Financial Review

(Figures expressed in millions of Hong Kong dollars unless otherwise indicated)

Financial Performance

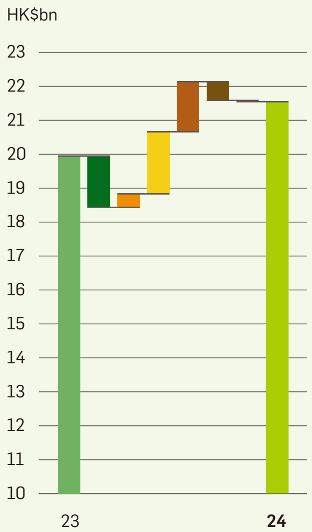
Income Analysis

Summary of financial performance

	2024	2023
Net operating income before change in expected credit losses and other credit impairment charges	**41,537**	40,822
Operating expenses	**15,193**	14,624
Operating profit	**21,558**	19,946
Profit before tax	**21,014**	20,105
Profit attributable to shareholders	**18,379**	17,848
Earnings per share (in HK$)	**9.33**	8.97

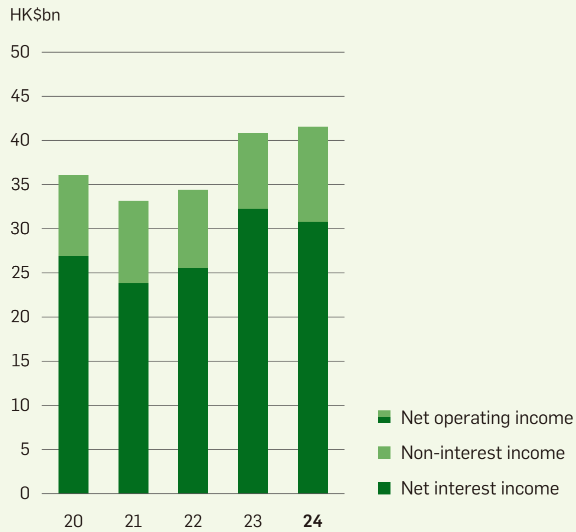
The Group has recorded a healthy improvement in financial performance, with a substantial increase in non-interest income underscoring our dedication to broadening our revenue sources as net interest income came under growing pressure amid declining interest rates in the second half of 2024. Recent developments in credit conditions have also resulted in an increase in impaired loans and associated credit loss charges during the latter half of 2024. In light of these challenges, the Group remains vigilant and is closely monitoring the prevailing interest rate outlook and continues to seek out opportunities as the economy continues to expand at a moderate pace.

Operating Profit Analysis



	HK$m
2023 Operating profit	19,946
Changes due to:	
Net interest income	**(1,511)**
Net fee income	**396**
Other operating income	**1,830**
Change in expected credit losses	**1,475**
Operating expenses	**(569)**
Impairment loss on intangible assets	**(9)**
2024 Operating profit	**21,558**

Net Operating Income
(Before change in expected credit losses and other credit impairment charges)



Financial results of 2024, 2023 and 2022 are prepared on HKFRS 17 basis and that of 2020 and 2021 are prepared on HKFRS 4 basis and are not comparable.

Net operating income before change in expected credit losses and other credit impairment charges was HK$41,537m, up 2%. Non-interest income increased by 26%. This rise was partly offset by the 5% decrease in net interest income. **Operating profit** increased by 8% to HK$21,558m. **Profit before tax** increased by 5% to HK$21,014m and **profit attributable to shareholders** was up by 3% at HK$18,379m.

Net interest income decreased by HK$1,511m, or 5%, to HK$30,784m. Average interest-earning assets declined by HK$9bn, or 1%, to HK$1,397bn due to subdued new loan demand at elevated interest rates throughout the year since 2023, partly offset by higher average balances in financial investments and interbank placements due to the redeployment of the commercial surplus. Net interest margin was down by 10 basis points to 2.20% attributable mainly to the narrowing of loan spreads on the back of weaker loan demand. Net interest spread reduced by 11 basis points to 1.78% while contribution from net-free funds increased by 1 basis point to 0.42%.

