22 February 2022

HANG SENG BANK LIMITED
2021 ANNUAL RESULTS - HIGHLIGHTS

- Net operating income before change in expected credit losses and other credit impairment charges down 8% to HK$33,182m (HK$36,068m in 2020).

- Operating profit down 19% to HK$16,231m (HK$20,125m in 2020).

- Profit before tax down 16% to HK$16,385m (HK$19,414m in 2020).

- Profit attributable to shareholders down 16% to HK$13,960m (HK$16,687m in 2020).

- Return on average ordinary shareholders' equity of 7.7% (9.6% in 2020).

- Earnings per share down 17% to HK$6.93 per share (HK$8.36 per share in 2020).

- Fourth interim dividend of HK$1.80 per share; total dividends of HK$5.10 per share for 2021 (HK$5.50 per share in 2020).

- Common equity tier 1 ('CET1') capital ratio of 15.9%, tier 1 ('T1') capital ratio of 17.5% and total capital ratio of 18.9% at 31 December 2021 (CET1 capital ratio of 16.8%, T1 capital ratio of 18.5% and total capital ratio of 20.0% at 31 December 2020).

- Cost efficiency ratio of 42.6% (36.6% in 2020).

Within this document, the Hong Kong Special Administrative Region of the People's Republic of China has been referred to as 'Hong Kong'. The abbreviations 'HK$m' and 'HK$bn' represent millions and billions of Hong Kong dollars respectively.

The financial information in this press release is based on the audited consolidated financial statements of Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') for the year ended 31 December 2021.

Comment by Irene Lee, Chairman

Succeeding in Difficult Times

The effects of the pandemic and globally low interest rates continued to put pressure on the banking sector for a second year in a row. With the difficulties being experienced in certain sectors of the economy, albeit with encouraging trends in overall economic activity and world trade, market conditions were highly fluid in 2021. Against this backdrop, the Bank remained steadfastly focused on its long-term success and took the opportunity to bring forward actions to further diversify and future-proof our business.

Fintech is a fundamental part of banking innovations and remains a major area of investment for the Bank. Enhanced digital capabilities enable us to provide faster and more convenient products, services and market information to support customers at all touch points, at all times. They also allow us to better understand the wealth management needs of different customer segments so that we may broaden our offerings and provide customised solutions. Whilst driving an agenda for business growth, we give equal regard to the importance of sustainability, not just in our own operations but in the communities that we serve. Green and sustainability-linked financing are gaining momentum as a strategic area of growth. We also contribute positive actions to address climate change and support our young generations.

Our people are the bedrock of the Bank and their well-being remains a top priority. As the changing circumstances of the pandemic disrupted normal work routines, our people's commitment to ensuring our business, our operations and our support to customers continued without interruption. This embodies the ethos and intent of Hang Seng's core values. Continued investments in our digital infrastructure, together with our management's purpose and encouragement, empowered more than half of our workforce to benefit from our existing flexible working policy to work remotely from outside Bank premises one to two days per week, regardless of the pandemic situation. To support colleagues' physical and emotional wellness and keep them connected socially, we provided a variety of online exercise, relaxation and leisure programmes and resources.

Difficult as 2021 has been, our business and our operations remained resilient. We are reporting an attributable profit of HK$13,960m. With the fourth interim dividend of HK$1.80 per share being declared by the Directors, the total distribution for 2021 will be HK$5.10 per share.

Realising Our Potential

We view our future success to be closely linked to the well-being and prosperity of Hong Kong and, more broadly, the Greater Bay Area ('GBA'). Our purpose is to realise the potential for our customers, our people and our business by becoming the preferred banking and financial services partner in the GBA.

As an integrated financial, innovation and manufacturing hub, the GBA is home to more than 72 million people and has the world's attention as a major driver of tomorrow's economic growth. Taking 2020 as a baseline, gross domestic product is expected to more than double to reach US$4.6 trillion by 2030. Hang Seng is uniquely well-positioned and Hang Seng Bank China, our wholly-owned franchise operating in the region, is already in place to serve our customers. With our seamlessly connected network, our experts are able to offer convenient, one-stop service to cross-boundary customers. At the same time, our Hang Seng Indexes Company tracks the financial pulse of the region through a wide range of indexes of different markets and sectors including high-tech, new economy and environmental, social and governance ('ESG'). Our brand is well-established across the GBA.

Comment by Irene Lee, Chairman *(continued)*

Envisioning the future of financial services, we are helping to drive the 'new economy' by expanding in areas such as sustainable financing and ESG investment. We also work with strategic partners to support fintech development and innovation in the region. Our strength in wealth management propositions provides a solid foundation for us to grow our retail business as demand for wealth-and-health solutions increases across the GBA.

A Sustainable Banking Leader

Our ESG vision is to be a leader in driving ESG in the banking industry. We have already made good progress in 2021. In addition to significantly expanding our offerings of green and sustainability-related products and services for customers, we were the first local bank in Hong Kong to commit to becoming carbon neutral, a goal we intend to and are on track to achieve by 2030.

The Board fully supported and approved the Bank's proposal to set annual ESG key performance indicators and action plans, as well as formalise its climate risk management structure by implementing a climate strategy to guide corporate decisions. A Climate Change Management Roadmap has also been developed for the next two years to ensure we further embed climate change considerations into all aspects of our business and decision making. My fellow Directors and I attended multiple ESG trainings over the year and the Bank became a signatory to the Carbon Neutrality Partnership in support of the Hong Kong Government's Climate Action Plan 2050.

Board of Directors and Senior Management

In September, we officially welcomed Diana Cesar aboard as Executive Director and Chief Executive of the Bank. Her clear vision and deep understanding of the Hong Kong and GBA markets will ensure we continue moving forward at pace with our long-term growth strategy and advancing our brand positioning as a progressive and innovative industry leader.

I would like to extend my heartfelt appreciation to Margaret Kwan, who recently retired from her position as Executive Director and Head of Wealth and Personal Banking after 27 years of outstanding contributions. Margaret provided an experienced and steady hand as Acting Chief Executive in the months leading up to Diana's appointment. Rannie Lee is our new Head of Wealth and Personal Banking as of February and we are delighted to have her deep-seeded knowledge and experience to continue building on our strong franchise for retail customers.

Peter Wong stepped down as a Non-Executive Director of the Bank in September. His vacancy has been taken up by David Liao, who is Group Executive, Co-CEO, Asia Pacific of the HSBC Group. I wish to reiterate the Directors' thanks to Peter for his wise counsel and invaluable contributions over the past 16 years and to David who will add his expertise to Hang Seng's Board.

Comment by Irene Lee, Chairman *(continued)*

Building Future Success Together

Without doubt, the past two years have created tremendous challenges for individuals and organisations around the world for which there is no blueprint for resolution. They have also demonstrated that it is possible, with clear vision and concerted efforts, for us to achieve the previously unimaginable: from the speed of medical innovation and vaccine production, to the ways we work and maintain close personal connections. Traditional assumptions and limitations are falling away in the face of determination and creativity.

We aim to bring this same attitude and energy to meeting the financial needs and aspirations of our customers, supporting the career ambitions and well-being of our colleagues, and building a bright future for our business and our community.

Guided by our purpose and values, we have a clear strategy that uses Hang Seng's existing brand strengths of customer-centricity, innovation, expert market knowledge and deep community roots as powerful tools for capturing exciting new opportunities ahead, whether it be in the GBA or in new business sectors and economies.

As always, our colleagues are at the heart of the strong Hang Seng brand. I am extremely grateful to every staff member who has worked tirelessly to drive our business and support our customers in what has been another challenging year. A major element of our future growth strategy is ensuring we attract, retain and inspire top talent. We are working to achieve this not only by offering attractive compensation and benefits, but also by providing future skills training and opportunities that will open up new horizons of career success and keep our people at the leading edge of our industry. As a case in point, this year we will be rolling out a Bank-wide data literacy programme. Through our efforts, we will continue to strengthen our pipeline for attracting and nurturing young talent and further promoting an entrepreneurial and dynamic culture within the Bank.

