

The operating environment remained difficult in 2022. A fifth COVID wave in Hong Kong during the first half of the year had an adverse impact on commercial activity. Developments in the external environment resulted in disruptions to the international supply chain, growing inflationary pressures and increased uncertainty over the global economic outlook. Financial markets continued to experience heightened volatility.

Amid the challenging operating conditions, we maintained good growth momentum in key business areas and achieved significant progress with our transformation strategy. Through actions to future-proof our business we are in a better position to further leverage our existing competitive strengths and establish a leading market position in new and emerging areas of long-term growth.

Customer loans and advances (net of allowances for expected credit losses ('ECL')) fell by HK\$66bn, or 7%, to HK\$931bn. Loan growth was muted, reflecting both market conditions and our risk mitigation actions. Loans for use in Hong Kong decreased by 4%. Lending to industrial, commercial and financial sectors dropped by 9%. Trade finance lending decreased by 15%, due mainly to the slowdown of global trade volumes and loan repayment during the year. Lending to individuals grew by 3%.



In commercial and corporate lending, loans for property development and property investment were down by 11%. There was increased lending to information technology and financial concerns sectors, but these were more than offset by the decline in loans outstanding from the wholesale and retail trade, manufacturing, transport and transport equipment and 'Others' sectors.

In loans to retail customers, residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending grew by 4% and 1% respectively in the less active property market. Credit card advances grew by 1%, while other personal lending dropped by 2%.

Loans for use outside Hong Kong were down by 12%, due to decreased lending by Hang Seng China and our Hong Kong operations.

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK\$50bn, or 4%, to HK\$1,389bn against the end of 2021. Growth in time deposits in response to rising interest rates was partly offset by the decrease in current and savings account deposits.



## Expanding Cross-boundary Services

The Bank has taken significant steps to expand and enhance cross-boundary services to meet the growing demand in the Greater Bay Area. These include the opening of our strategically located Cross-boundary Wealth Management Centre in Sheung Shui, along with strengthened support for corporate clients looking to tap into business opportunities in the Greater Bay Area. This focus on meeting our customers' evolving needs will establish us as the preferred financial services provider across the markets.



## Wealth and Personal Banking

Wealth and Personal Banking recorded a 1% year-on-year decrease in net operating income before change in ECL and other credit impairment charges to HK\$18,287m. Operating profit and profit before tax dropped by 9% to HK\$8,707m and by 10% to HK\$8,697m respectively.

Our business remained resilient against the backdrop of the fifth COVID wave in Hong Kong and increased volatility in investment markets. Net operating income before change in ECL and other credit impairment charges fell by HK\$219m year-on-year. Financial market movements had a HK\$3,084m adverse impact on life insurance manufacturing. This was partly offset by the 32% year-on-year increase in net interest income, riding on the interest rate hike cycle. Revenue from interest-earning activities accelerated during the second half of 2022, with net interest income growing by 53% compared with the first half of the year.

Our balance sheet remains strong. In the second half of 2022, intensified market competition in retail deposits accelerated the shift of funds from current and savings accounts to time deposits. Despite the headwinds, we strengthened client relationships and increased customer deposits by 6% year-on-year. Gross loans and advances to customers grew by 2% and we maintained a strong market position in various areas, including mortgage registrations, card receivables and personal loans. To meet our customers' needs for sustainable solutions, we introduced Green Mortgages and electric vehicle loans.

Growth in our strategic customer segments further strengthened our robust foundation for the long-term expansion of our business. Supported by enhanced customer propositions and journeys, and the use of modern messaging platforms to provide personalised product and service offerings, we deepened existing customer relationships and attracted new clients. We achieved a 16% year-on-year increase in key segments, including high-net-worth and emerging affluent customers.

Our insurance business maintained good momentum amid the unfavourable macroeconomic environment and the disruptive effects of the pandemic. Enhancements to our savings and protection products further strengthened our retirement and legacy planning proposition, which helped us capture growth in strategic customer segments. We grew net insurance premiums income by 44% year-on-year. We continued to invest in service innovations and advance our strategic imperatives. We maintained a top-three market position in digital insurance, supported in part by the 135% year-on-year increase in the number of digital insurance policies sold.

Our wholly owned subsidiary, Hang Seng Investment Management Limited, became the new manager of The Tracker Fund of Hong Kong, the largest exchange-traded fund ('ETF') in Hong Kong. Due in part to taking up this new role, which further strengthens our leadership in the local asset management market, our asset management business grew by 75% year-on-year. In February 2022, Hang Seng Investment Management launched the first Hong Kong-listed ESG ETF based on the Hang Seng Index to further increase product choice for investors.