	2024	2023
Interest income arising from:		
– financial assets measured at amortised cost	47,539	48,879
– financial assets measured at fair value through other comprehensive income	13,738	10,560
	61,277	59,439
Interest expense arising from financial liabilities measured at amortised cost	(30,493)	(27,144)
Net interest income	30,784	32,295
Average interest-earning assets	1,396,927	1,406,183
Net interest spread	1.78%	1.89%
Net interest margin	2.20%	2.30%

Net fee income increased by HK$396m, or 8%, to HK$5,316m, mainly contributed by a 39% increase in retail investment funds reflecting the strong fund sales as a result of the launch of new capabilities to drive rigorous need-based wealth solutions. Income from securities broking-related services increased by 19%, reflecting the higher stock turnover in 2024.

Net income/(loss) from financial instruments measured at fair value through profit or loss decreased by HK$3,649m, or 32%, to HK$7,681m. Net trading income, net income/(loss) from financial instruments designated at fair value through profit or loss, and changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss together recorded a gain of HK$1,044m compared to a loss of HK$148m in 2023, mainly reflecting the higher revenue from derivatives products coupled with enhanced net interest income from trading positions and higher foreign exchange revenue generated from increased client activities.

Net income from assets and liabilities of the insurance business, including related derivatives, measured at fair value through profit or loss decreased by HK$4,841m to HK$6,637m; mainly reflecting fair value losses on debt securities as compared to gains in 2023 due to the opposite interest rate movement; the unfavourable impact was partially countered by the increased fair value gains on equity securities which back insurance contracts. More than 90% of the insurance businesses are accounted under the variable fee approach; as such, these fair value changes will be absorbed in the insurance contract liabilities through the line of insurance finance expense. **Insurance service results** showed an increase of HK$222m, or 11%, to HK$2,271m. This increase mainly reflected the higher release of Contractual Services Margin ('CSM') due to growth of CSM balance propelled by new business growth and favourable economic variances.

Wealth management business income (mainly investment and insurance-related income) increased by HK$1,241m, or 22%, to HK$6,934m. The increase predominantly came from investment services income, contributed by the growth in retail investment funds, securities broking and related services, and structured investment products income, as a result of the Bank's proactive approach towards pursuing cross-boundary business opportunities.

	2024	2023
Investment services income[1]:		
– retail investment funds	1,330	950
– structured investment products[2]	673	524
– securities broking and related services[3]	1,507	1,258
– margin trading and others	58	62
	3,568	2,794
Life insurance:		
– net interest income	217	95
– non-interest income/(expense)	365	304
– investment returns on life insurance funds (including share of associate's profits/(losses), net surplus/(deficit) on property revaluation backing insurance contracts and change in expected credit losses and other credit impairment charges)	5,825	11,016
– insurance finance income/(expenses)	(5,559)	(10,805)
– insurance service results	2,271	2,049
• insurance revenue	3,377	2,913
• insurance service expense	(1,106)	(864)
	3,119	2,659
General insurance and others	247	240
	6,934	5,693

1 Income from retail investment funds and securities broking and related services are net of fee expenses.

2 It includes profits generated from the selling of structured investment products in issue, which are reported under net income/(loss) from financial instruments measured at fair value through profit or loss.

3 It includes income generated from the sales of third-party structured investment products, which is reported under net fee income.

Change in expected credit losses and other credit impairment charges decreased by HK$1,475m, or 24%, to HK$4,773m compared with 2023 mainly due to the reduction in ECL charges for wholesale Stage 3 customers by HK$1,625m.

