

# Financial Review

## Financial Performance

### Income Analysis

#### Summary of financial performance

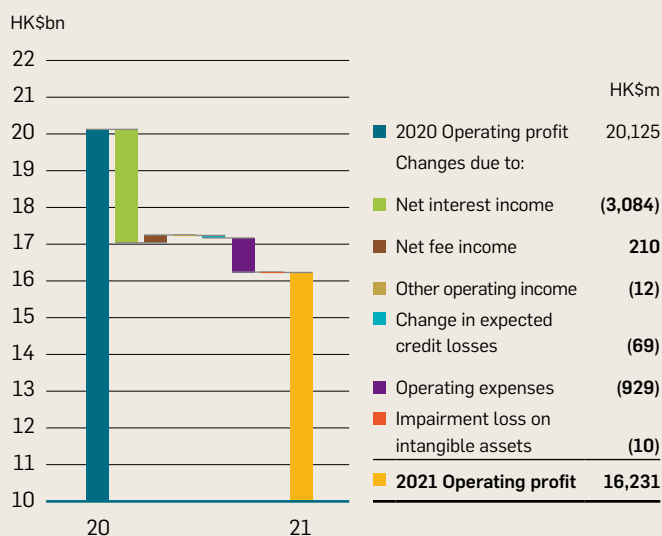
Figures in HK\$m	2021	2020
Net operating income before change in expected credit losses and other credit impairment charges	33,182	36,068
Operating expenses	14,134	13,205
Operating profit	16,231	20,125
Profit before tax	16,385	19,414
Profit attributable to shareholders	13,960	16,687
Earnings per share (in HK\$)	6.93	8.36

The Group's 2021 first half performance benefitted from the improved economic outlook and resultant release of expected credit losses ('ECL') charges for stage 1 and stage 2 unimpaired credit exposures. In the second half of 2021, due to tightening liquidity and increased refinancing risks in the mainland commercial real estate sector, the Group built in a material adjustment to our ECL to reflect the higher risk level. The Group remains vigilant and will continue to closely monitor the market situation. Robust reviews

on credit portfolios and sectors still stand to help identify and mitigate any potential risks. Overall quality of lending portfolios remained stable.

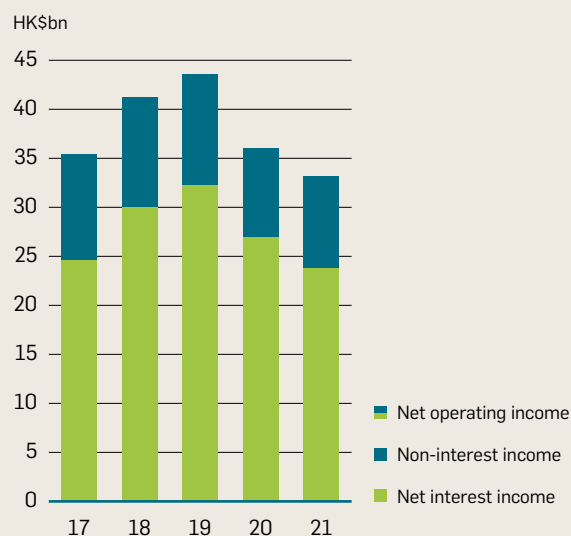
**Net operating income before change in expected credit losses and other credit impairment charges** was HK\$33,182m, down 8%. The reduction primarily reflected an 11% fall in net interest income as a result of the impact of lower global interest rates. Non-interest income grew by 2% to HK\$9,360m, with our strong performance in the first half partly offset by the impact of less favourable investment sentiment in the later part of the year. Operating expenses went up by 7% when compared with 2020. Change in expected credit losses and other credit impairment charges ('ECL') increased by 3% to HK\$2,807m, reflecting higher charges on unimpaired credit exposures (stage 1 and 2) to cover the emerging risk arising from the mainland commercial real estate sector, partly offset by lower stage 3 ECL charges and release of stage 1 and 2 ECL on other unimpaired credit exposures sectors as a result of improved economic outlook. This had an adverse impact on **operating profit**, which dropped by 19% to HK\$16,231m. Investment property revaluation recorded a surplus compared with a deficit for 2020, resulting in a 16% drop in **profit before tax** to HK\$16,385m and in **profit attributable to shareholders** to HK\$13,960m.

#### Operating Profit Analysis



#### Net Operating Income

(Before change in expected credit losses/  
loan impairment charges)



**Net interest income** decreased by HK\$3,084m, or 11%, to HK\$23,822m. Average interest-earning assets grew by HK\$42bn, or 3%, to HK\$1,595bn, driven by growth in average financial investments and customer loans. Narrowing deposit spreads and a lower contribution from net-free funds in the near-zero interest rate environment outweighed the benefits realised from improved loan spreads. The decrease in net interest income was also affected by the flattened yield curve and tightened credit spreads caused by the prevailing lower interest rate environment. Net interest margin was down by 24 basis points to 1.49%, due mainly to balance sheet repricing. Net interest spread dropped by 17 basis points to 1.42% and contribution from net-free funds decreased by 7 basis points to 0.07% as a result of the decline in market interest rates.