In summary, uncertainties in the external environment and fast-moving market conditions mean there will always be fresh challenges ahead. We will overcome these by maintaining control over the direction of our business and focusing on what we do best. With our deep understanding of the GBA, we will build an ever more customer-centric business that is responsive, agile and resilient. Our sustainable growth strategy gives us clear purpose: to provide banking and wealth management services that continue to be fit for the future.

Review by Diana Cesar, Executive Director and Chief Executive

2021: A Year of Continuity and Change

Few would dispute that the operating environment continued to be challenging in 2021. Nevertheless, we have bright spots to report in our performance last year. We enjoyed solid balance sheet growth, healthy increases in non-interest income and strong momentum in building up our mortgage, trade and green loans portfolios. Digital developments advanced at speed and environmental, social and governance ('ESG') issues were an important focus as we made efforts to support the transition to a low-carbon economy. We were also delighted to celebrate with our Hang Seng Table Tennis Academy graduates who brought home a bronze medal from the Olympic Games.

Our financial performance was a tale of two halves.

In the first half, there was cautious optimism that we were turning the corner on Covid-19. An improved economic outlook buoyed sentiments and drove activity in global financial and commercial markets. We benefitted from strong business momentum, especially in wealth management. The second half, however, was more challenging as investor and business sentiment dampened with the emergence of Omicron which brought back disruptions to trade and global supply chains, slowing economic recovery.

In addition, due to tightening liquidity and increased refinancing risk in the mainland commercial real estate sector, we built in material adjustment to our expected credit losses ('ECL') to reflect the higher risk level. We will continue to closely monitor the market situation and mitigate potential risks through robust reviews of credit portfolios. That said, our overall lending portfolio remains stable.

The underlying performance of our business was resilient. However, enhancing the ECL provisions has impacted our full-year results. Also, low interest rates continued to affect net interest income across all of our businesses. As a result, our attributable profit for 2021 fell by 16% to HK$13,960m.

Wealth and Personal Banking

Our Wealth and Personal Banking business recorded an 11% year-on-year increase in wealth management income. This is the result of stronger data analytics capabilities and the uplifting of digital banking capabilities to deliver better customer solutions and more diversified investment and insurance products. We have particularly focused on the mid-market segments. Amongst other achievements, we were the first bank in Hong Kong to extend equity-linked investment product subscription services to US securities for retail investors. As demand for ESG investment products accelerates around the world, we are pleased to be launching the first ESG ETF based on the Hang Seng Index. We will also be introducing green mortgage and electrical vehicle loans in the first half.

Hang Seng was one of the first banks to launch cross-boundary investment services under the Wealth Management Connect ('WMC') Scheme. We have set up a designated WMC team in Hong Kong which will work closely with our colleagues in the Mainland to provide seamless support to customers for their northbound and southbound investment in the Greater Bay Area ('GBA').

Review by Diana Cesar, Executive Director and Chief Executive *(continued)*

Insurance business income rose by 17% as we launched new products to meet growing customer needs in areas such as lifetime protection, legacy planning and long-term asset growth.

Strong momentum in the local property market and improved retail consumption sentiment boosted by the Government's Consumer Voucher Scheme propelled strong growth in our mortgage and credit card businesses. New mortgage drawdowns outpaced the market, increasing by 34% year-on-year. Card spending was up 10%.

Investing in digital infrastructure remains a priority. Last year, we rolled out 415 digital innovations and enhancements for personal banking, including the introduction of the 'Pay with Hang Seng' online payment channel. Our digital efforts have been well received. Year-on-year, the number of users of our award-winning mobile banking app was up by 12%, log-ons increased 26% and the total number of online transactions jumped 44%.

The enhanced digital experience extends seamlessly into our physical branches and outlets. We continued to invest in our 'Future Branch' concept to deliver more customer-centric services. Our new landmark Central Branch is the latest showcase of our digital servicing model.

Commercial Banking, Global Banking and Global Markets

On the commercial side, we continued to focus on supporting our customers. The pace of new lending grew as export demand and international economic activity revived. In particular, Commercial Banking's trade finance lending was up 41%. Overall, the renewed activity helped Commercial Banking grow customer advances by 2%, with customer deposits rising by 8%. We stayed active in the syndicated loan market, recording a 10% increase in credit facilities fees. We also captured opportunities to grow our foreign exchange and trade fee incomes.

ESG is fast becoming a prerequisite for doing business and we are proactive in supporting clients to transition. We introduced sustainability-linked loans and enhanced existing trade finance products with green and sustainable features. We also stepped up our collaboration with Hong Kong Quality Assurance Agency to help green financing customers capitalise on opportunities in the GBA. In total, we approved HK$7.3bn in green loans, 15 times more than the amount in 2020. Global Markets grew its green bond investment portfolio by 83% year-on-year, and the Repo Trading business began accepting green bonds as collateral to support market growth in sustainable financing activity.

As we continue to explore new business segments and opportunities in green finance, our efforts will also help to further diversify our revenue base.

Fintech provided customers with remote account opening services and shorter turnaround and processing times while making the management of cash flow and payments collection faster and easier. We introduced over 250 digital innovations and enhancements. Corporate clients now enjoy more timely collection and reconciliation processes with our new Virtual Account tool and we deployed the use of blockchain technology to support digital trade documentation and finance activities. Innovation supported a more than doubling in average monthly customer acquisitions compared with the previous year.

Review by Diana Cesar, Executive Director and Chief Executive *(continued)*

We are continuing to collaborate with external partners to facilitate the advancement of fintech development. In addition to our strategic alliances with Hong Kong Cyberport and Hong Kong Science and Technology Parks, we started working with the Hong Kong Trade Development Council last year to co-create 'InnoClub', a one-stop platform to help SMEs go digital in their operations.

We offered tailor-made, industry-specific cash management solutions to Global Banking clients across different business sectors. This led to a 21% growth in current and savings deposits and an 11% growth in the loan balance. Global Banking customers are also discovering the benefits of going digital as we saw 22% of total transactions switching from in-branch counters to online channels.

We expanded our Global Markets Repo Trading business, maintained our market-making role for Hong Kong government bills and bonds, and actively participated in the issuance of the Hong Kong Monetary Authority's first one-year HONIA-indexed Floating Rate Note. We also supported the regulatory transition of LIBOR by launching replacement financial products referencing new risk-free rates.

Hang Seng China

Challenging operating environment aside, our wholly-owned subsidiary Hang Seng China leveraged its close connectivity with our Hong Kong operations to maintain strong growth momentum. Profit before tax increased 23%. The personal banking business increased by 268%, while commercial and global banking business were up 29% and 10% respectively. In particular, our deep understanding of local market and industry trends supported a solid increase in lending. Wholesale trade loans reached a record high and we continue to be one of the most active foreign banks in the syndication segment, maintaining a top ranking in the industry.

All in all, the Bank's underlying fundamentals are strong and we are gaining momentum in key strategic areas to make our business more resilient and drive sustainable future growth.

Financial Overview

The Bank's financial position was strengthened as we recorded good growth in non-interest income business lines, which benefitted from improved economic and investment sentiments in the first half as well as initiatives to further diversify our revenue base. While there were increased market uncertainties in the second half, due in part to new developments in the pandemic situation, overall, non-interest income grew by 2% year-on-year to HK$9,360m.

Income from interest-earning activities came under growing pressure during the year. Despite solid balance sheet growth and a 2.7% increase in average interest-earning assets, net interest income fell by 11% to HK$23,822m, reflecting the unfavourable effects of the interest rate environment. Year-on-year, the net interest margin was down by 24 basis points at 1.49%, which remained above market average levels.

Net operating income before change in expected credit losses and other credit impairment charges fell by 8% compared with 2020 to HK$33,182m.

Review by Diana Cesar, Executive Director and Chief Executive *(continued)*

We continued to invest in technology, brand presence and people to strengthen our strategic positioning and facilitate future growth, which contributed to a 7% rise in operating expenses to HK$14,134m. Together with the decline in net operating income, the increase in expenses pushed our cost efficiency ratio to 42.6%. However, on the back of these investments into our business, we are now more strongly positioned to capture a greater share of new market opportunities and realise improved operational efficiencies over the longer term.

As previously mentioned, we increased ECL provisions on a few currently unimpaired credit exposures to clients in the mainland real estate sector. However, our overall credit quality remained robust and with the release of similar provisions across a broad range of other sectors and a reduction in stage-3 ECL charges, change in ECL only increased slightly by 3% to HK$2,807m.