	2024	2023
Loans and advances to banks and customers	4,825	6,304
– new allowances net of allowance releases	4,921	6,420
– recoveries of amounts previously written off	(179)	(229)
– other movements	83	113
Loan commitments and guarantees	(26)	(65)
Other financial assets	(26)	9
	4,773	6,248

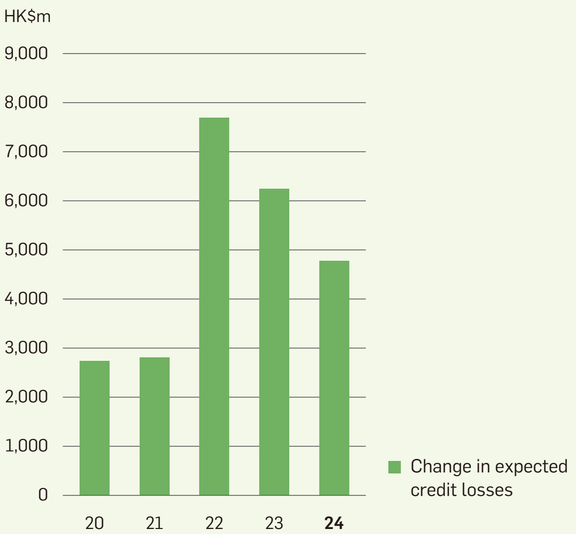
Change in ECL for Stage 1 and Stage 2 unimpaired credit exposures reduced by HK$230m, reflecting the favourable change in the economic outlook in the retail portfolio.

Change in ECL for Stage 3 and purchased or originated credit-impaired exposures ('impaired credit exposures') decreased by HK$1,245m to HK$6,074m compared with 2023, predominantly related to the reduction in ECL charges for mainland China CRE exposures.

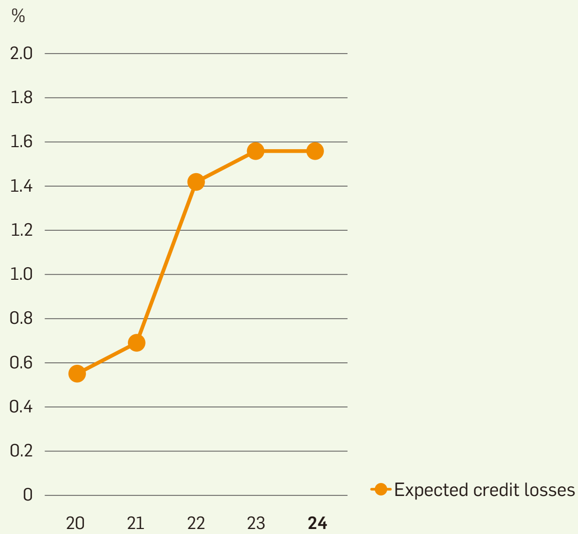
Total change in ECL for Wealth and Personal Banking decreased by HK$228m to HK$577m. Commercial Banking, Global Banking and Global Markets recorded reduced total change in ECL by HK$1,247m to HK$4,196m.

Gross impaired loans and advances increased from HK$24.7bn as at 31 December 2023 to HK$51bn as at 31 December 2024. This change mainly reflects downgrades net of write-offs in certain impaired corporate loans. Gross impaired loans and advances as a percentage of gross loans and advances to customers were 6.12% as of 31 December 2024, compared to 5.32% on 30 June 2024 and 2.83% at 31 December 2023.

Change in expected credit losses and other credit impairment charges



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



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

	At 31 December 2024	At 31 December 2023
Expected credit losses as a percentage of gross loans and advances to customers	**1.56%**	1.56%
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**6.12%**	2.83%

Operating expenses increased by HK$569m, or 4%, to HK$15,193m, primarily due to the higher amortisation of intangible assets, staff costs and IT-related costs, reflecting our continuing investment in people and technology to deliver operational efficiencies and enhanced customer experiences.

Amortisation of intangible assets increased by 25%, related mainly to the development costs of capitalised IT systems to support business growth. IT-related costs also increased by 7% as we continued to enhance our digital capabilities. Staff costs increased by 2%, primarily due to higher wages and salaries, performance-related pay and increased staff insurance premium to improve employee benefits.

