21 February 2023

HANG SENG BANK LIMITED
2022 ANNUAL RESULTS - HIGHLIGHTS

- Net interest income up 22% to HK$28,981m (2021: HK$23,822m) with net interest margin widening by 28 basis points to 1.77% (2021: 1.49%). Net interest income was HK$16,625m for the second half of 2022 (‘2H 2022’), up 35% when compared with HK$12,356m for the first half of 2022 (‘1H 2022’).

- Net operating income before change in expected credit losses and other credit impairment charges up 2% to HK$33,972m (2021: HK$33,182m), driven by 22% growth in net interest income, partly offset by the reduction in non-interest income due to unfavourable market impacts on life insurance business investment portfolio and lower investment distribution revenue from less favourable investment sentiment. Net operating income before change in expected credit losses and other credit impairment charges was HK$19,028m for 2H 2022, up 27% when compared with HK$14,944m for 1H 2022.

- Profit attributable to shareholders down 27% to HK$10,165m (2021: HK$13,960m) after accounting for the increase in expected credit losses to reflect the higher risk for borrowers of mainland China commercial real estate sector.

- Total assets up 4% to HK$1,894bn (2021: HK$1,820bn).

- Return on average ordinary shareholders’ equity of 5.5% (7.7% in 2021).

- Earnings per share down 29% to HK$4.95 per share (HK$6.93 per share in 2021).

- Fourth interim dividend of HK$2.00 per share; total dividends of HK$4.10 per share for 2022 (HK$5.10 per share in 2021).

- Common equity tier 1 (‘CET1’) capital ratio of 15.2%, tier 1 (‘T1’) capital ratio of 16.8% and total capital ratio of 18.1% at 31 December 2022 (CET1 capital ratio of 15.9%, T1 capital ratio of 17.5% and total capital ratio of 18.9% at 31 December 2021).

- Cost efficiency ratio of 43.5% (42.6% in 2021).

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 2022.

1 Highlights of Results
2 Contents
4 Chairman's Comment
7 Chief Executive's Review
12 Results Summary
19 Segmental Analysis
26 Consolidated Income Statement
27 Consolidated Statement of Comprehensive Income
28 Consolidated Balance Sheet
29 Consolidated Statement of Changes in Equity
31 Financial Review
- 31 Net interest income
- 32 Net fee income
- 32 Net income/(loss) from financial instruments measured at fair value through profit or loss
- 33 Other operating income/(loss)
- 33 Analysis of income from wealth management business
- 35 Change in expected credit losses and other credit impairment charges
- 35 Operating expenses
- 36 Tax expense
- 36 Earnings per share – basic and diluted
- 36 Dividends/Distributions
- 37 Segmental analysis
- 39 Trading assets
- 39 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss
- 39 Loans and advances to customers
- 40 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
- 41 Overdue loans and advances to customers
- 41 Rescheduled loans and advances to customers
- 42 Gross loans and advances to customers by industry sector
- 43 Financial investments
- 43 Intangible assets
- 44 Other assets
- 44 Current, savings and other deposit accounts
- 44 Trading liabilities
- 45 Financial liabilities designated at fair value
- 45 Certificates of deposit and other debt securities in issue
- 45 Other liabilities
- 46 Shareholders' equity
- 46 Capital management
- 49 Liquidity information
- 49 Contingent liabilities, contractual commitments and guarantees

50 Additional Information
50 Statutory financial statements and accounting policies
50 Future accounting standard development
53 Ultimate holding company
53 Register of shareholders
53 Corporate governance principles and practices
54 Board of Directors
54 Press release and Annual Report
54 Other financial information

Comment by Irene Lee, Chairman

Recent challenges have demonstrated the importance of creative thinking and working together to find effective solutions. It is likely that this trend will continue and we would like to be on the forefront of initiatives to build an inclusive community to maximise all the talents Hong Kong has to offer.

As a leading international finance and trade centre, our home is a key city in the Greater Bay Area which is already a major global nexus for technological advancement, new-economy business and wealth management services. Year-on-year GDP growth in the region has been about 7% over the past decade, even with the impact of the pandemic. GDP is forecast to reach US$2.8 trillion by 2027, up almost US$1 trillion from 2021.