Figures in HK\$m	2021	2020
Net interest income/(expense) arising from:		
– financial assets and liabilities that are not at fair value through profit and loss	24,719	27,695
– trading assets and liabilities	130	189
– financial instruments designated and otherwise mandatorily measured at fair value through profit or loss	(1,027)	(978)
	23,822	26,906
Average interest-earning assets	1,595,483	1,553,012
Net interest spread	1.42%	1.59%
Net interest margin	1.49%	1.73%

The HSBC Group reports interest income and interest expense arising from financial assets and financial liabilities held for trading and income arising from financial instruments designated at fair value through profit and loss as 'Net income from financial instruments measured at fair value through profit or loss' (other than for debt securities in issue and subordinated liabilities, together with derivatives managed in conjunction with them).

The table below presents the net interest income of Hang Seng Bank, as included in the HSBC Group accounts:

Figures in HK\$m	2021	2020
Net interest income and expense reported as 'Net interest income'		
– Interest income	28,030	35,010
– Interest expense	(3,315)	(7,346)
– Net interest income	24,715	27,664
Net interest income and expense reported as 'Net income from financial instruments measured at fair value through profit or loss'	(893)	(758)
Average interest-earning assets	1,556,663	1,513,983
Net interest spread	1.52%	1.69%
Net interest margin	1.59%	1.83%

**Net fee income** increased by HK\$210m, or 3%, to HK\$6,577m, with our strong performance in the first half partly offset by the less favourable investment sentiment in the second half. We leveraged our deep customer knowledge and diverse range of wealth-and-health products together with our convenient service channels to grow our wealth management income. Income from retail investment funds increased by 19%. Card services income rose by 13%, due mainly to higher card spending and merchant sales. Credit facilities fees were up by 14%, due to higher new corporate lending activities. Trade-related fee income increased by 14%, as global trade volume recovered during the year. Other fee income was also up by 20% as a result of the increased incentives received from our growing mortgage insurance programme business and government customer relief measures. These favourable factors were offset by lower stockbroking and related services fee income, which was down by 5% due to lower transaction volume as a result of less favourable investment sentiment in the second half. Fee income from insurance business, remittance and account services fell by 15%, 7% and 5% respectively.

**Net income/(loss) from financial instruments measured at fair value through profit or loss** increased by HK\$1,026m, or 31%, to HK\$4,346m.

Net income from assets and liabilities of insurance businesses measured at fair value through profit or loss increased by HK\$1,787m, or 217%, to HK\$2,610m. This was driven by higher investment returns on the growing asset portfolio held to back insurance liabilities due to a more active portfolio management in 2021 as compared with the unfavourable market condition in 2020. To the extent that these investment returns were attributable to policyholders, there was an offsetting effect in 'Net insurance claims and benefits paid and movement in liabilities to policyholders' or 'movement in present value of in-force long-term insurance business ('PVIF')' under other operating income.

Net trading income and net income from financial instruments designated at fair value through profit or loss together fell by HK\$764m, or 31%, to HK\$1,739m, driven by the funding swap transactions which recorded a loss of HK\$93m compared with a gain of HK\$535m in 2020.

**Change in expected credit losses and other credit impairment charges** increased by HK\$69m, or 3%, to HK\$2,807m.

Figures in HK\$m	2021	2020
Loans and advances to banks and customers	2,844	2,608
– new allowances net of allowance releases	2,983	2,757
– recoveries of amounts previously written off	(167)	(104)
– other movements	28	(45)
Loan commitments and guarantees	(43)	33
Other financial assets	6	97
	2,807	2,738

The Bank regularly reviews its forward economic guidance to reflect changes in the economic outlook and other factors that may influence the credit environment. Due to tightening liquidity and increased refinancing risks in the mainland commercial real estate sector, the Group built in a material adjustment to our ECL to reflect higher risk level towards the end of 2021. The Group remains vigilant and will continue to closely monitor the market situation.

Change in ECL for stage 1 and stage 2 unimpaired credit exposures recorded a net release in the first half of the year, reflecting an improvement in the economic outlook as a result of the economy recovery. The net release was offset by higher ECL charges to cover the emerging risk arising from the mainland commercial real estate sector in the second half, resulting in an overall ECL charges of HK\$1,065m for stage 1 and stage 2 unimpaired credit exposures for the year. As a result, change in ECL for stage 1 and stage 2 registered an increase of HK\$522m when compared with net charges of HK\$543m for 2020. Wealth and Personal Banking ('WPB') recorded a net release of HK\$330m, while Commercial Banking ('CMB') and Global Banking and Markets ('GBM') recorded a net increase of HK\$852m.

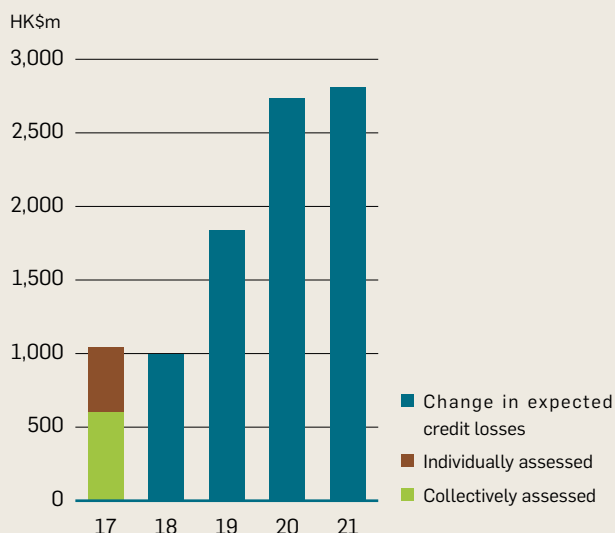
Change in ECL for stage 3 and purchased or originated credit-impaired exposures (impaired credit exposures) decreased by HK\$453m when compared with 2020 to HK\$1,742m. WPB accounted for HK\$329m of the decrease, due mainly to lower charges on credit card and personal loan portfolios. The remaining HK\$124m was related to CMB and GBM.