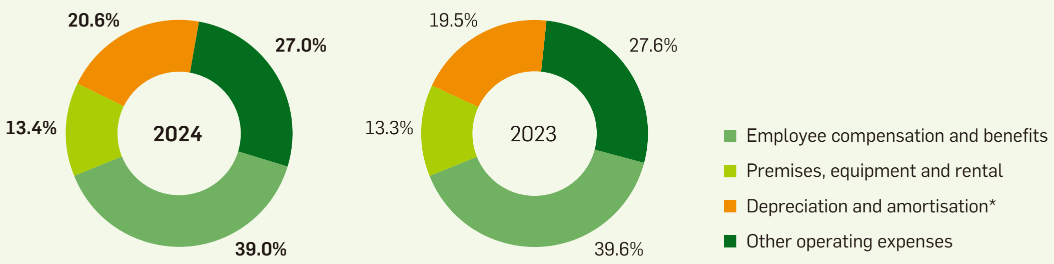
Full-time equivalent staff numbers by region	At 31 December 2024	At 31 December 2023
Hong Kong and others	**6,982**	6,997
Mainland China	**1,346**	1,497
	8,328	8,494

The cost efficiency ratio slightly increased by 0.8 percentage points to 36.6%.

	2024	2023
Cost efficiency ratio	**36.6%**	35.8%

Reflecting the uncertain property market, **property revaluation** decreased by HK$549m, resulting in net deficit of HK$583m. Share of profits of associates decreased by HK$154m to HK$39m, mainly reflecting the reduction of revaluation of a property investment company.

Operating Expenses



* Included depreciation of right-of-use assets of HK$504m in 2024 (2023: HK$470m).

2H 2024 compared with 1H 2024

Net operating income before change in expected credit losses and other credit impairment charges grew by HK$675m, or 3%, to HK$21,106m. This growth was driven by a 17% increase in non-interest income, partly offset by a 1% drop in net interest income. Operating profit decreased by HK$1,234m, or 11%. Profit attributable to shareholders decreased by HK$1,407m, or 14%, when compared with 1H 2024.

Net interest income decreased by HK$182m, or 1%. Net interest margin was down by 16 basis points to 2.13%. Net interest spread dropped by 11 basis points to 1.72% and contribution from free fund decreased by 5 basis points to 0.41% as a result of declining market interest rates in 2H 2024.

Non-interest income was up HK$857m, or 17%, primarily reflecting higher foreign exchange income, dividend income, and increased levels of customer activity across the Group's fee-generating businesses. This included notably higher income from retail investment funds and securities broking-related services.

Operating expenses increased by HK$147m, or 2%, driven mainly by higher general and administrative expenses, partly offset by the decrease in staff costs. The Group will continue to proactively manage operating expenses to enable the continuous allocation of resources towards further optimising its digital capabilities and enhancing the customer experience.

Total change in ECL increased by HK$1,773m to HK$3,273m, due to higher charges for impaired credit exposures, which recorded net charges for both periods – HK$3,718m for 2H 2024 and HK$2,356m for 1H 2024 – mainly reflecting the ratings downgrade of certain corporate customers. Additionally, there were lower net releases of HK$445m for Stage 1 and 2 ECL for unimpaired credit exposures in 2H 2024, compared with the net release of HK$856m in 1H 2024.

Segmental Analysis

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

	Wealth and Personal Banking	Commercial Banking	Global Banking	Global Markets	Other	Total
Year ended 31 December 2024						
Profit/(loss) before tax	**14,643**	**2,691**	**1,873**	**2,475**	**(668)**	**21,014**
Share of profit/(loss) before tax	**69.7%**	**12.8%**	**8.9%**	**11.8%**	**(3.2%)**	**100.0%**
Year ended 31 December 2023						
Profit/(loss) before tax	14,386	2,442	1,408	1,677	192	20,105
Share of profit/(loss) before tax	71.6%	12.1%	7.0%	8.3%	1.0%	100.0%

Wealth and Personal Banking ('WPB') recorded a 3% year-on-year increase in net operating income before change in ECL and other credit impairment charges to HK$24,264m. This was driven by growth in non-interest income, which was up by 15% year-on-year. Operating profit increased by 3% to HK$14,604m and profit before tax increased by 2% year-on-year at HK$14,643m. Through enhancing product capability and services, and aided by stronger market sentiment during the year, our wealth management business showed a 20% growth in income year-on-year and 38% growth in 2H 2024 as compared with 2H 2023. Our deposit balance increased by 9% compared to last year. As part of our portfolio diversification, non-Hong Kong dollar deposits grew by 17% year-on-year backed by a 21% increase in customers with FX transactions.