The overall impact of all these factors was a 19% decline in operating profit to HK$16,231m. Operating profit excluding the change in ECL was down by 17% at HK$19,038m.

Recovery in the commercial property market in Hong Kong resulted in a net surplus of HK$82m on property revaluation, compared with a net deficit of HK$636m in the same period in 2020.

Profit before tax fell by 16% to HK$16,385m. Attributable profit was also down by 16% at HK$13,960m. Earnings per share were down by 17% at HK$6.93 per share. For our individual business segments, profit before tax for Wealth and Personal Banking, Commercial Banking, and Global Banking and Markets, fell by 8%, 18% and 40% respectively, affected mainly by a drop in net interest income.

Return on average ordinary shareholders' equity was 7.7%, compared with 9.6% for 2020. Return on average total assets was 0.8%, compared with 1.0% in 2020.

Our capital base remains strong. At 31 December 2021, our common equity tier 1 capital ratio was 15.9%, our tier 1 capital ratio was 17.5%, and our total capital ratio was 18.9%. We continued to maintain healthy liquidity that was well above the statutory requirement throughout the year. At 2021 year-end, our liquidity coverage ratio was 192.7%.

Gross advances to customers were HK$1,004bn, up 6% compared with 2020 year-end, driven mainly by residential mortgages, trade finance lending and loans for use outside Hong Kong.

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. To diversify its funding sources, the Bank issued more certificates of deposit in 2021.

2022 Outlook

It is clear that recovery cannot be taken for granted and uncertainty will continue to be a factor. In order to operate in this environment, we must always remain vigilant and agile, and be quick to respond to any sudden changes.

It is vital that we have clear strategies and a direction forward. In 2022, we will focus on growing our business and capturing new opportunities in strategic customer segments and in the GBA by leveraging cross-business revenue synergies and boosting contribution from non-fund income and digital channels.

Review by Diana Cesar, Executive Director and Chief Executive *(continued)*

Markets are expecting an increase in interest rates this year, which should provide some medium-term relief on the net interest margin and net interest income. As we look to grow our loan book, we will continue to adopt a prudent risk management approach. Innovation is essential and will remain a top priority. We will invest in equipping our colleagues with future skills to support their career ambitions within the Bank.

The future is 'Beyond Banking'. We will embrace fintech to integrate banking services more seamlessly into people's business and everyday lives. In the future, customers will not need to seek us out, we will already be there when needed.

We are well-positioned to provide our customers with seamless support to take advantage of new business and investment opportunities in the GBA. This will further strengthen our own franchise and be an important contributor for long-term profit growth.

Focusing attention and driving action on the ESG agenda will remain a core value. We will expand our green loans and sustainability-linked investment products. We will also enhance the ESG performance of our own operations. We are on track to meet our target of being carbon neutral by 2030.

Our community investment programmes will support the sustainable, long-term development of Hong Kong.

With the Covid-19 situation recently becoming more serious, we have announced a HK$10m initiative to provide support for the elderly and grassroots families that includes donating rapid antigen tests, surgical masks and other supplies, and the setting up of an Emotional Well-being Hotline. Our staff volunteers will also participate in telephone outreach activities to offer care and general support to the elderly and others in need.

And finally, I would like to thank and acknowledge my colleagues for their commitment and perseverance. Maintaining uninterrupted services for customers in a demanding environment required working as a team and putting in long hours. I am delighted that last month, Hang Seng was again named the Best Domestic Bank in Hong Kong by *The Asset* magazine, a recognition we have maintained for 22 consecutive years. The pursuit of excellence and ever-growing success is engrained in the company's DNA and will continue to be the driving force behind our brand, now and into the future.

Results Summary

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.

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.

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.

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.

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.

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.

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.

Second half 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.

Consolidated Balance Sheet and Key Ratios

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.

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.

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 issues	**1,338,800**	1,304,083
Advances-to-deposits ratio	**74.5%**	72.4%

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.

Key ratios

Return on average total assets was 0.8% (1.0% for 2020). **Return on average ordinary shareholders' equity** was 7.7% (9.6% for 2020).

At 31 December 2021, the **common equity tier 1 ('CET1') capital ratio**, **tier 1 ('T1') capital ratio** and **total capital ratio** were 15.9%, 17.5% and 18.9% respectively, well above the regulatory requirement.

Under the Banking (Liquidity) Rules, the average **liquidity coverage ratio ('LCR')** ranged from 191.8% to 214.4% for the quarters ended 31 March, 30 June, 30 September and 31 December 2021. The average LCR ranged from 181.6% to 207.8% for the corresponding quarters in 2020. For both years, the Group maintained a healthy average LCR that was higher than the statutory requirement of 100%. The LCR at 31 December 2021 was 192.7% compared with 230.4% at 31 December 2020. The period-end **net stable funding ratio ('NSFR')** ranged from 146.6% to 150.5% for the quarters ended 31 March, 30 June, 30 September and 31 December 2021, well in excess of the regulatory requirement of 100%. The period-end NSFR ranged from 146.0% to 152.9% for the corresponding quarters in 2020.

Dividends

The Directors have declared a fourth interim dividend of HK$1.80 per share, which will be payable on 22 March 2022 to shareholders on the register as of 9 March 2022. Together with interim dividends for the first three quarters, the total distribution for 2021 will be HK$5.10 per share.

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking and Markets*	*Other* [1]	*Total*
Year ended 31 December 2021					
Net interest income/(expense)	**13,013**	**7,037**	**4,161**	**(389)**	**23,822**
Net fee income	**4,468**	**1,523**	**311**	**275**	**6,577**
Net income/(loss) from financial instruments measured at fair value through profit or loss	**3,095**	**370**	**858**	**23**	**4,346**
Gains less losses from financial investments	**104**	**4**	**98**	–	**206**
Dividend income	–	–	–	**176**	**176**
Net insurance premium income	**13,059**	**1,024**	–	–	**14,083**
Other operating income/(loss)	**126**	**(31)**	**(2)**	**229**	**322**
Total operating income/(loss)	**33,865**	**9,927**	**5,426**	**314**	**49,532**
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(15,359)**	**(991)**	–	–	**(16,350)**
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	**18,506**	**8,936**	**5,426**	**314**	**33,182**
Change in expected credit losses and other credit impairment charges	**(314)**	**(1,326)**	**(1,167)**	–	**(2,807)**
Net operating income/(loss)	**18,192**	**7,610**	**4,259**	**314**	**30,375**
Operating expenses [3]	**(8,582)**	**(3,463)**	**(1,294)**	**(795)**	**(14,134)**
Impairment loss on intangible assets	–	–	–	**(10)**	**(10)**
Operating profit/(loss)	**9,610**	**4,147**	**2,965**	**(491)**	**16,231**
Net surplus on property revaluation	–	–	–	**82**	**82**
Share of profits of associates	**72**	–	–	–	**72**
Profit/(loss) before tax	**9,682**	**4,147**	**2,965**	**(409)**	**16,385**
Share of profit/(loss) before tax	**59.1%**	**25.3%**	**18.1%**	**(2.5)%**	**100.0%**
[3]Depreciation/amortisation included in operating expenses	**(820)**	**(10)**	**(3)**	**(1,705)**	**(2,538)**
At 31 December 2021					
Gross loans and advances to customers	**375,095**	**402,067**	**227,163**	–	**1,004,325**
Customer deposits[2]	**874,709**	**334,003**	**143,964**	**(13,876)**	**1,338,800**
Interest in associates	**2,341**	–	–	–	**2,341**
Non-current assets acquired during the year	**129**	**14**	**2**	**2,001**	**2,146**

Year ended 31 December 2021					
Net fee income by segment					
- securities broking and related services	**1,866**	**162**	**12**	–	**2,040**
- retail investment funds	**1,539**	**28**	–	–	**1,567**
- insurance	**339**	**85**	**78**	–	**502**
- account services	**247**	**116**	**8**	–	**371**
- remittances	**53**	**181**	**34**	–	**268**
- cards	**2,656**	**23**	–	–	**2,679**
- credit facilities	**18**	**476**	**188**	–	**682**
- imports/exports	–	**364**	**52**	–	**416**
- other	**199**	**116**	**38**	**273**	**626**
Fee income	**6,917**	**1,551**	**410**	**273**	**9,151**
Fee expense	**(2,449)**	**(28)**	**(99)**	**2**	**(2,574)**
Net fee income	**4,468**	**1,523**	**311**	**275**	**6,577**

[1] Deposits balances under 'Other' segment mainly related to consolidated elimination of Negotiable Certificates of Deposit ('NCDs') issued by Hang Seng Bank (China) Limited to Hang Seng Bank Limited.