As a bank with deep local roots and a long-term growth perspective, we are well positioned to capitalise on the opportunities the Greater Bay Area presents. We have already made significant progress. Our commitment to our brand is at the heart of all our decisions. This focus will not change.

Transformation

Our strategy last year included building a foundation that will enable us to be an industry innovator that moves beyond conventional ideas. The way we interact with customers and partners is evolving rapidly with new requirements and delivery channels becoming part of day-to-day life. At the same time, banking standards and integrity continue to be fundamental to our credibility. This means that a lot of work has been undertaken to ensure a robust infrastructure is in place to manage risks.

We are working with new-economy start-ups by supporting incubation, sharing business advice and collaborating with them to co-develop fintech services and products. We are also connecting with industry regulators and technology associations to expand the ecosystem and advance the government's Fintech 2025 strategy. For example, we are a leading advocate in the development of central bank digital currency, which will be essential to the Greater Bay Area's future growth as the mainland moves towards becoming one of the world's first cashless economies. Additionally, we are extending our servicing channels to the Metaverse and other virtual spaces to engage with customers and the community.

Our colleagues are at the heart of the Hang Seng brand. We encourage entrepreneurial mindsets and empower staff to work together with customers to develop solutions. The bank-wide Data Literacy Empowerment Programme is an important initiative to future-skill the Hang Seng team. I believe we are well positioned to respond quickly as challenges emerge.

Comment by Irene Lee, Chairman *(continued)*

Innovation

The focus on generational wealth has increased partly because of demographics and partly because of a rapidly expanding middle class amongst the Greater Bay Area's 86 million residents. Government authorities on both sides of the boundary are committed to expanding mutual access via various Connect Schemes.

Amongst many initiatives, our appointment as the new manager of The Tracker Fund of Hong Kong last year has reinforced our position as a local leader for wealth management and asset management services. We now manage two of the first four funds made available through the southbound link of the ETF Connect Scheme.

The Hang Seng Indexes Company is developing new indexes that facilitate investment strategies and product development around future mega-themes including technology, climate change and the Metaverse.

Sustainability

We believe that building a sustainable future requires a definition of 'wealth' that is not purely financial.

We are expanding services that will assist customers in their sustainability journey and we are actively participating in collective actions to address climate change. We aim to reduce carbon emissions from our own operations to net zero by 2030. We are also contributing to the HSBC Group's ambitions of becoming net zero in its supply chain by 2030 and aligning the financed emissions in its portfolio of customers to net zero by 2050.

We are proud to have had our actions acknowledged with a Services and Trading – Gold Award in the Hong Kong Awards for Environmental Excellence, which are sponsored by the Government-established Environment and Conservation Fund.

Board of Directors and Senior Management

John Chan and Vincent Lo stepped down as Independent Non-Executive Director and Non-Executive Director of the Bank respectively in 2022 after many years of distinguished service. I wish to reiterate the Board's heartfelt thanks to John and Vincent for their guidance and contributions to the Bank's long-term success. I also wish to express sincere gratitude to Chiang Lai Yuen, who stepped down as an Independent Non-Executive Director with effect from 1 January 2023, for her wise counsel and contributions during her tenure of office.

We welcomed Cordelia Chung, Patricia Lam, Lin Huey Ru and Wang Xiao Bin as new Independent Non-Executive Directors during 2022. Each is a distinguished leader with recognised expertise in their fields. We are delighted to be benefiting from the new insights and diverse perspectives they bring to the Board. Kenneth Ng was re-designated from a Non-Executive Director to an Independent Non-Executive Director.

Comment by Irene Lee, Chairman *(continued)*

I would like to extend my appreciation to Andrew Leung who retired from his position as Chief Financial Officer in September 2022 after 22 years of dedicated service. His deep knowledge of the industry and markets have played an important role in shaping our long-term vision. Picking up the reins, Saw Say Pin has been appointed Chief Financial Officer and Executive Director.

With these changes, 8 of our 12 Board Directors are women.

Growing Together

The challenges of Covid have enabled us to develop deeper relationships with partners, customers and our staff. This collaborative approach will remain.

As we approach our 90th anniversary in March, we will apply the same determination, creativity and teamwork that have been evident throughout the history of Hang Seng. The celebration is an important milestone and I look forward to continuing our commitment to Hong Kong, our colleagues, our customers and our shareholders.