# Digital Innovations



## Enhance Customer Experience

As a leading bank incorporating the latest digital and lifestyle trends, Hang Seng launched Hong Kong's first Mobile Cheque Deposit service and we continue to reinforce our omni-channel strategy by enhancing the digital services available at our branches. Hang Seng also became the first bank in Hong Kong to offer US equity-linked investments on both mobile and e-Banking platforms. In the past year, we launched hundreds of new and enhanced digital initiatives, inspired by customer-centric creativity and our ongoing commitment to improving the customer experience.







Our broad spectrum of foreign exchange investment products provided a variety of options for customers looking to capture opportunities in the volatile market conditions. We recorded a 166% year-on-year increase in foreign exchange investment customers and record growth in sales of our capital protected investment deposit product. We enriched our fixed-income offerings with the relaunching of certificates of deposit and extended fixed-income trading to our digital channel. This latter development is a major digital service milestone, with all our investment product offerings now available on our digital platform. Our fixed-income customer base increased significantly and sales turnover of our fixed-income products grew by 291% year-on-year.

Digital transformation remains a core part of our strategy. We successfully delivered over 460 new digital innovations and enhancements in 2022. Our first-in-market services in Hong Kong include Mobile Cheque Deposit, a Green Receipt service at branches and the introduction of US equity-linked investments on both mobile and online banking platforms.

Other digital developments include a securities profit-and-loss tracking service, and an omni-channel shopping cart that allows for the offline-to-online completion of investment fund transactions and a document centre function that provides the convenience of reviewing investment documents online. Customers can also now enjoy online installment payment services with instant approval when making card purchases or bill payments online.

# Catering for the Special Needs of SMEs



As a trusted partner of SMEs, we understand the financial challenges SME owners may encounter in a competitive and ever-changing business environment. Our support includes enhanced digital banking solutions to ensure seamless cross-channel services, as well as simpler digital account opening procedures offering shorter processing times. Additionally, to support the green agenda of business customers, staff at our new Business Banking Centre who have completed ESG training can provide our customers with information on ways to further embed sustainability into their business operations.

We introduced a new Relationship Management platform and have equipped all our Prestige Relationship Managers with 'Prestige RM Connect', which enables them to engage more easily with our customers. Supported by our digital innovations and enhancements, we recorded an 11% year-on-year increase in the number of monthly mobile active customers and our digital transaction count for deposits, foreign exchange and loans rose by 98% year-on-year.

We introduced Hazel, Hong Kong's first digital influencer in the banking sector. Riding on our 'Green Moments' campaign, we also launched our first Non-Fungible Tokens, co-created with local Hong Kong artists.

Our initiatives have been well recognised throughout the year with a number of industry awards from different organisations, including 'Best Mobile Banking Service Award' in *The Asian Banker Hong Kong Awards 2022* and 'Outstanding Digital Banking Service' in the *Capital Outstanding eCommerce Awards 2021/22*.

To further drive innovation, we have entered into strategic alliances with various business partners, including to develop an immersive experience for our customers in The Sandbox Metaverse. We are also continuing to work with various stakeholders, including fintech partners, to help support central bank digital currency development in Hong Kong.



# Green Actions for a Green Future



We aim to reduce carbon emissions from our own operations to net zero by 2030. We are also contributing to the HSBC Group's ambitions of becoming net zero in its supply chain by 2030 and aligning the financed emissions in its portfolio of customers to net zero by 2050. We actively support the green initiatives of our personal banking customers through our banking products and services, such as Green Mortgages, Green Receipts and electric vehicle loans, as well as Green Deposits for our commercial customers.





## Commercial Banking

Commercial Banking recorded an 8% increase in net operating income before change in ECL and other credit impairment charges to HK\$9,625m. Operating profit and profit before tax both dropped by 81% to HK\$775m.

We achieved good growth in net interest income, which increased by 16% year-on-year. Continuous efforts to acquire new quality customers helped enhance our portfolio and amplify the positive impacts of interest rate hikes.

Non-interest income fell by 22% year-on-year, with developments in the external environment having an adverse effect on commercial activity and trade flows. In insurance, we continued to provide tailor-made solutions to meet the specific needs of our customers and recorded strong growth in sales of keyperson insurance. However, the movements in the financial markets had an unfavourable impact on our insurance business.

Net operating income before change in ECL and other credit impairment charges in the second half of 2022 increased by 17% against the first half of the year, supported in part by higher market interest rates and the relaxation of social distancing restrictions.

We moved forward with digital transformation to keep pace with the rapidly evolving financial services ecosystem and to fulfil customer expectations for seamless and simplified bank experiences. We are one of the first batch of banks to use the Commercial Data Interchange, a next-generation financial data exchange platform built by Hong Kong Monetary Authority to enhance decision-making and shorten loan application times for SMEs. We enriched our online foreign exchange service with real-time rate quotes to allow customers manage their foreign currency cash flows more effectively.