[2] Customer deposits balances include current, savings and other deposits accounts, certificates of deposit and other debt securities in issue.

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking and Markets*	*Other* [1]	*Total*
Year ended 31 December 2020 (restated) [2]					
Net interest income/(expense)	14,694	8,273	4,408	(469)	26,906
Net fee income	4,362	1,496	253	256	6,367
Net income/(loss) from financial instruments measured at fair value through profit or loss	1,724	317	1,417	(138)	3,320
Gains less losses from financial investments	(15)	1	4	–	(10)
Dividend income	–	–	–	157	157
Net insurance premium income	14,219	1,082	–	–	15,301
Other operating income/(loss)	2,076	(37)	6	236	2,281
Total operating income/(loss)	37,060	11,132	6,088	42	54,322
Net insurance claims and benefits paid and movement in liabilities to policyholders	(17,288)	(966)	–	–	(18,254)
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	19,772	10,166	6,088	42	36,068
Change in expected credit losses and other credit impairment charges	(973)	(1,771)	6	–	(2,738)
Net operating income/(loss)	18,799	8,395	6,094	42	33,330
Operating expenses [4]	(8,201)	(3,340)	(1,124)	(540)	(13,205)
Operating profit/(loss)	10,598	5,055	4,970	(498)	20,125
Net deficit on property revaluation	–	–	–	(636)	(636)
Share of profits/(losses) of associates	(76)	–	–	1	(75)
Profit/(loss) before tax	10,522	5,055	4,970	(1,133)	19,414
Share of profit/(loss) before tax	54.2%	26.0%	25.6%	(5.8)%	100.0%
[4] *Depreciation/amortisation included in operating expenses*	(851)	(8)	(3)	(1,521)	(2,383)
At 31 December 2020					
Gross loans and advances to customers	353,257	392,261	204,436	–	949,954
Customer deposits [3]	883,369	309,339	117,797	(6,422)	1,304,083
Interest in associates	2,358	–	–	–	2,358
Non-current assets acquired during the year	162	52	3	1,893	2,110

Year ended 31 December 2020 (restated) [2]

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Other	Total
Net fee income by segment					
- securities broking and related services	1,933	205	17	–	2,155
- retail investment funds	1,291	22	–	–	1,313
- insurance	446	75	70	–	591
- account services	251	133	7	–	391
- remittances	65	187	36	–	288
- cards	2,343	22	–	–	2,365
- credit facilities	22	433	143	–	598
- imports/exports	–	334	31	–	365
- other	131	110	39	242	522
Fee income	6,482	1,521	343	242	8,588
Fee expense	(2,120)	(25)	(90)	14	(2,221)
Net fee income	4,362	1,496	253	256	6,367

[1] *Deposits balances under 'Other' segment mainly related to consolidated elimination of NCDs issued by Hang Seng Bank (China) Limited to Hang Seng Bank Limited.*

[2] *To better reflect the change of business model on card acquiring business and retail branches operation, management has made the decision to realign these functions within respective business segments during the year. Comparative figures have been restated to conform with current year's presentation.*

[3] *Customer deposits balances include current, savings and other deposits accounts, certificates of deposit and other debt securities in issue.*

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.

Figures in HK$m	***Year ended 31 December 2021***	*2020*
Interest income calculated using effective interest method	**28,030**	35,010
Interest income – others	**477**	687
Interest income	**28,507**	35,697
Interest expense	**(4,685)**	(8,791)
Net interest income	**23,822**	26,906
Fee income	**9,151**	8,588
Fee expense	**(2,574)**	(2,221)
Net fee income	**6,577**	6,367
Net income/(loss) from financial instruments measured at fair value through profit or loss	**4,346**	3,320
Gains less losses from financial investments	**206**	(10)
Dividend income	**176**	157
Net insurance premium income	**14,083**	15,301
Other operating income	**322**	2,281
Total operating income	**49,532**	54,322
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(16,350)**	(18,254)
Net operating income before change in expected credit losses and other credit impairment charges	**33,182**	36,068
Change in expected credit losses and other credit impairment charges	**(2,807)**	(2,738)
Net operating income	**30,375**	33,330
Employee compensation and benefits	**(6,311)**	(6,102)
General and administrative expenses	**(5,285)**	(4,720)
Depreciation expenses	**(2,066)**	(2,086)
Amortisation of intangible assets	**(472)**	(297)
Operating expenses	**(14,134)**	(13,205)
Impairment loss on intangible assets	**(10)**	–
Operating profit	**16,231**	20,125
Net surplus/(deficit) on property revaluation	**82**	(636)
Share of profits/(losses) of associates	**72**	(75)
Profit before tax	**16,385**	19,414
Tax expense	**(2,439)**	(2,744)
Profit for the year	**13,946**	16,670
Profit attributable to:		
Shareholders of the Bank	**13,960**	16,687
Non-controlling interests	**(14)**	(17)
Earnings per share – basic and diluted (in HK$)	**6.93**	8.36

Details of dividends payable to shareholders of the Bank attributable to the profit for the year are set out on page 35.

Figures in HK$m	*Year ended 31 December* ***2021***	*2020*
Profit for the year	**13,946**	16,670
Other comprehensive income		
Items that will be reclassified subsequently to the Consolidated Income Statement when specific conditions are met:		
Debt instruments at fair value through other comprehensive income ('FVOCI'):		
- fair value (losses)/gains taken to equity	**(1,391)**	759
- fair value losses/(gains) transferred to Consolidated Income Statement:		
-- on hedged items	**829**	(663)
-- on disposal	**(98)**	(3)
- release of expected credit losses in the Consolidated Income statement	–	(2)
- deferred taxes	**41**	(4)
- exchange difference	**349**	4
Cash flow hedge reserve:		
- fair value gains/(losses) taken to equity	**2,207**	(823)
- fair value (gains)/losses transferred to Consolidated Income statement	**(2,464)**	1,115
- deferred taxes	**43**	(48)
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	**522**	854
Items that will not be reclassified subsequently to the Consolidated Income Statement:		
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:		
- fair value gains/(losses) taken to equity	**4**	(1)
- deferred taxes	**(1)**	–
Equity instrument designated at fair value through other comprehensive income:		
- fair value (losses)/gains taken to equity	**(1,961)**	920
- exchange difference	**173**	250
Premises:		
- unrealised surplus/(deficit) on revaluation of premises	**1,310**	(1,542)
- deferred taxes	**(220)**	252
- exchange difference	**9**	19
Defined benefit plans:		
- actuarial gains/(losses) on defined benefit plans	**352**	(10)
- deferred taxes	**(58)**	2
Exchange difference and others	**(3)**	–
Other comprehensive income for the year, net of tax	**(357)**	1,079
Total comprehensive income for the year	**13,589**	17,749
Total comprehensive income for the year attributable to:		
- shareholders of the Bank	**13,603**	17,766
- non-controlling interests	**(14)**	(17)
	13,589	17,749