Gross impaired loans and advances were up by HK\$4,705m, or 82%, against 2020 year-end at HK\$10,429m. Certain impaired corporate loans through our Hong Kong office and mainland banking subsidiary were downgraded during the year as a result of the COVID-19 pandemic and the recent tightening liquidity and increased refinancing risks in the mainland commercial real estate sectors. Taking into account the collaterals and the allowances for ECL provided, the Group considered that the current provision level was adequate. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 1.04% as at 31 December 2021, compared with 0.69% at 30 June 2021 and 0.60% at the end of December 2020. Overall credit quality remained robust.

Expected credit losses as a percentage of gross loans and advances to customers are as follow:

	At 31 December 2021	At 31 December 2020
Expected credit losses as a percentage of gross loans and advances to customers	0.69%	0.55%
Gross impaired loans and advances as a percentage of gross loans and advances to customers	1.04%	0.60%

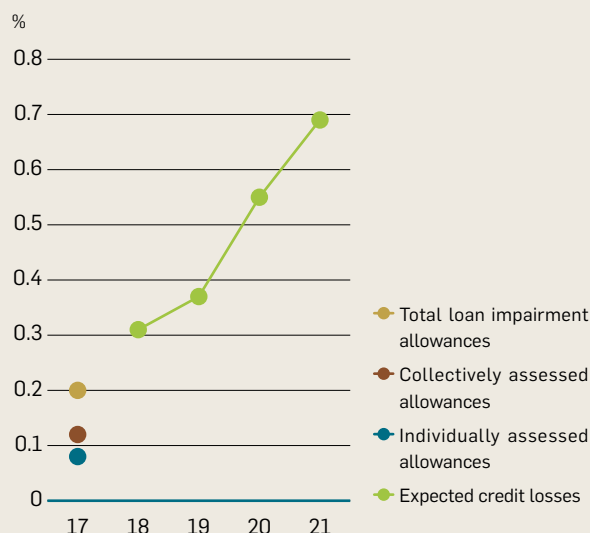
Change in expected credit losses/  
loan impairment charges



**Net insurance premium income** fell by 8%, despite higher new business sales, mainly attributable to lower renewal business. In addition, there was the recapture of a portfolio of policyholders' liabilities under a tactical reinsurance arrangement in 2020 which dragged up the net insurance premium income in 2020. Gross insurance premium grew by 5%. In the challenging operating environment, the Group continued to enrich its comprehensive range of tax and retirement-planning products and healthcare solutions to suit different customer needs, and expanded distribution through digital and broker channels.

**Net insurance claims and benefits paid and movement in liabilities to policyholders** fell by 10%. Gross insurance claims and benefits paid and movement in liabilities to policyholders remained intact compared with 2020, reflecting higher investment returns attributable to policyholders from the favourable asset market performance and higher new business sales. The decrease in movement in liabilities to policyholders was also due to the recapture of a portfolio of policyholders' liabilities under a tactical reinsurance arrangement made in 2020.

Expected credit losses/  
Loan impairment allowances as  
a percentage of gross loans and  
advances to customers



**Other operating income** dropped by 86% as a result of the change in the movement in PVIF.

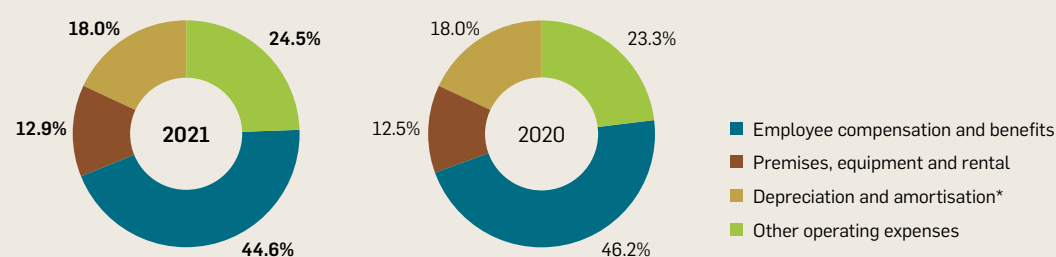
**Operating expenses** increased by HK\$929m, or 7%, to HK\$14,134m, reflecting an increase in investments, mainly IT-related costs to continue enhancing our digital capabilities, staff costs and amortisation of intangible assets.

Staff costs were up by 3%, driven largely by the refund of social security costs in 2020 to our mainland subsidiary bank and adjustments in compensation to retain high-performing talent, partly offset by the reduction in salaries resulting from lower headcount. Depreciation charges remained flat. Amortisation of intangible assets was up by 59%, reflecting higher capitalised software to support business growth within the Group. General and administrative expenses were up by 12%, largely in IT-related investment to enhance our digital capabilities and regulatory compliance programmes.

The cost efficiency ratio increased by 6.0 percentage points to 42.6%, due mainly to the impact of lower revenue resulting from decreased net interest income and increase in operating expenses.