To better serve customers' daily operations, we revamped our trade platform to improve processing efficiency. This is enabling us to capture new structured trade opportunities in the Greater Bay Area. The introduction of digital receivables finance has significantly shortened onboarding times. Our new Virtual Card payment service allows customers to handle each transaction with a unique card number for safer online business and easier reconciliation.

We have also prioritised our resources in supporting customers with their sustainability performance and the transition to the low-carbon economy. Our new Wan Chai Business Banking Centre has an ESG-focused service concept and an eco-aware design. Staff at the Centre have completed specialised training in order to provide customers with suggestions and tips for integrating sustainability elements into their business operations.

Green loans and sustainability-linked finance approvals in Hong Kong increased year-on-year. We also launched a Green Deposit service, which provides customers with a way to support greater sustainability as such deposits are only lent to borrowers to finance sustainability initiatives.

Quality new customer acquisition remained a key focus. Supported by improved customer onboarding experiences, as well as strategic partnerships with local industry associations and organisations, the number of new customers acquired grew by 38% year-on-year.

We increased our ECL in response to the further deterioration in credit conditions in the mainland commercial real estate sector. Overall, our asset quality remains healthy. We will continue to closely monitor our portfolio.





## Global Banking

Global Banking maintained net operating income before change in ECL and other credit impairment charges in line with 2021 at HK\$2,756m. Operating profit and profit before tax both dropped by 60% to HK\$380m.

Net interest income grew by 2% to HK\$2,411m compared with 2021. Our customer deposit balance increased by 5% year-on-year, which helped drive the 5% growth in deposit interest income. We took steps to enhance our loan portfolio, focusing on greater diversification. We also placed more emphasis on trade financing to support our customers' business operations.

Reduced business activity in the market due to pandemic-related disruptions and the slowdown in the global economy resulted in an 11% year-on-year drop in non-interest income to HK\$345m.

We proactively developed new solutions to meet our customers' current and future needs. With our strong market knowledge and in-depth understanding of our clients' businesses, we used our corporate API solution to help them streamline cash management by integrating the process more deeply into their day-to-day business operations.

Year-on-year, we increased our trade loan balance by 41% to HK\$22bn, leading to a 75% increase in the related net interest income. Trade-related non-interest income grew by 15%.

Leveraging our strong customer relationships, we continued to develop and diversify our income streams, particularly through our newly established Bond Management team. To further broaden our sources of non-interest income, we proactively expanded our insurance business by offering keyperson insurance to senior executives of our corporate customers.

We continued to support the sustainability agenda, with strong growth recorded in newly approved green and sustainability-linked loans in Hong Kong. We also launched a Green Deposit service to corporate customers, enabling them to enjoy deposit returns and support greater sustainability in the business community.

In the high interest rate environment, we collaborated closely with the Global Markets team to capture more business providing hedging solutions to customers.

## Global Markets

Global Markets maintained net operating income before change in ECL and other credit impairment charges in line with 2021 at HK\$2,671m. Operating profit and profit before tax both increased by 1% to HK\$2,024m.

Net interest income declined by 15% to HK\$1,524m, with rising interest rates during the year challenging the net interest margin. The Markets Treasury team continued to actively seek good market opportunities and take actions to enhance and diversify the portfolio while upholding appropriate risk management standards.

Non-interest income increased by 31% to HK\$1,147m, due mainly to strong revenue growth in sales and trading. We successfully captured opportunities in the volatile foreign exchange markets, with revenue from foreign exchange and option trading recording significant growth compared with 2021. We made further good progress with enhancing our service capabilities by implementing new digital solutions to support business growth.

# Supporting Customers' Wealth Management Aspirations



Hang Seng provides trusted wealth management services that meet the diverse needs of our customers across the Greater Bay Area. Backed by our market and investment specialists, strong digital capabilities and full suite of products, our Relationship Managers work closely with clients to achieve their wealth goals and aspirations at all stages of life. With our 24-hour Wealth Service team and omni-channel service platform, customers enjoy round-the-clock wealth management advice and support.





Achievements in the further diversification of our revenue base include the expansion of our Repo business portfolio by 40% year-on-year. We enhanced our hedging capacity in equity derivatives by including Hong Kong-listed equity index futures in the fourth quarter of 2022. We continued with initiatives to deepen Global Markets' product penetration among Bank customers through close collaboration with the Wealth and Personal Banking, Commercial Banking and Global Banking teams. In particular, we promoted Hang Seng certificates of deposit through collaboration with the Commercial Banking Wealth Management team.

We continued with actions to support the development of the green and social bond secondary market.