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
ASSETS		
Cash and balances at central banks	**16,896**	11,226
Trading assets	**47,433**	37,117
Derivative financial instruments	**13,224**	17,181
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**31,326**	20,695
Reverse repurchase agreements – non-trading	**18,821**	13,360
Placings with and advances to banks	**72,493**	44,357
Loans and advances to customers	**997,397**	944,774
Financial investments	**500,386**	554,720
Interest in associates	**2,341**	2,358
Investment properties	**9,545**	9,415
Premises, plant and equipment	**31,205**	30,925
Intangible assets	**25,486**	24,733
Other assets	**53,632**	48,926
Total assets	**1,820,185**	1,759,787
LIABILITIES AND EQUITY		
Liabilities		
Deposits from banks	**5,333**	12,943
Current, savings and other deposit accounts	**1,230,216**	1,209,472
Repurchase agreements – non-trading	**16,592**	6,270
Trading liabilities	**44,291**	30,937
Derivative financial instruments	**12,252**	20,861
Financial liabilities designated at fair value	**27,399**	32,530
Certificates of deposit and other debt securities in issue	**81,567**	62,500
Other liabilities	**31,179**	31,334
Liabilities under insurance contracts	**154,551**	142,680
Current tax liabilities	**603**	282
Deferred tax liabilities	**7,302**	7,302
Subordinated liabilities	**24,484**	19,481
Total liabilities	**1,635,769**	1,576,592
Equity		
Share capital	**9,658**	9,658
Retained profits	**140,100**	137,580
Other equity instruments	**11,744**	11,744
Other reserves	**22,830**	24,118
Total shareholders' equity	**184,332**	183,100
Non-controlling interests	**84**	95
Total equity	**184,416**	183,195
Total equity and liabilities	**1,820,185**	1,759,787

For the year ended 31 December 2021

Figures in HK$m	Share capital	Other equity instrument	Retained profits[1]	Other Reserves						Total shareholders' equity	Non-controlling interests	Total equity
				Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Others[2]				
At 1 January 2021	**9,658**	**11,744**	**137,580**	**17,960**	**4,557**	**260**	**658**	**683**		**183,100**	**95**	**183,195**
Profit for the year	–	–	**13,960**	–	–	–	–	–		**13,960**	**(14)**	**13,946**
Other comprehensive income (net of tax)	–	–	**291**	**1,099**	**(2,058)**	**(214)**	**522**	**3**		**(357)**	–	**(357)**
Debt instruments at fair value through other comprehensive income	–	–	–	–	**(270)**	–	–	–		**(270)**	–	**(270)**
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	**(1,788)**	–	–	–		**(1,788)**	–	**(1,788)**
Cash flow hedges	–	–	–	–	–	**(214)**	–	–		**(214)**	–	**(214)**
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	**3**		**3**	–	**3**
Property revaluation	–	–	–	**1,099**	–	–	–	–		**1,099**	–	**1,099**
Actuarial gains on defined benefit plans	–	–	**294**	–	–	–	–	–		**294**	–	**294**
Exchange differences and others	–	–	**(3)**	–	–	–	**522**	–		**519**	–	**519**
Total comprehensive income for the year	–	–	**14,251**	**1,099**	**(2,058)**	**(214)**	**522**	**3**		**13,603**	**(14)**	**13,589**
Dividends paid[3]	–	–	**(11,662)**	–	–	–	–	–		**(11,662)**	–	**(11,662)**
Coupons paid on AT1 capital instruments	–	–	**(703)**	–	–	–	–	–		**(703)**	–	**(703)**
Movement in respect of share-based payment arrangements	–	–	**3**	–	–	–	–	**(9)**		**(6)**	–	**(6)**
Others	–	–	–	–	–	–	–	–		–	**3**	**3**
Transfers	–	–	**631**	**(631)**	–	–	–	–		–	–	–
At 31 December 2021	**9,658**	**11,744**	**140,100**	**18,428**	**2,499**	**46**	**1,180**	**677**		**184,332**	**84**	**184,416**

[1] Retained profits are the cumulative net earnings of the Group that have not been paid out as dividends, but retained to be reinvested in the business. To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group has earmarked a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 31 December 2021, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$441m (2020: HK$1,323m).
[2] Other reserves comprise share-based payment reserve and own credit risk reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the Group by the ultimate holding company. The own credit risk reserve is for the change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk.
[3] Dividends paid represented the payment of fourth interim dividend of 2020 and the first three interim dividends of 2021 amounted to HK$5,353m and HK$6,309m respectively.

For the year ended 31 December 2020

				Other Reserves							
Figures in HK$m	Share capital	Other equity instrument	Retained profits	Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Others	Total shareholders' equity	Non-controlling interests	Total equity
At 1 January 2020	9,658	11,744	133,734	19,889	3,296	16	(196)	669	178,810	107	178,917
Profit for the year	–	–	16,687	–	–	–	–	–	16,687	(17)	16,670
Other comprehensive income (net of tax)	–	–	(8)	(1,271)	1,261	244	854	(1)	1,079	–	1,079
Debt instruments at fair value through other comprehensive income	–	–	–	–	91	–	–	–	91	–	91
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	1,170	–	–	–	1,170	–	1,170
Cash flow hedges	–	–	–	–	–	244	–	–	244	–	244
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(1)	(1)	–	(1)
Property revaluation	–	–	–	(1,271)	–	–	–	–	(1,271)	–	(1,271)
Actuarial losses on defined benefit plans	–	–	(8)	–	–	–	–	–	(8)	–	(8)
Exchange differences and others	–	–	–	–	–	–	854	–	854	–	854
Total comprehensive income for the year	–	–	16,679	(1,271)	1,261	244	854	(1)	17,766	(17)	17,749
Dividends paid	–	–	(12,808)	–	–	–	–	–	(12,808)	–	(12,808)
Coupons paid on AT1 capital instruments	–	–	(700)	–	–	–	–	–	(700)	–	(700)
Movement in respect of share-based payment arrangements	–	–	17	–	–	–	–	15	32	–	32
Others	–	–	–	–	–	–	–	–	–	5	5
Transfers	–	–	658	(658)	–	–	–	–	–	–	–
At 31 December 2020	9,658	11,744	137,580	17,960	4,557	260	658	683	183,100	95	183,195

Net interest income

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

Figures in HK$m	***2021***	*2020*
- securities broking and related services	**2,040**	2,155
- retail investment funds	**1,567**	1,313
- insurance	**502**	591
- account services	**371**	391
- remittances	**268**	288
- cards	**2,679**	2,365
- credit facilities	**682**	598
- imports/exports	**416**	365
- other	**626**	522
Fee income	**9,151**	8,588
Fee expense	**(2,574)**	(2,221)
	6,577	6,367

Net income from financial instruments measured at fair value through profit or loss

Figures in HK$m	***2021***	*2020*
Net trading income		
- trading income	**1,560**	2,327
- other trading expense from ineffective fair value hedges	**(3)**	(9)
	1,557	2,318
Net income from financial instruments designated at fair value through profit or loss	**182**	185
Net income from assets and liabilities of insurance businesses measured at fair value through profit or loss		
- financial assets held to meet liabilities under insurance and investment contracts	**2,611**	842
- liabilities to customers under investment contracts	**(1)**	(19)
	2,610	823
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**(3)**	(6)
	4,346	3,320

Other operating income

Figures in HK$m	***2021***	*2020*
Rental income from investment properties	**269**	272
Movement in present value of in-force long-term insurance business	**(188)**	2,082
Net losses from disposal of fixed assets	**(48)**	(19)
Net gains/(losses) from the derecognition of loans and advances to customers measured at amortised cost	**4**	(4)
Others	**285**	(50)
	322	2,281

Analysis of income from wealth management business

Figures in HK$m	***2021***	*2020*
Investment services income[1]:		
- 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
	4,018	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 profits/(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
	4,657	4,030
- general insurance and others	**278**	245
	4,935	4,275
	8,953	8,223

[1] 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 'yuu', 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.

Change in expected credit losses and other credit impairment charges

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

Operating expenses

Figures in HK$m	***2021***	*2020*
Employee compensation and benefits:		
- salaries and other costs	**5,811**	5,613
- retirement benefit costs	**500**	489
	6,311	6,102
General and administrative expenses:		
- rental expenses	**22**	27
- other premises and equipment	**1,795**	1,617
- marketing and advertising expenses	**378**	369
- other operating expenses	**3,090**	2,707
	5,285	4,720
Depreciation of premises, plant and equipment[1]	**2,066**	2,086
Amortisation of intangible assets	**472**	297
	14,134	13,205
Cost efficiency ratio	**42.6%**	36.6%

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
	9,396	9,628

[1] Included depreciation of right-of-use assets of HK$574m in 2021 (2020: HK$595m).