Review by Diana Cesar, Executive Director and Chief Executive

2022 has been a challenging year with market volatilities arising from new Covid outbreaks, international geopolitical tensions and global economic conditions. The adverse impact on our financial performance has been exacerbated by two additional factors:

1. A significant increase in change in expected credit losses ('ECL') by 172% year-on-year, primarily related to mainland China commercial real estate. Developments in the last two years have brought the risks into sharp focus and it has been necessary to make upward adjustments to our ECL provisions.
2. A negative Market Condition Update of HK$3.1bn, caused by unfavourable performance of equities in the life insurance investment portfolio, together with the discounting impact of rising interest rates.

As a result, our attributable profit was down 27% year-on-year.

That said, the performance also reflects positive effects of the implementation of our long-term transformation strategy. The growth momentum of key future income drivers is accelerating and we are recording increased volumes in target business and customer segments. Excluding the impact of the life insurance investment portfolio, our net operating income before change in ECL grew by 12% year-on-year.

As the easing of Covid restrictions brought gradual relief to the economy, we were able to respond swiftly to customers' changing needs, capture the surge in financial activities and further harness the tailwinds provided by higher interest rates. It is encouraging to note that our second-half performance was markedly improved from the first half:

- We grew our deposit balance by 2% and achieved a 35% increase in net interest income.
- Net operating income before change in ECL increased by 27%.
- Net interest margin was up 48 basis points to 2.00%.
- Cost efficiency ratio was reduced by 9.7 percentage points to 39.2%.

New and continued investments in technology, people and innovation have made us more agile and resilient. By focusing on customer experience and value creation, we expanded core business lines and made significant in-roads into new areas. Enhancements to our branch network and digital capabilities also positioned us well to accelerate momentum. These include:

- Double-digit growth in targeted customer groups in Hong Kong, driven by new service propositions, easier onboarding journeys and wider brand exposure through strategic partnerships.

- Hang Seng Investment Management became manager of The Tracker Fund of Hong Kong. We are now Hong Kong's leading exchange-traded fund ('ETF') manager in terms of assets under management, and manage two of the first four funds made available through the ETF Connect Scheme southbound link.

- Recognition throughout the industry as a leading advocate of fintech development. We were the first foreign bank in the mainland to provide e-CNY services to corporate clients. We are also an active participant in e-HKD pilot projects led by the Hong Kong Monetary Authority ('HKMA').

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

- First in Hong Kong market to launch a Mobile Cheque Deposit service and US equity-linked investments on mobile and e-Banking platforms.
- Significantly increased the total amount of newly approved green and sustainability-linked loans for business clients year-on-year. Also, for personal customers, we launched Green Mortgages, Green Receipts, electric vehicle loans and the first SFC-authorised ESG ETF that invests in the constituents of the Hang Seng Index.
- Developed new infrastructure to support major emerging business themes, including a dedicated Cross-boundary Wealth Management Centre and a Business Banking Centre with an ESG-focused service concept.

The Directors have declared a fourth interim dividend of HK$2.00 per share. Together with interim dividends for the first three quarters, the total distribution for 2022 will be HK$4.10 per share. In other words, 77% of our attributable profit will be paid to shareholders.

Wealth and Personal Banking

We achieved 16% year-on-year growth in targeted Wealth and Personal Banking customer groups, with a particular focus on the young, emerging affluent and high-net-worth segments. This strengthened the balance sheet whilst loans and advances rose by 2% and customer deposits by 6%.

Investments in our mobile banking infrastructure propelled an increase of 11% in active users. We recorded a 98% rise in the number of digital deposit and loans transactions and we now provide a full range of online investment trading services. We also worked with local artists to launch our first collectible Non-Fungible Tokens. Digital transformation remains central to our strategy.

Net insurance premium income rose by 44% year-on-year and the number of digital policies increased by 135%. Also striking is that our Olive Wellness App recorded a 29% increase in active users. We maintain a top-three market position in digital insurance.

On the investment side of the business, our fixed-income offerings achieved a 291% year-on-year rise in sales turnover. Additionally, customers embraced foreign exchange products with a 166% increase in the number of customers using this service.