## Financial Review

### Operating Expenses



\* Included depreciation of right-of-use assets of HK\$574m in 2021 (2020: HK\$595m)

Full-time equivalent staff numbers by region	At 31 December 2021	At 31 December 2020
Hong Kong and others	7,708	7,925
Mainland	1,688	1,703
	<b>9,396</b>	9,628

Following the gradual recovery of the property market during the year, **net surplus/(deficit) on property revaluation** recorded a net surplus of HK\$82m in 2021, compared with a net deficit of HK\$636m in 2020. **Share of profits/(losses) of associates** recorded a profit of HK\$72m in 2021, compared with a loss of HK\$75m for 2020, reflecting the movement in the property revaluation of a property investment company.

### Analysis of income from wealth management business

Figures in HK\$m	2021	2020
Investment services income <sup>1</sup> :		
– retail investment funds	1,552	1,302
– structured investment products	390	447
– securities broking and related services	2,005	2,118
– margin trading and others	71	81
	<b>4,018</b>	3,948
Insurance income:		
– life insurance:		
– net interest income	4,273	4,066
– non-interest income	(40)	111
– investment returns on life insurance funds (including share of associate's profit/(losses), net surplus/(deficit) on property revaluation backing insurance contracts and change in expected credit losses and other credit impairment charges)	2,879	724
– net insurance premium income	14,083	15,301
– net insurance claims and benefits paid and movement in liabilities to policyholders	(16,350)	(18,254)
– movement in present value of in-force long-term insurance business	(188)	2,082
	<b>4,657</b>	4,030
– general insurance and others	278	245
	<b>4,935</b>	4,275
	<b>8,953</b>	8,223

<sup>1</sup> Income from retail investment funds and securities broking and related services are net of fee expenses. Income from structured investment products includes income reported under net fee income on the sales of third-party structured investment products. It also includes profits generated from the selling of structured investment products in issue, reported under net income from financial instruments measured at fair value through profit or loss.

Wealth management business income increased by HK\$730m, or 9%, to HK\$8,953m, reflecting our success in capturing opportunities created by the upturn in investment sentiment among customers and the more favourable movement in equity market.

Total investment services income grew by HK\$70m, or 2%, to HK\$4,018m, notably in retail investment funds, partly offset by securities broking and related services.

**Income from insurance business** (included under 'net interest income', 'net fee income', 'net income from financial instruments measured at fair value through profit or loss', 'net insurance premium income', 'movement in present value of in-force long-term insurance business' and 'others' within 'other operating income', 'share of profits/(losses) of associates' and after deducting 'net insurance claims and benefits paid and movement in liabilities to policyholders' and 'change in expected credit losses and other credit impairment charges') increased by HK\$660m, or 15%, to HK\$4,935m. Net interest income from life insurance business grew by HK\$207m, or 5% to HK\$4,273m, as the size of the life insurance funds investment portfolio grew, reflecting a net inflow from new and renewal business. Investment returns on the life insurance portfolio increased by HK\$2,155m, or 298%, to HK\$2,879m, mainly driven by the active portfolio management performance in 2021 as compared with a less favourable equity market performance in 2020. To the extent that these investment portfolio returns were attributable to policyholders, there was an offsetting movement in 'net insurance claims and benefits paid and movement in liabilities to policyholders' or 'movement in PVIF' under other operating income.

Net insurance premium income fell by 8%, despite higher new business sales, mainly attributable to lower renewal business. In addition, there was the recapture in 2020 of a portfolio of policyholders' liabilities under a tactical reinsurance arrangement in 2020 which dragged up the net insurance premium income in 2020. Gross insurance premium grew by 5%. In the challenging operating environment, the Group continued to enrich its comprehensive range of products and healthcare solutions to suit different customer needs, and expanded distribution through digital and broker channels. Through entering a partnership with 'yu', which was one of the largest Hong Kong loyalty program, the Group has successfully extended the footprint to non-bank customers. Hang Seng Olive, a new mobile health and wellness app launched in first half of 2021, provides a diverse array of online health and wellness services such as a clinic e-booking service, and virtual health consultations, and convenient access to a wide variety of insurance solutions.

Net insurance claims and benefits paid and movement in liabilities to policyholders fell by 10%. Gross insurance claims and benefits paid and movement in liabilities to policyholders remained intact compared with 2020, reflecting higher investment returns attributable to policyholders from the favourable growth asset market performance and higher new business sales. The decrease in movement in liabilities to policyholders was also due to the recapture in 2020 of a portfolio of policyholders' liabilities under a tactical reinsurance arrangement.

The growth of new business and favourable investment return have driven up the PVIF. However, the movement in PVIF reported under 'other operating income' was unfavourable compared to 2020 was mainly due to offsetting adjustment to PVIF to account for the sharing of favourable investment returns attributable to policyholders. On the other hand, investment returns moved in opposite direction with significant positive adjustment to PVIF in 2020.

General insurance income up by HK\$33m, or 13% compared with 2020.

### Second half of 2021 compared with first half of 2021

The Group's robust first-half results reflected its active initiatives to grow wealth management business income as financial markets began to recover and a reduction in ECL charges following an improvement in economic outlook. As we moved into the second-half of 2021, wealth management business income was impacted by the greater market uncertainties and less favourable investment sentiment. In addition, developments in the mainland property market has exerted pressure on the liquidity and funding of the mainland property developers, leading to some default cases on these developers in the market towards the end of 2021. As uncertainty remains in the mainland commercial real estate sector, the Group updated its outlook on mainland commercial real estate sector to reflect the higher risk level, and built up higher stage 1 and 2 ECL. This action more than offset the net release in overall stage 1 and 2 ECL in the first half. The impact of low interest rates continued to have an adverse effect on net interest income. The Group will continue to monitor the effectiveness of its strategy and to drive business momentum to ensure it remains well-positioned to capture business growth opportunities as markets and economies recover.