Tax expense

Taxation in the Consolidated Income Statement represents:

Figures in HK$m	***2021***	*2020*
Current tax – provision for Hong Kong profits tax		
- Tax for the year	**2,391**	2,344
- Adjustment in respect of prior years	**75**	(57)
Current tax – taxation outside Hong Kong		
- Tax for the year	**77**	93
- Adjustment in respect of prior years	–	(1)
Deferred tax		
- Origination and reversal of temporary differences	**(104)**	365
	2,439	2,744

The current tax provision is based on the estimated assessable profit for 2021, and is determined for the Bank and its subsidiaries operating in Hong Kong SAR by using the Hong Kong profits tax rate of 16.5% (the same as in 2020). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share is based on earnings of HK$13,257m (HK$15,987m in 2020), adjusted for the AT1 capital instrument related deductions and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2020).

Dividends/Distributions

	2021		*2020*	
(a) Dividends to ordinary shareholders	***HK$ per share***	***HK$m***	*HK$ per share*	*HK$m*
First interim	**1.10**	**2,103**	1.10	2,103
Second interim	**1.10**	**2,103**	0.80	1,529
Third interim	**1.10**	**2,103**	0.80	1,529
Fourth interim	**1.80**	**3,441**	2.80	5,353
	5.10	**9,750**	5.50	10,514

	2021	*2020*
	HK$m	*HK$m*
(b) Distributions to holders of AT1 capital instruments classified as equity		
Coupons paid on AT1 capital instruments	**703**	700

Segmental analysis

Hong Kong Financial Reporting Standard 8 requires segmental disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purpose of assessing segmental performance and making decisions about operating matters. To align with the internal reporting information, the Group has presented the following four reportable segments.

- **Wealth and Personal Banking** offers a broad range of products and services to meet the personal banking, consumer lending and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, time deposits, mortgages and personal loans, credit cards, insurance, investment and other wealth management services;
- **Commercial Banking** offers a comprehensive suite of products and services to corporate, commercial and small and medium-sized enterprises ('SME') customers – including corporate lending, trade and receivable finance, payments and cash management, treasury and foreign exchange, general insurance, key-person insurance, investment services and corporate wealth management;
- **Global Banking and Markets** provides tailored financial solutions to major corporate and institutional clients. Undertaking a long-term relationships management approach, its services include general banking, corporate lending, interest rates, foreign exchange, money markets, structured products and derivatives, etc. Global Banking and Markets also manages the funding and liquidity positions of the Bank and other market risk positions arising from banking activities;
- **Other** mainly represents the Bank's holdings of premises, investment properties, equity shares and subordinated debt funding as well as central support and functional costs with associated recoveries.

(a) Segmental result

For the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the business segments by way of internal capital allocation and fund transfer-pricing mechanisms. Cost of central support services and functions are allocated to business segments based on cost drivers which reflect or correlate with the use of services. Bank-owned premises apart from outlets dedicated for Wealth and Personal Banking are reported under the 'Other' segment. When these premises are utilised by business segments, notional rent will be charged to the relevant business segments with reference to market rates.

Profit before tax contributed by the business segments is set out in the table below. More business segment analysis and discussion is set out in the 'Segmental analysis' section on page 18.

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

Segmental analysis *(continued)*

(b) Information by geographical region

The geographical regions in this analysis are classified by the location of the principal operations of the subsidiary companies or, in the case of the Bank itself, by the location of the branches responsible for reporting the results or advancing the funds. Consolidation adjustments made in preparing the Group's financial statements upon consolidation are included in the 'Inter-region elimination'.

Figures in HK$m	*Hong Kong*	*Mainland China*	*Others*	*Inter-region elimination*	*Total*
Year ended 31 December 2021					
Total operating income/(loss)	**46,284**	**3,001**	**278**	**(31)**	**49,532**
Profit before tax	**15,047**	**1,161**	**177**	–	**16,385**
At 31 December 2021					
Total assets	**1,697,609**	**179,392**	**22,820**	**(79,636)**	**1,820,185**
Total liabilities	**1,521,858**	**162,429**	**21,348**	**(69,866)**	**1,635,769**
Equity	**175,751**	**16,963**	**1,472**	**(9,770)**	**184,416**
Share capital	**9,658**	**10,990**	–	**(10,990)**	**9,658**
Interest in associates	**2,341**	–	–	–	**2,341**
Non-current assets[1]	**64,535**	**1,652**	**49**	–	**66,236**
Contingent liabilities and commitments	**495,857**	**75,212**	**5,516**	**(32,715)**	**543,870**
Year ended 31 December 2020					
Total operating income/(loss)	51,357	2,732	276	(43)	54,322
Profit before tax	18,364	884	166	–	19,414
At 31 December 2020 (restated)					
Total assets	1,648,014	149,586	23,420	(61,233)	1,759,787
Total liabilities	1,471,529	134,424	22,102	(51,463)	1,576,592
Equity	176,485	15,162	1,318	(9,770)	183,195
Share capital	9,658	10,632	–	(10,632)	9,658
Interest in associates	2,358	–	–	–	2,358
Non-current assets[1]	63,465	1,544	64	–	65,073
Contingent liabilities and commitments	485,859	57,825	5,921	(30,265)	519,340

[1] *Non-current assets consist of investment properties, premises, plant and equipment, intangible assets and right-of-use assets.*

Trading assets

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Treasury bills	**26,004**	16,533
Other debt securities	**21,388**	20,539
Debt securities	**47,392**	37,072
Investment funds/equity shares	**41**	45
	47,433	37,117

Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Debt securities	**18**	2
Equity shares	**7,422**	4,253
Investment funds	**22,863**	15,158
Other	**1,023**	1,282
	31,326	20,695

Loans and advances to customers

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Gross loans and advances to customers	**1,004,325**	949,954
Less: Allowances for expected credit losses	**(6,928)**	(5,180)
	997,397	944,774
Expected credit losses as a percentage of gross loans and advances to customers	**0.69%**	0.55%
Gross impaired loans and advances	**10,429**	5,724
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**1.04%**	0.60%

Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees

	Non credit - impaired				Credit - impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI[1]			
Figures in HK$m	Gross carrying/ nominal amount	Allowance(s) for ECL	Gross carrying/ nominal amount	Allowance(s) for ECL	Gross carrying/ nominal amount	Allowance(s) for ECL	Gross carrying/ nominal amount	Allowance(s) for ECL	Gross carrying/ nominal amount	Allowance(s) for ECL
At 1 January 2021	1,213,008	(1,421)	135,379	(1,896)	5,723	(2,044)	1	–	1,354,111	(5,361)
Transfers of financial instruments:										
- transfers from Stage 1 to Stage 2	(70,798)	237	70,798	(237)	–	–	–	–	–	–
- transfers from Stage 2 to Stage 1	43,558	(302)	(43,558)	302	–	–	–	–	–	–
- transfers to Stage 3	(5,131)	14	(1,302)	54	6,433	(68)	–	–	–	–
- transfers from Stage 3	10	(1)	42	(1)	(52)	2	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	144	–	(607)	–	(13)	–	–	–	(476)
New financial assets originated and purchased	256,859	(275)	16,987	(840)	507	(47)	973	–	275,326	(1,162)
Assets derecognised (including final repayments)	(163,501)	127	(32,169)	254	(699)	95	–	–	(196,369)	476
Changes to risk parameters – further lending/(repayment)	5,207	223	4,368	161	(1,070)	46	(2)	–	8,503	430
Changes to risk parameters – credit quality	–	479	–	(757)	–	(1,885)	–	–	–	(2,163)
Changes to model used for ECL calculation	–	(38)	–	(8)	–	–	–	–	–	(46)
Assets written off	–	–	–	–	(1,233)	1,233	–	–	(1,233)	1,233
Credit related modifications that resulted in derecognition	–	–	(768)	6	(208)	–	–	–	(976)	6
Foreign exchange and others	4,547	(9)	339	(3)	56	(19)	–	–	4,942	(31)
At 31 December 2021	1,283,759	(822)	150,116	(3,572)	9,457	(2,700)	972	–	1,444,304	(7,094)

	Total
ECL in income statement (charge)/release for the year	(2,935)
Add: Recoveries	167
Add/(less): Others	(37)
Total ECL (charge)/release for the year[2]	(2,805)

[1] *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*

[2] *The provision for ECL balance at 31 December 2021 and total ECL charges for the year does not include ECL related to other financial assets measured at amortised cost, debt instruments at FVOCI and performance and other guarantees. The corresponding total ECL balances and ECL charges amount to HK$179m and HK$2m (2020: HK$203m and HK$99m) respectively.*

Overdue loans and advances to customers

Loans and advances to customers that are more than three months overdue and their expression as a percentage of gross loans and advances to customers are as follows:

	At 31 December 2021		*At 31 December 2020*	
	HK$m	***%***	*HK$m*	*%*
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	**1,197**	**0.12**	591	0.06
- more than six months but not more than one year	**257**	**0.03**	703	0.07
- more than one year	**2,217**	**0.22**	950	0.10
	3,671	**0.37**	2,244	0.23

Rescheduled loans and advances to customers

Rescheduled loans and advances to customers and their expression as a percentage of gross loans and advances to customers are as follows:

	At 31 December 2021		*At 31 December 2020*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**2,331**	**0.23**	140	0.01

Rescheduled loans and advances to customers increased by HK$2.2bn to HK$2.3bn when compared with 2020 year-end.

