi Corporation Exemplary Award
(2nd consecutive year)
THE HANG SENG UNIVERSITY OF HONG KONG