## Hang Seng Indexes

Wholly owned subsidiary Hang Seng Indexes Company ('Hang Seng Indexes') continued to strengthen its position as a leading index compiler in Hong Kong. The Company's deep understanding of the Hong Kong and mainland markets, as

well as emerging investment trends, facilitated the timely launch of new indexes to support a diverse range of portfolio strategies based on various global megatrends, cross-boundary activity and ESG-related themes.

These efforts earned Hang Seng Indexes positive industry recognition during the year, including 'Best ESG Index Provider – Hong Kong' and 'Most Innovative Index – Hong Kong' in *Asia Asset Management's* Best of the Best Awards 2022, 'Index Provider of the Year – Regional' and 'ESG Innovation of the Year' in *Insights & Mandate's* Professional Investment Awards 2022 and 'Best ESG Solution' at the SRP Asia Pacific Awards 2022 organised by *Structured Retail Products*.

As at the end of 2022, the Hang Seng Family of Indexes comprised more than 1,600 indexes covering Hong Kong and mainland markets, including 218 real-time indexes. There were 113 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

## AWARDS AND RECOGNITION 2022

**Sustainable Finance Award Hong Kong**  
**Safest Bank in Hong Kong**

GLOBAL FINANCE

**No. 1 in Hong Kong for Gender Equality**

EQUILEAP

**Outstanding Digital Banking Service**

CAPITAL MAGAZINE

**Best Mobile Banking Service (Hong Kong)**  
**Best Payments Bank in Hong Kong**

THE ASIAN BANKER

**Commercial Banking Outstanding Award**  
**(China Greater Bay Area)**

BLOOMBERG BUSINESSWEEK

**Best Fintech for Digital CX – Cross Border Payments**

THE DIGITAL BANKER

**Best Supply Chain Solution**  
**Best Hedging and Risk Solution: Rates**

THE ASSET

**Best Trade Finance Foreign Bank**

TRADING FINANCE

**The Golden Brand Bank**

SECURITIES TIMES

**GBA Best Wealth Management Service**

YANGCHENG EVENING NEWS

**Sustainable Financial Innovation**

CBN

**Outstanding Public Welfare Innovation Enterprise**  
**of the Year**

21<sup>ST</sup> CENTURY BUSINESS HERALD



Family of Indexes at 2022 year-end had reached a total of about US\$57.6 billion, which increased by 32% year-on-year despite market correction in 2022, implying net inflows into the universe. Five ETFs linked to the Hang Seng Family of Indexes have been included in the list of all securities that are eligible for trading through the ETF Connect scheme.

The Hang Seng TECH Index ('HSTECH'), the newest of Hang Seng Indexes' three flagship benchmarks, continued to attract strong local and overseas interest as the basis for the development of various financial products. As at 2022 year-end, Hang Seng Indexes had licensed the HSTECH for use as the basis for 25 ETFs in nine markets, including Hong Kong, Singapore, South Korea, the US and the UK. The total number of futures and options contracts traded on the HSTECH in 2022 grew by almost 400% to 19 million.

The total number of futures and options contracts traded on Hang Seng Index ('HSI'), the Hang Seng China Enterprises Index and the HSTECH in 2022 was 135 million in 2022, representing a year-on-year increase of around 40%.

With the aim of ensuring that the HSI remains the most representative benchmark of the Hong Kong stock market, the number of HSI constituents was increased to 76 during the year. This has resulted in a more balanced representation of the Hong Kong stock market, with the index's overall market capitalisation coverage improved to 62% as at the end of 2022.

On 31 December 2022, the Hang Seng Family of Indexes contained 18 ESG-related indexes. These indexes include the Hang Seng Climate Change 1.5°C Target Index, which aims to align with the climate objectives of the Paris Agreement, enabling investors to integrate climate factors into their investment strategy. Hang Seng Indexes became a signatory of the United Nations-supported Principles for Responsible Investment during the year as part of its efforts to facilitate the development of sustainable investment.

#### **Corporate Social Responsibility Bronze Award**

CIPRA

#### **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

#### **ESG Leading Enterprise Awards**

#### **Leading Social Initiative Awards**

BLOOMBERG BUSINESSWEEK/CHINESE EDITION

#### **Hong Kong Volunteer Award 2022**

#### **Outstanding Corporate & Non-Commercial Organization Volunteer Hours – Bronze**

THE HOME AND YOUTH AFFAIRS BUREAU AND THE AGENCY FOR VOLUNTEER SERVICE

#### **Caring Company (20<sup>th</sup> consecutive year)**

HONG KONG COUNCIL OF SOCIAL SERVICE

#### **Junzi Corporation Award (11<sup>th</sup> consecutive year)**

#### **Junzi Corporation Exemplary Award (3<sup>rd</sup> consecutive year)**

THE HANG SENG UNIVERSITY OF HONG KONG