Gross loans and advances to customers by industry sector

The analysis of gross loans and advances to customers by industry sector based on categories and definitions used by the Hong Kong Monetary Authority ('HKMA') is as follows:

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**73,939**	71,868
Property investment	**153,957**	154,338
Financial concerns	**1,974**	3,201
Stockbrokers	**9**	11
Wholesale and retail trade	**28,117**	32,041
Manufacturing	**21,851**	24,077
Transport and transport equipment	**16,834**	14,617
Recreational activities	**837**	976
Information technology and telecom	**6,868**	9,973
Other	**97,142**	92,614
	401,528	403,716
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**38,320**	33,806
Loans and advances for the purchase of other residential properties	**242,820**	226,996
Credit card loans and advances	**28,435**	25,951
Other	**31,336**	30,274
	340,911	317,027
Total gross loans and advances for use in Hong Kong	**742,439**	720,743
Trade finance	**41,732**	26,636
Gross loans and advances for use outside Hong Kong	**220,154**	202,575
Gross loans and advances to customers	**1,004,325**	949,954

Financial investments

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Financial investments measured at fair value through other comprehensive income		
- treasury bills	**225,910**	268,031
- debt securities	**127,982**	144,814
- equity shares	**5,267**	7,051
Debt instruments measured at amortised cost		
- treasury bills	**2,300**	3,667
- debt securities	**139,080**	131,330
Less: Allowances for expected credit losses	**(153)**	(173)
	500,386	554,720
Fair value of debt securities at amortised cost	**148,020**	146,275
Treasury bills	**228,210**	271,698
Certificates of deposit	**1,638**	3,633
Other debt securities	**265,271**	272,338
Debt securities	**495,119**	547,669
Equity shares	**5,267**	7,051
	500,386	554,720

Intangible assets

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Present value of in-force long-term insurance business	**22,363**	22,551
Internally developed/acquired software	**2,794**	1,853
Goodwill	**329**	329
	25,486	24,733

Other assets

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Items in the course of collection from other banks	**3,744**	5,062
Bullion	**8,470**	12,337
Prepayments and accrued income	**4,732**	3,917
Acceptances and endorsements	**11,121**	9,027
Less: Allowances for expected credit losses	**(12)**	(14)
Reinsurers' share of liabilities under insurance contracts	**5,848**	5,471
Settlement accounts	**13,711**	4,329
Cash collateral	**2,343**	5,286
Other accounts	**3,675**	3,511
	53,632	48,926

Other accounts included 'Assets held for sale' of HK$35m (31 December 2020: HK$28m). There is no 'Retirement benefit assets' in 2021 (31 December 2020: HK$7m).

Current, savings and other deposit accounts

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Current, savings and other deposit accounts:		
- as stated in Consolidated Balance Sheet	**1,230,216**	1,209,472
- structured deposits reported as financial liabilities designated as fair value	**24,012**	26,840
	1,254,228	1,236,312
By type:		
- demand and current accounts	**150,127**	137,050
- savings accounts	**871,281**	825,547
- time and other deposits	**232,820**	273,715
	1,254,228	1,236,312

Trading liabilities

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Short positions in securities	**44,291**	**30,937**

Financial liabilities designated at fair value

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Certificates of deposit in issue	**-**	1,516
Structured deposits	**24,012**	26,840
Other structured debt securities in issue	**3,005**	3,755
Liabilities to customers under investment contracts	**382**	419
	27,399	32,530

Certificates of deposit and other debt securities in issue

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Certificates of deposit and other debt securities in issue:		
- as stated in Consolidated Balance Sheet	**81,567**	62,500
- certificates of deposit in issue designated at fair value	**-**	1,516
- other structured debt securities in issue reported as financial liabilities designated at fair value	**3,005**	3,755
	84,572	67,771
By type:		
- certificates of deposit in issue	**81,567**	64,016
- other debt securities in issue	**3,005**	3,755
	84,572	67,771

Other liabilities

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Items in the course of transmission to other banks	**6,102**	6,316
Accruals	**3,762**	3,490
Acceptances and endorsements	**11,121**	9,027
Retirement benefit liabilities	**339**	630
Settlement accounts	**1,874**	5,124
Cash collateral	**2,232**	1,060
Lease liabilities	**1,880**	2,102
Other	**3,869**	3,585
	31,179	31,334

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%

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during 2021.

Capital management

The following tables show the capital base, risk-weighted assets and capital ratios on a consolidated basis that is specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

The Group uses the advanced internal ratings-based approach ("IRB") to calculate its credit risk for the majority of its non-securitisation exposures. For counterparty credit risk, the Group replaces the current exposure method with standardised (counterparty credit risk) approach to calculate its default risk exposures starting from 30 June 2021. For market risk, the Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures and the standardised (market risk) approach for calculating other market risk positions. For operational risk, the Group uses the standardised (operational risk) approach to calculate its operational risk.

The basis of consolidation for the calculation of capital ratios under the Banking (Capital) Rules follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are 'regulated financial entities' (e.g. insurance and securities companies) as defined by the Banking (Capital) Rules. The investment cost of these unconsolidated regulated financial entities is deducted from the capital base subject to certain thresholds as determined in accordance with Part 3 of the Banking (Capital) Rules.

Capital management *(continued)*

(a) Capital base

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**144,651**	145,915
- Shareholders' equity per Consolidated Balance Sheet	**184,332**	183,100
- Additional Tier 1 ('AT1') perpetual capital instruments	**(11,744)**	(11,744)
- Unconsolidated subsidiaries	**(27,937)**	(25,441)
Non-controlling interests	–	–
- Non-controlling interests per Consolidated Balance Sheet	**84**	95
- Non-controlling interests in unconsolidated subsidiaries	**(84)**	(95)
Regulatory deductions to CET1 capital	**(28,052)**	(27,306)
- Cash flow hedge reserve	**2**	(51)
- Changes in own credit risk on fair valued liabilities	**(6)**	(10)
- Property revaluation reserves[1]	**(24,617)**	(24,067)
- Regulatory reserve	**(441)**	(1,323)
- Intangible assets	**(2,359)**	(1,566)
- Defined benefit pension fund assets	–	(6)
- Deferred tax assets net of deferred tax liabilities	**(90)**	(183)
- Valuation adjustments	**(126)**	(100)
- Excess of total expected loss amount over total eligible provisions under the IRB	**(415)**	–
Total CET1 Capital	**116,599**	118,609
AT1 Capital		
Total AT1 capital before and after regulatory deductions	**11,744**	11,744
- Perpetual capital instruments	**11,744**	11,744
Total AT1 Capital	**11,744**	11,744
Total Tier 1 ('T1') Capital	**128,343**	130,353
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**11,460**	11,762
- Property revaluation reserves[1]	**11,078**	10,831
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**382**	931
Regulatory deductions to T2 capital	**(1,045)**	(1,045)
- Significant capital investments in unconsolidated financial sector entities	**(1,045)**	(1,045)
Total T2 Capital	**10,415**	10,717
Total Capital	**138,758**	141,070

[1] *Includes the revaluation surplus on investment properties which is reported as part of retained profits and related adjustments made in accordance with the Banking (Capital) Rules issued by the HKMA.*