**Net operating income before change in expected credit losses and other credit impairment charges** was HK\$15,856m, down by HK\$1,470m, or 8%, driven by the 28% decrease in non-interest income due to weakened market investment sentiment in the second half. With the 9% increase in operating expenses and higher ECL charges, **operating profit** decreased by HK\$4,215m, or 41%. **Profit attributable to shareholders** decreased by HK\$3,574m, or 41%, when compared to the first half of 2021.

**Net interest income** remained flat, with the increase in average interest-earning assets partly offset by the narrowed net interest margin in the low interest rate environment. Average interest-earning assets grew by 1%, driven by the increase in customer lending. Net interest margin remained stable and was down by 3 basis points to 1.48%, reflecting the compressed deposit spreads.

**Operating expenses** increased by HK\$626m, or 9%, driven mainly by higher general and administrative expenses with increases in marketing and advertising costs, consultancy fees, data-processing fees and IT-related investment on regulatory compliance programmes, which collectively

outweighed the decrease in staff costs. The Group will continue to actively manage operating expenses to facilitate the continued direction of resources towards further optimising its digital capabilities.

**ECL** charges increased by HK\$2,129m, due to higher impairment charges under stage 1 and 2 unimpaired credit exposures and stage 3 impaired credit exposures. Stage 1 and 2 ECL charges recorded a net charge of HK\$1,411m in the second half compared with a net release of HK\$346m in the first half, reflecting higher stage 1 and 2 ECL made against the potential emerging risk arising from uncertainties in the mainland commercial real estate sector, which more than offset the net release in overall stage 1 and 2 ECL in the first half. Stage 3 ECL charges increased by HK\$372m when compared with the first half to HK\$1,057m, reflecting the downgrade of certain corporate customers across a few sectors, partly offset by lower ECL charges on credit cards and personal lending.

**Net surplus/(deficit) on property revaluation and share of profits/(losses) of associates** was broadly in line with the first half.

## Segmental Analysis

The table below sets out the profit before tax contributed by the business segments for the years stated.

Figures in HK\$m	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Other	Total
<b>Year ended 31 December 2021</b>					
<b>Profit/(loss) before tax</b>	<b>9,682</b>	<b>4,147</b>	<b>2,965</b>	<b>(409)</b>	<b>16,385</b>
<b>Share of profit/(loss) before tax</b>	<b>59.1%</b>	<b>25.3%</b>	<b>18.1%</b>	<b>(2.5)%</b>	<b>100.0%</b>
<b>Year ended 31 December 2020 (restated)</b>					
<b>Profit/(loss) before tax</b>	<b>10,522</b>	<b>5,055</b>	<b>4,970</b>	<b>(1,133)</b>	<b>19,414</b>
<b>Share of profit/(loss) before tax</b>	<b>54.2%</b>	<b>26.0%</b>	<b>25.6%</b>	<b>(5.8)%</b>	<b>100.0%</b>

**Wealth and Personal Banking ('WPB')** recorded a 6% year-on-year decrease in net operating income before change in ECL to HK\$18,506m. Operating profit dropped by 9% to HK\$9,610m and profit before tax decreased by 8% to HK\$9,682m.

The period-end balance of deposits was broadly in line with 2020 year-end and loans were up by 6% year-on-year. However, the persistent downward trend in market interest rates resulted in an 11% drop in net interest income to HK\$13,013m.

We are committed to investing in technology and people. We have advanced data analytics capabilities, and uplifted our digital banking capabilities in terms of products, user experience and journeys, and wealth management portfolio analysis tools. This helped drive an 8% increase in non-interest income to HK\$5,493m and wealth management business revenue grew by 11%.

Our continuous investment in technology and digital infrastructure has enabled us to meet the changing demand of our customers. Year-on-year, the average number of monthly mobile users increased by 12%, mobile app log-ons rose by 26% and the total number of online transactions grew by 44%.

We successfully delivered over 415 new digital innovations and enhancements to enrich our suite of customer-centric solutions and make digital banking simpler and more convenient for customers. These features included the 'My Investment' mobile wealth dashboard, our 'all-in-one' credit card management platform with real-time transactions and payment information, enhanced mobile Transfer & Pay platform with seamless, one-stop limit and payee management, as well as enhancements to our online wealth and insurance platforms with enriched information and functionalities that make it easier for customers to get an overall picture of their portfolios and to manage their holdings and policies.

We further enriched our open banking ecosystem to integrate our services closer to everyday lifestyle needs, and bring banking services to customers exactly when and where they need them. This included our exclusive insurance business partnership with the 'yuu' rewards programme mobile app, expanding the Cash Dollars rewards ecosystem to include earning and spending of Cash Dollars on Trip.com, and a new online payment service, 'Pay with Hang Seng'. Our online and mobile platform and product innovations continue to be well recognised by the industry, and we won nine major digital banking awards in 2021 from organisations including *The Asian Banker* and *The Asset*.