Customer growth remains one of our key strategic priorities; we achieved a 15% year-on-year increase in our affluent client segments with new-to-bank customers up 75% year-on-year. Hang Seng's dedication to exceptional customer service was recognised at the Hong Kong Customer Contact Association Awards 2024 and our Contact Centre was honoured with the prestigious Grand Award of the Year. Hang Seng was also recognised as the 'Domestic Retail Bank of the Year' at the Asian Banking & Finance ('ABF') Retail Banking Awards and as the 'Retail Bank of the Year' at the Bloomberg Businessweek Financial Institution Awards. We continued to invest in growing our affluent client segments by meeting their personal and family wealth management needs, and our Prestige Family + account opening increased by 41% year-on-year. New compelling features were introduced this year, including the brand-new Global Money + service enabling express fee-free international transfer to over 50 countries in their local currencies and the Prestige Multi-currency Debit Card allowing transactions in 12 major currencies when travelling abroad. Continual growth in the affluent customer base contributed to an 11% increase in our wealth management income in 2H 2024 compared with 1H 2024.

To meet the growing demand for wealth management services in the Greater Bay Area ('GBA'), we now have nine cross-boundary Wealth Management Centres in key GBA cities. Hang Seng was also recognised as the 'Best Domestic Bank for the Greater Bay Area' at the Euromoney Greater Bay Area Awards 2024. Following the launch of the express account opening journey this year for Mainlanders, new account openings by Mainlanders increased by 81% year-on-year.

Strong growth in the wealth management business was observed especially in investment services with income growing 24% year-on-year. The growth was fuelled by enhanced digital capabilities such as the launch of Capital Protected Investment Deposits and Structured Notes journeys on mobile, and new financial planning tools with Wealth Master for portfolio analysis and goal-based wealth planning journeys. These initiatives contributed to a 324% year-on-year increase in investment account openings and significant growth of our mobile-active customer base by 12% year-on-year.

Our insurance business achieved 23% year-on-year growth in Contractual Service Margin ('CSM') balance (excluding reinsurance contracts held), reaching HK$26bn, mainly driven by strong new business growth. In Q3 2024, Hang Seng achieved a 80% year-on-year growth in Life Insurance New Business Premium and was ranked in 2nd position as a life insurer. To provide customers with enhanced medical insurance products, Hang Seng and HSBC Life (International) Limited entered into an exclusive 15-year distribution agreement starting 1 November 2024.

Hang Seng Investment Management Limited ('HSVM'), with its strong asset management capabilities, successfully launched our first two co-branded fixed income ETFs in partnership with CMS Asset Management (HK), while leveraging CMS's extensive client base in mainland China to capture business opportunities under Wealth Management Connect ('WMC'). Our investment coverage has been further expanded to the US and Japan markets through the introduction of two additional ETFs tracking the S&P500 and TOPIX 100 indexes. To further extend HSVM's footprint beyond Hong Kong and mainland China, HSVM has collaborated with SAB Invest, a subsidiary of the Saudi Awwal Bank in Saudi Arabia, for listing an ETF that fully invests in the Tracker Fund of Hong Kong ('TraHK') on the Tadawul Exchange. The strategic move demonstrated HSVM's dedication to driving the growth of Hong Kong's financial market and strengthening the city's position as a global financial hub. As the largest ETF manager in Hong Kong, the overall assets under management ('AUM') of HSVM and TraHK both reached record highs during the second half of 2024. By the end of 2024, they increased by 4.5% and 7.6% year-on-year respectively.

The public's concerns for safety and fraud prevention remains at the core of our design ethos. Our mobile app has been strengthened with security measures as per HKMA guidelines. The Bank also actively supports HKMA's innovative initiatives, such as participating in the HKMA Interbank Account Data Sharing ('IADS') and has been selected to participate in HKMA's Generative Artificial Intelligence Sandbox initiative with a dedicated use case on fraud management.