Capital management *(continued)*

(b) Risk-weighted assets by risk type

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Credit risk	**659,956**	624,487
Market risk	**13,248**	14,332
Operational risk	**60,924**	66,709
Total	**734,128**	705,528

(c) Capital ratios (as a percentage of risk-weighted assets)

The capital ratios on a consolidated basis calculated in accordance with the Banking (Capital) Rules are as follows:

	At 31 December 2021	*At 31 December 2020*
CET1 capital ratio	**15.9 %**	16.8 %
T1 capital ratio	**17.5 %**	18.5 %
Total capital ratio	**18.9 %**	20.0 %

In addition, the capital ratios of all tiers as of 31 December 2021 would be reduced by approximately 0.5 percentage point after the prospective fourth interim dividend payment for 2021. The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 31 December 2021	*Pro-forma At 31 December 2020*
CET1 capital ratio	**15.4 %**	16.1 %
T1 capital ratio	**17.0 %**	17.7 %
Total capital ratio	**18.4 %**	19.2 %

(d) Leverage ratio

	At 31 December 2021	*At 31 December 2020*
Leverage ratio	**7.5 %**	7.9 %
T1 capital	**128,343**	130,353
Exposure measure	**1,704,064**	1,641,358

Liquidity information

The Group is required under rule 11(1) of the Banking (Liquidity) Rules to calculate its LCR and net stable funding ratio ('NSFR') on a consolidated basis. From 1 January 2019, the Group is required to maintain an LCR of not less than 100%. The LCR for the reportable periods are as follows:

	Average LCR for			
	Quarter ended 31 December	*Quarter ended 30 September*	*Quarter ended 30 June*	*Quarter ended 31 March*
- 2021	**191.8%**	**203.2%**	**214.4%**	**204.0%**
- 2020	207.8%	199.4%	198.0%	181.6%

The LCR as at 31 December 2021 was 192.7% compared with 230.4% at 31 December 2020.

The Group is required to maintain the NSFR of not less than 100% and the NSFR at the reportable quarter-end are as follows:

	Quarter ended 31 December	*Quarter ended 30 September*	*Quarter ended 30 June*	*Quarter ended 31 March*
- 2021	**147.4%**	**146.6%**	**146.6%**	**150.5%**
- 2020	152.9%	149.2%	151.0%	146.0%

Contingent liabilities, contractual commitments and guarantees

Figures in HK$m	***At 31 December 2021***	*At 31 December 2020*
Contingent liabilities and financial guarantee contracts		
- Financial guarantees	**2,431**	3,024
- Performance and other guarantees	**26,439**	16,774
- Other contingent liabilities	**80**	49
	28,950	19,847
Commitments		
- Documentary credits and short-term trade-related transactions	**3,233**	3,248
- Forward asset purchases and forward forward deposits placed	**10,633**	7,432
- Undrawn formal standby facilities, credit lines and other commitments to lend	**501,054**	488,813
	514,920	499,493

1. Statutory financial statements and accounting policies

The information in this press release does not constitute statutory financial statements.

Certain financial information in this press release is extracted from the statutory financial statements for the year ended 31 December 2021 ('2021 account') which will be delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those financial statements in their report dated 22 February 2022. The auditor's report did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

Except as described below, the accounting policies and methods of computation adopted by the Group for this press release are consistent with those described on pages 177 to 191 of the 2020 statutory financial statements.

Standards applied during the year ended 31 December 2021

There were no new standards applied during the year ended 31 December 2021. During 2021, the Group adopted a number of amendments to standards which had an insignificant effect on the consolidated financial statements of the Group.

Use of estimates and judgements

Further information on summary of significant accounting policies, use of estimates and judgements and future accounting developments are set out in the accounting policies of the Group's 2021 Annual Report.

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2. Future accounting standard development

The Hong Kong Institute of Certified Public Accountants ('HKICPA') has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2021 and which have not been adopted in the financial statements. Key changes of new standards are summarised as follows:

HKFRS 17 'Insurance Contracts'
HKFRS 17 'Insurance Contracts' was issued in January 2018 with amendments to the standard issued in October 2020. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, HKFRS 17 is effective from 1 January 2023. The Group is in the process of implementing HKFRS 17. Industry practice and interpretation of the standard is still developing. Additionally, the impact on the forecast future returns of our insurance business is dependent on the growth, duration and composition of our insurance portfolio. Therefore, the likely financial impact of its implementation remains uncertain.

2. Future accounting standard development (*continued*)

However, the estimated impact compared with the Group's current accounting policy for insurance contracts is set out below:

- Under HKFRS 17, there will be no present value of in-force business ('PVIF') asset recognised. Instead the estimated future profit will be included in the measurement of the insurance contract liability as the contractual service margin ('CSM') and this will be gradually recognised in revenue as services are provided over the duration of the insurance contract. While the profit over the life of an individual contract will be unchanged, its emergence will be later under HKFRS 17. The removal of PVIF asset and the recognition of CSM will reduce equity. The PVIF asset will be eliminated to equity on transition, together with other adjustments to assets and liabilities to reflect HKFRS 17 measurement requirements and any consequential amendments to financial assets in the scope of HKFRS 9;
- HKFRS 17 requires increased use of current market values in the measurement of insurance liabilities. Changes in market conditions for certain products measured under the General Measurement Approach are immediately recognised in profit or loss, while changes in market conditions for other products measured under the Variable Fee Approach are included in the measurement of CSM;
- In accordance with HKFRS 17, directly attributable costs will be incorporated in the CSM and recognised in the results of insurance services as a reduction in reported revenue, as profit is recognised over the duration of insurance contracts. Costs that are not directly attributable will remain in operating expenses. This may result in a reduction in operating expenses compared to the current accounting policy.
- We intend to provide an update on the likely financial impacts on our insurance business in later 2022 financial reports, when we expect that this will be reasonably estimable.

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3. Comparative figures

Certain comparative figures have been restated to conform with the current year's presentation.

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4. Ultimate holding company

Hang Seng Bank is an indirectly held, 62.14%-owned, subsidiary of HSBC Holdings plc, which is incorporated in England.

5. Register of shareholders

The register of shareholders of the Bank will be closed on Wednesday, 9 March 2022, during which no transfer of shares can be registered. In order to qualify for the fourth interim dividend for 2021, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on Tuesday, 8 March 2022. The fourth interim dividend will be payable on Tuesday, 22 March 2022, to shareholders whose names appear on the register of shareholders of the Bank on Wednesday, 9 March 2022. Shares of the Bank will be traded ex-dividend as from Monday, 7 March 2022.

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6. Corporate governance principles and practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the HKMA. The Bank has also fully complied with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year of 2021.

Further, the Bank constantly reviews and enhances its corporate governance framework, by making reference to market trend as well as guidelines and requirements issued by regulatory authorities, to ensure that it is in line with international and local corporate governance best practices. Throughout 2021, the Bank has also implemented various Group governance initiatives to streamline parent/subsidiary oversight framework, and enhance meeting efficiency and reporting quality.

The Audit Committee of the Bank has reviewed the results of the Bank for the year ended 31 December 2021.

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7. Board of Directors

At 22 February 2022, the Board of Directors of the Bank comprises Ms Irene Y L Lee* (Chairman), Ms Diana Cesar (Chief Executive), Dr John C C Chan*, Ms L Y Chiang*, Ms Kathleen C H Gan#, Mr Clement K M Kwok*, Mr David Y C Liao#, Dr Vincent H S Lo#, Mr Kenneth S Y Ng#, and Mr Michael W K Wu*.

* Independent non-executive Directors
\# Non-executive Directors

8. Press release and Annual Report

This press release is available on the Bank's website www.hangseng.com.

The 2021 Annual Report will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank and printed copies of the 2021 Annual Report will be sent to shareholders at or about the end of March 2022.

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9. Other financial information

To comply with the Banking (Disclosure) Rules and Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (referred to as 'Rules'), the Bank has set up a 'Regulatory Disclosures' section on its website (www.hangseng.com) to house the information related to the disclosure requirements in a document 'Banking Disclosure Statement' required by the Rules. The Banking Disclosure Statement, together with the disclosures in the Group's Annual Report, contained all the disclosures required by the Rules issued by the HKMA.

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