Total investment services income recorded year-on-year growth of 4% amid volatile market conditions. We leveraged our comprehensive all-weather portfolio of wealth management products and enhanced analysis tools to provide personalised wealth solutions for our customers. We also launched more wealth products and capabilities for mid-to-mass segments. We were the first bank in Hong Kong to extend equity-linked investment product services to US securities and we added more investment products online and offline to expand customer choice for portfolio diversification. To capture opportunities from cross-boundary business, in October 2021 we were among the first batch of banks to launch a Cross-boundary Wealth Management Connect service. Leveraging our well-established connectivity and competitive strengths in Hong Kong and the mainland, we are well-positioned to meet customers' needs and take full advantage of the opportunities offered by the Scheme to expand our customer base and business in the Greater Bay Area ('GBA').

Insurance income rose by 17%, reflecting our astute management of the life insurance investment portfolio amid volatile financial markets. We achieved strong growth in our distribution business supported by the launch of new whole-life products and enhanced annuity products to fulfil

customer needs for lifetime protection, legacy planning and long-term asset growth. Our one-stop mobile health-and-wellness solution, Olive Wellness App, successfully built up an ecosystem through a suite of wellness engagement initiatives and touchpoints for insurance offerings, and is providing a sizable and sustainable pipeline for future insurance business growth. The app also promoted healthy and green lifestyles and recorded over 2.4 billion tracking step counts from users in 2021.

Leveraging our extensive network, dedicated sales mortgage teams and the strong momentum of the property market, we achieved a remarkable 34% year-on-year increase in new mortgage drawdowns, and grew our mortgage balances by 7% in Hong Kong. Our competitive pricing and customer-centric end-to-end services led to new mortgage business growth that outpaced the market. We continued to rank among the top three in Hong Kong for new mortgage registrations.

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

We continued to invest in transforming our branch infrastructure and advancing our digitalised servicing model to deliver customer-centric services. As part of our 'Future Branch' concept, we deployed a GO Digital Expert Team that leverages technology such as digital tablets and one-touch password authentication to assist customers with various account services, enabling them to avoid queuing for counter services while also supporting a shift 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.

Driven by our customer-centric values, we have invested and strengthened our analytics capabilities to provide solutions that are highly tailored to individual customer needs, and adopted a robust contact management platform to deepen and broaden client relationships. Facilitated by our strengthened customer proposition, we achieved a 23% year-on-year increase in the Signature customer base and grew our Prestige and Preferred Banking customer base by 12%.



**Commercial Banking ('CMB')** recorded a 12% year-on-year decrease in net operating income before change in ECL to HK\$8,936m. Operating profit and profit before tax both dropped by 18% to HK\$4,147m.

The low interest rate environment impacted returns from deposits despite an 8% increase in the deposit balance, resulting in a 15% drop in net interest income.

We stayed active in syndicated loan markets and kept our third-place ranking in the League Table for Hong Kong Mandated Arrangers in terms of number of deals. This helped drive a 10% increase in our credit facilities fee income. We captured market opportunities to grow our foreign exchange income by 9% and trade fee income by 3%. However, such growth was offset by the decrease in investment services income which was affected by market volatility and drop-off in cross-boundary commercial activity due to the pandemic. Overall, non-interest income was largely in line with the previous year.

As part of the Bank's efforts to be a leader in advancing environmental, social and governance ('ESG') considerations, we are facilitating customers' transition to the low-carbon economy. In 2021, we introduced sustainability-linked loans ('SLL') and enhanced existing trade finance products with green and sustainable features to incentivise customers to improve their ESG performance. We also stepped up our collaboration with Hong Kong Quality Assurance Agency to help customers using green financing to capitalise on the enormous business growth potential in the GBA.

On top of our strategic alliance with Hong Kong Cyberport Management Company to assist customers to capture the opportunities in the GBA, we formed a strategic partnership with Hong Kong Trade Development Council to co-create 'InnoClub', a one-stop platform to help SME to digitalise their operations and adopt innovative business solutions. Our InnoTech Fund also provides funding support for innovation development.

We continue to drive digitalisation and deployed Contour, a global blockchain network, to conduct documentary trade digitally via a web-based portal. We also participated in eTradeConnect—the blockchain network established by local banks which has expanded its coverage and connected with the People's Bank of China ('PBoC') trade finance platform. We succeeded in piloting the connection with the PBoC and this will provide a solid foundation to capture cross-boundary digital trade finance activities.

We have strengthened our main bank proposition via the introduction of Virtual Account, a tool that enables customers to manage payment collections and accounts reconciliation in a more timely manner. We have partnered with several fintech firms to facilitate the ecosystem operations of various industry sectors, including medical, educational and retail catering. To support SMEs in capturing business opportunities from the Hong Kong Government's Consumption Voucher Scheme, we worked with a fintech partner to develop a static QR code collection solution. We have also updated our GBA remittance capability to make it possible for Hang Seng China customers to complete US dollar payments to Hong Kong within five minutes.

Supported by the roll-out of our Remote Account Opening service with e-sign feature, we have improved the customer experience by shortening onboarding times. Customers can now open a 'Biz Virtual+' account in as fast as three working days. This helped us more than double our monthly average customer acquisition rate compared with the previous year.

To better serve our corporate customers, we upgraded our Business Banking Centres in Tsim Sha Tsui and Kwun Tong including the introduction of dedicated transaction counters to provide all-round banking services.

We maintained good asset quality by adopting proactive credit risk management, though we made appropriate provisions for a few specific cases in the mainland commercial real estate sector that experienced tightening liquidity.