Commercial Banking ('CMB') recorded a decline of 4% on net operating income before change in ECL and other credit impairment charges to HK$10,226m. Both operating profit and profit before tax increased by 10% to HK$2,691m.

Under the persistently high interest rate environment, customers tended to accelerate loan repayments and had less appetite for loan drawdowns, leading to a year-on-year decrease of 6% on interest income. On the other hand, we diversified our non-interest income stream, which contributed to a growth of 9% compared against last year. Our continuous support for our customers in their daily operations through convenient, safe, and tailor-made payment solutions led to a 6% year-on-year growth in related income and a 6% uplift in our customer deposit balances against last year-end. We captured the market window to grow our wealth management business, where sales of investment funds and structured products increased by 47%.

We continue to deliver tailored solutions and accessible resources that address the unique challenges of local small and medium-sized enterprises ('SMEs'). We launched the HK$33 Billion SME Power Up Fund. This proactive move corresponds with the Hong Kong SAR Government's supportive measures for SMEs, empowering our customers with various financing solutions and enabling their business growth in Hong Kong as well as the GBA.

Moreover, to capture business opportunities stemming from growing demand across the GBA and better support our customers, the cross-boundary connectivity between CMB Hong Kong and mainland China subsidiary was strengthened in 2024, contributing 9% of the total loan drawdown in Hong Kong.

We have embraced fintech to provide innovative banking services and simplify the loan application process. Our customers can now enjoy a fully digitalised loan application process with an approval-in-principle result received in as fast as 10 seconds, and execute loan documents via digital ID verification and e-Sign function with Time to Cash as fast as five working days. We are also one of the first batch of participating banks in HKMA's IADS initiative, which enables faster interbank account data retrieval upon customer consent and further streamlines the loan assessment process.

We launched the HK$80 Billion Sustainability Power Up Fund, which offers diversified green and sustainable financing solutions to businesses across sectors. The SME Green Equipment Financing Assessment Platform launched in partnership with the Hong Kong Quality Assurance Agency ('HKQAA') further provides faster and more affordable Green Equipment Financing assessment services exclusively for Hang Seng's commercial customers.

Our Business e-Banking service continued to be enhanced beyond daily transaction banking management capabilities. Customers can now enjoy improved digital engagement experiences by knowing more about their 'best-fit' banking solutions and exclusive offers from the Bank, leading to a year-on-year growth in active mobile and internet banking users by 24% and 6%, respectively.

We have been recognised as 'Commercial Bank of 2024 – Excellence' and 'Commercial Bank in GBA – Excellence' and for 'SME Engagement – Outstanding' at the Bloomberg Businessweek Financial Institution Awards 2024. We were also awarded 'Hong Kong Domestic Trade Finance Bank of the Year' and 'Hong Kong Domestic Digital Payment Initiative of the Year' at the ABF Wholesale Banking Awards 2024. The Hong Kong Institute of Marketing also commended us as the 'Hong Kong Power Brand in Commercial Banking' at its Power Brand Awards 2024.

Global Banking ('GB') reported a 0.5% year-on-year increase in net operating income before change in ECL and other credit impairment charges to HK$2,991m. Change in ECL decreased by 66% or HK$513m compared against 2023 with the de-risking of mainland China CRE exposure. Profit before tax increased by 33% to HK$1,873m.

We have diversified our revenue stream through timely and increased sales activities to capture business opportunities, resulting in 9% growth in non-interest income. Impacted by softened loan demand in the market, our customer loans and advances declined by 6% as compared to last year. However, we remain dedicated to serving our customers with tailored financing solutions. Our bond assets under management increased by 62%.

By leveraging our strong cross-boundary connections, we have delivered integrated banking, wealth management, and advisory services tailored to the specific needs of large corporations in both Hong Kong and mainland China. Our dedication to improving operational efficiencies for clients across various sectors has been further highlighted by our innovative digital cash management solutions, designed to meet their unique requirements.