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

**Global Banking and Markets ('GBM')** recorded an 11% year-on-year decrease in net operating income before change in ECL to HK\$5,426m and a 40% decrease in both operating profit and profit before tax to HK\$2,965m.

**Global Banking ('GB')** reported a 3% year-on-year growth in net operating income before change in ECL to HK\$2,757m. Operating profit and profit before tax both dropped by 55% to HK\$962m, due mainly to an adjustment in ECL provisions against exposures to the mainland commercial real estate sector. Our proactive management of credit risk kept the overall credit quality of our portfolio stable.

Net interest income was broadly in line with 2020.

We provided tailor-made, industry-specific cash management solutions for clients across various sectors, including property management, retail conglomerates, insurance and non-bank financial services. The positive response to our efforts helped drive strong growth of 21% in our current and saving deposits which gave us the flexibility to manage the acquisition cost of time deposits and achieve robust growth in deposit interest income. Our award-winning cash management digital solutions, including APIs, QR code collection channel and one-click fixed deposit service, helped our customers achieve more efficient business operations while supporting ESG objectives through paperless transactions. Overall, we recorded a 22% year-on-year shift in transaction volume from counter services to digital channels. Our strong across-boundary connectivity enabled us to support customers in the GBA with a wide variety of services, including cross-boundary liquidity management solutions.

In the uncertain economic conditions, we managed to achieve strong growth of 11% in the loan balance by diversifying our portfolio, including by acquiring new customers in 'new economy' sectors. However, with keen market competition to acquire quality loan assets, our credit spread continued to be under pressure, resulting in a 3% drop in loan interest income. With the transition of the London Interbank Offered Rate ('LIBOR'), we completed the first risk-free rate (Sterling Overnight Index Average ('SONIA')) loan for the Bank. To support the ESG objectives of the Bank and its clients, we were active in arranging 'green financing' during the year and achieved good growth in our green loans portfolio. We also provided financing for customers through our newly launched SLLs.

Non-interest income rose by 24% to HK\$388m. Leveraging our strong customer relationships, we further stepped up our development and diversification of non-fund income sources of revenue. Higher income from commissions was generated from strong growth in trade service business, including factoring, supply chain finance and performance bonds. Our syndicated loan business continued to perform well and remained a key contributor in 2021. More fee income was contributed from the activities of our Debt Capital Markets origination team, which completed several breakthrough deals involving dim-sum and green bonds during the year.

**Global Markets ('GM')** reported a 22% decrease in net operating income before change in ECL to HK\$2,669m. Operating profit and profit before tax both decreased by 29% to HK\$2,003m, reflecting a drop in revenue from Markets Treasury.

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

Revenue from sales and trading recorded a slight increase to the previous year. Signs that the worst of the pandemic might be coming to an end encouraged corporate clients become more active in the first half of the year, helping to drive a 7% year-on-year increase in corporate foreign exchange turnover. We also recorded significant growth in our Hong Kong dollar and renminbi trading revenue. Our Repo Trading business continued to build good momentum and we advanced with initiatives to deepen the penetration of GM products among WPB, CMB and GB customers.

Under the Institutional Bond Issuance Programme, the Hong Kong Monetary Authority issued the first one-year HONIA-indexed Floating Rate Notes in November. As one of the key primary dealers, we actively participated in this issuance and submitted our tender on the Notes.

To support the Bank's fintech strategy, we on-boarded the Bank's 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.

## Balance sheet Analysis

### Assets

Total assets increased by HK\$60bn, or 3%, to HK\$1,820bn compared with 2020 year-end, with the Group maintaining resilient business momentum and progressing with its strategy of enhancing long-term profitability through sustainable growth.

Cash and balances at central banks increased by HK\$6bn, or 51%, to HK\$17bn. Trading assets were up by HK\$10bn, or 28%, to HK\$47bn, mainly in Hong Kong Exchange Fund Bills.

## Financial Review

Customer loans and advances (net of allowances for ECL) increased by HK\$53bn, or 6%, to HK\$997bn. The Group continues to actively support the Hong Kong government relief measures in response to the COVID-19 outbreak. Loans for use in Hong Kong grew by 3%. Lending to industrial, commercial and financial sectors decreased by 1%. Lending for property development increased 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 more than offset by the decline in loans outstanding from financial concerns, wholesale and retail trade, manufacturing and information technology and telecom sectors. Lending to individuals grew by 8%. With the more active property

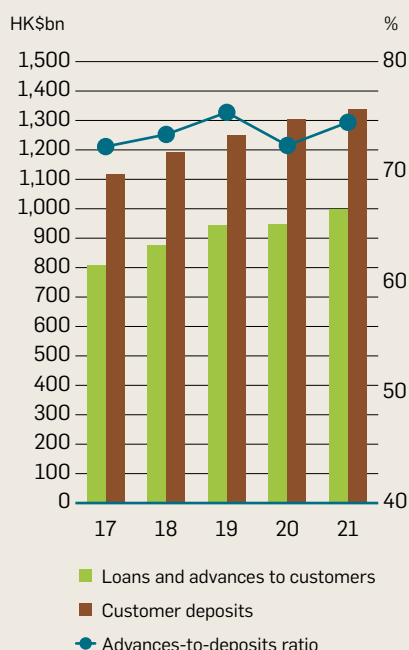
market, residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending grew by 7% and 13% respectively. Trade finance lending regained momentum and grew by 57%, reflecting a recovery in global trade volumes. Loans for use outside Hong Kong grew by 9%, mainly reflecting increased lending by the Group's mainland banking subsidiary and loans for use outside Hong Kong granted by the Hong Kong office.

Financial investments decreased by HK\$54bn, or 10%, to HK\$500bn, reflecting the partial redeployment of the commercial surplus to support loan growth.

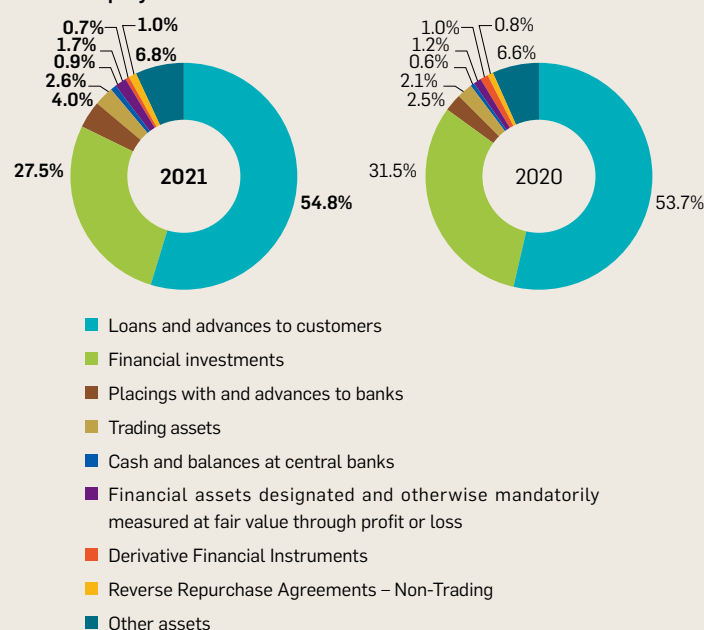
### Assets Deployment

Figures in HK\$m	At 31 December 2021	%	At 31 December 2020	%
Cash and balances at central banks	16,896	0.9	11,226	0.6
Trading assets	47,433	2.6	37,117	2.1
Derivative financial instruments	13,224	0.7	17,181	1.0
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	31,326	1.7	20,695	1.2
Reverse repurchase agreements – non-trading	18,821	1.0	13,360	0.8
Placings with and advances to banks	72,493	4.0	44,357	2.5
Loans and advances to customers	997,397	54.8	944,774	53.7
Financial investments	500,386	27.5	554,720	31.5
Other assets	122,209	6.8	116,357	6.6
<b>Total assets</b>	<b>1,820,185</b>	<b>100.0</b>	<b>1,759,787</b>	<b>100.0</b>
Return on average total assets	<b>0.8%</b>		<b>1.0%</b>	

### Loans and Advances to Customers and Customer Deposits



### Assets Deployment

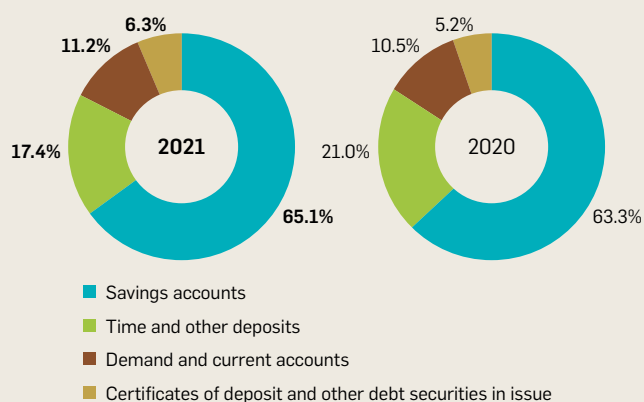


### Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK\$35bn, or 3%, to HK\$1,339bn against the end of 2020. Current and savings deposits increased, but there was a drop in time deposits. To diversify its source of funding, the Group issued more certificates of deposit during 2021. At 31 December 2021, the advances-to-deposits ratio was 74.5%, compared with 72.4% at 31 December 2020.

Figures in HK\$m	At 31 December 2021	At 31 December 2020
Customer loans and advances (net of allowances for ECL)	997,397	944,774
Customer deposits, including certificates of deposit and other debt securities in issue	1,338,800	1,304,083
Advances-to-deposits ratio	74.5%	72.4%

### Customer Deposits



### Shareholders' equity

Figures in HK\$m	At 31 December 2021	At 31 December 2020
Share capital	9,658	9,658
Retained profits	140,100	137,580
Other equity instruments	11,744	11,744
Premises revaluation reserve	18,428	17,960
Cash flow hedging reserve	46	260
Financial assets at fair value through other comprehensive income reserve	2,499	4,557
Other reserves	1,857	1,341
Total reserves	174,674	173,442
Total shareholders' equity	184,332	183,100
Return on average ordinary shareholders' equity	7.7%	9.6%

At 31 December 2021, shareholders' equity was up by HK\$1bn, or 1%, to HK\$184bn compared with 2020 year-end. Retained profits were up by HK\$3bn, or 2%, reflecting profit accumulation after the appropriation of dividends paid during the year. The premises revaluation reserve was up HK\$0.5bn, or 3%, reflecting the favourable movement in the commercial property market in Hong Kong during the year. Financial assets at fair value through other comprehensive income reserve decreased by HK\$2bn, or 45%, mainly reflecting the fair value movement of the Group's investments in financial assets measured at fair value.