In line with our dedication to sustainability, we have adopted a client-focused approach by offering comprehensive sustainable finance solutions to help our clients transition to low-carbon operations.

Global Markets ('GM') net operating income before change in ECL increased by 33% to HK$3,214m. Operating profit and profit before tax both grew by 48% to HK$2,475m.

Net interest income recorded year-on-year growth of 55% due to the reinvestment for higher yield. The Markets Treasury team explored market opportunities, and actively managed and diversified its portfolio while upholding prudent risk management standards.

Non-interest income remained stable while Foreign Exchange and Option Trading achieved solid revenue growth of 69% year-on-year. Besides successfully managing market volatility and capturing opportunities, we enhanced customer experience by extending trading hours of Capital Protected Investment and elevated the transaction volume by 46% year-on-year. We deepened GM product penetration among Bank customers through close collaboration with the WPB, CMB, and GB teams. Particularly, we promoted foreign exchange business through collaboration with other business units and achieved 18% growth in our Bank-wide Sales foreign exchange revenue. We also continued to expand our client segment for Repo Trading, with the number of active clients increasing 30% year-on-year, and achieved 6% growth in revenue.

Balance sheet Analysis

Assets

Total assets increased by HK$103bn, or 6%, to HK$1,795bn compared with the 2023 year-end. Financial investments increased by HK$135bn, or 33%, to HK$541bn, reflecting the redeployment of higher commercial surplus.

Customer loans and advances (net of allowances for ECL) decreased by HK$41bn, or 5%, to HK$819bn. The interest rate reductions in the second half of 2024 did not lead to a recovery in loan demand. Dampened credit demand, combined with higher customer repayments, contributed to a decline in loan balances.

Loans for use in Hong Kong decreased by 3% due to the subdued loan demand and higher loan repayments under a still high interest rate environment. Lending to industrial, commercial, and financial sectors decreased by 4%, mainly due to the decline in lending for property development and property investment by 8% and 9%, respectively.

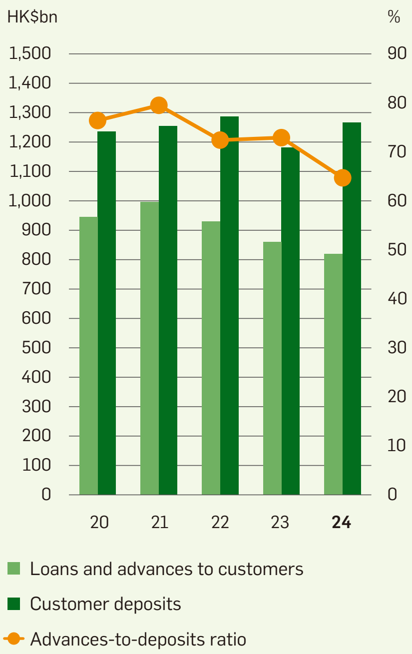
Lending to individuals decreased by 2%. With an uncertain property market, residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending reduced by 3% and 1%, respectively.

Loans for use outside Hong Kong were down by 11%, due mainly to the reduction in mainland China CRE loans.

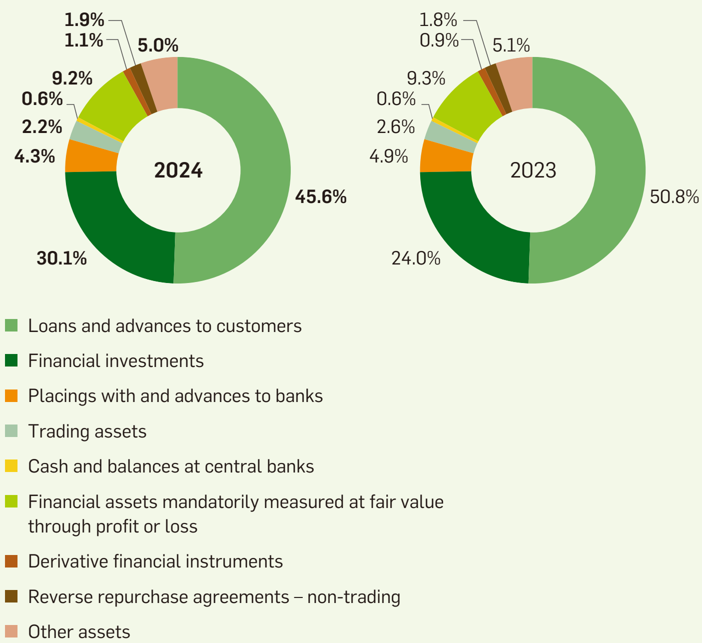
Assets Deployment

	At 31 December 2024	%	At 31 December 2023	%
Cash and balances at central banks	10,433	0.6	10,564	0.6
Trading assets	39,640	2.2	44,018	2.6
Derivative financial instruments	20,201	1.1	14,959	0.9
Financial assets mandatorily measured at fair value through profit or loss	164,557	9.2	156,872	9.3
Reverse repurchase agreements – non-trading	33,479	1.9	30,202	1.8
Placings with and advances to banks	76,221	4.3	83,756	4.9
Loans and advances to customers	819,136	45.6	860,406	50.8
Financial investments	541,155	30.1	405,792	24.0
Other assets	90,374	5.0	85,525	5.1
Total assets	1,795,196	100.0	1,692,094	100.0
Return on average total assets	1.1%		1.0%	

Loans and Advances to Customers and Customer Deposits



Assets Deployment

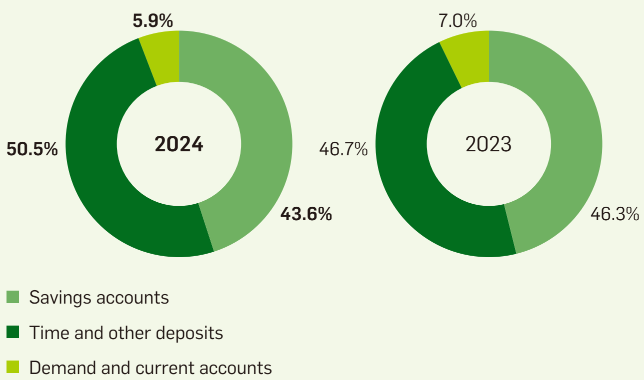


Liabilities and equity

Customer deposits increased by HK$86bn, or 7%, to HK$1,267bn from the end of 2023. Demand, current and savings accounts as a percentage of total customer deposits decreased from 53.3% at 2023 year-end to 49.5% at 31 December 2024, reflecting the growth of our customer base. At 31 December 2024, the advances-to-deposits ratio was 64.7%, compared with 72.9% at 31 December 2023.

	At 31 December 2024	At 31 December 2023
Customer loans and advances (net of allowances for ECL)	**819,136**	860,406
Customer deposits, including structured deposits	**1,267,021**	1,180,611
Advances-to-deposits ratio	**64.7%**	72.9%

Customer Deposits



Shareholders' equity

	At 31 December 2024	At 31 December 2023
Share capital	**9,658**	9,658
Retained profits	**129,390**	126,624
Other equity instruments	**11,587**	11,744
Premises revaluation reserve	**17,273**	18,525
Cash flow hedging reserve	**(150)**	(96)
Financial assets at fair value through other comprehensive income reserve	**2,198**	1,579
Other reserves	**(434)**	97
Total reserves	**159,864**	158,473
Total shareholders' equity	**169,522**	168,131
Return on average ordinary shareholders' equity	**11.3%**	11.3%

At 31 December 2024, shareholders' equity increased by HK$1bn, or 1%, to HK$170bn, driven by an increase in retained profits of HK$3bn, or 2%. This increase occurred despite the HK$3bn Automatic Share Buy-back Programme and the appropriation of dividends paid during the year, indicating the Group's ability to accumulate profits while still returning value to shareholders. The premises revaluation reserve was down HK$1bn, or 7%, reflecting the unfavourable movement in the commercial property market in Hong Kong during the year.