Commercial Banking and Global Banking

New Commercial Banking customers increased by 38% year-on-year and Financial Institution clients grew by 74%. Deposits from large corporate clients also recorded an uptick of 5%.

Our digital transformation strategy is now delivering faster turnarounds, simpler transaction journeys and more convenient services. The end result of these enhancements is that customers can better capture new developments in the rapidly changing operating environment. One main focus is to build our cross-boundary and sustainability-linked services to help clients achieve their long-term growth ambitions.

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

We also improved our trade platform with the introduction of digital receivables finance. This enables more efficient supply chains, particularly for businesses with a wider footprint in the Greater Bay Area ('GBA'). Our corporate API has streamlined cash management of supply chains and was publicly recognised with a 'Best in Payments and Collection' award.

By leveraging the HKMA's Commercial Data Interchange platform, collaboration with strategic partners is already enabling customers to make quicker decisions. This is making a real difference to business practices.

We achieved strong year-on-year growth in green and sustainability-linked loan approvals for wholesale customers. We are working closely with customers to support the transition to the low-carbon economy.

Customers using our new Green Deposits service can enjoy deposit returns whilst knowing that their funds will only be used to finance sustainability initiatives. Staff at our new Business Banking Centre have completed ESG training and can provide customers with information on ways to further embed sustainability into their business operations.

Global Markets

Global Markets recorded a 31% increase in non-interest income as a result of our initiatives to diversify revenue streams. Income from foreign exchange and option trading doubled. Joint initiatives between Global Markets and Wealth and Personal Banking have been effective. As an example, this resulted in an 11-fold increase in capital protected investment deposit business volume.

We continued with actions to support the development of Hong Kong's sustainability-related debt markets.

Hang Seng China

Hang Seng China leveraged its market expertise to achieve an increase of 4% in total operating income. In a very challenging environment, there has been growth in both net interest income and non-interest income.

Global markets income grew by 39% and profit before tax by 63%, with a near-doubling in year-on-year revenue from product sales in the GBA. Solid growth was recorded in trade loan revenue. The personal consumer loans portfolio balance also doubled.

Due to increased ECL provisions on lending in the commercial real estate sector, operating profit was down by 77%. However, with operating costs contained, operating profit before change in ECL was up by 9% year-on-year.

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

Financial Overview

We further strengthened our assets and liabilities portfolios to amplify the benefits of rising interest rates. We achieved a 22% year-on-year increase in net interest income to HK$28,981m and improved the net interest margin by 28 basis points to 1.77%. Net interest income in the second half grew by 35% compared with the first half.

Wealth management income was affected by temporary branch closures due to Covid in the first half and reduced investor activity, as well as the impact of market movements on the life insurance business investment portfolio. Fee income from credit facilities and trade business were down, but we achieved solid growth in both account services and remittance fees.

Overall, we grew net operating income before change in ECL and other credit impairment charges by 2% to HK$33,972m. Net operating income before change in ECL in the second half was up by 27% compared with the first half.

Operating expenses rose by 5% year-on-year to HK$14,778m. Our investments in people, technology and brand presence are delivering operational efficiencies and enhanced customer experiences. Excluding the impact of the life insurance investment portfolio, we achieved positive jaws of 7.5%, which is one indication that we are getting the balance right. However, we will maintain a firm hand on costs going forward, particularly in the current inflation environment.

As mentioned above, we have responded to fresh developments in the mainland commercial real estate market by making notable adjustments to our ECL provisions. We are progressively de-risking our portfolio and taking other actions to maintain the quality of our lending portfolio. We will continue to monitor the situation closely.

Year-on-year, change in ECL and other credit impairment charges rose by HK$4,819m to HK$7,626m. As at 31 December 2022, gross impaired loans and advances as a percentage of gross loans and advances to customers was 2.56% compared with 1.92% at 30 June 2022 and 1.04% at the end of 2021.

Profit before tax was down by 30% year-on-year at HK$11,439m. Attributable profit declined by 27% to HK$10,165m. Earnings per share fell by 29% to HK$4.95 per share. At a business segment level, Profit before tax for Wealth and Personal Banking, Commercial Banking and Global Banking fell by 10%, 81% and 60% respectively. Global Markets' Profit before tax rose by 1%.

Nonetheless, while we have been challenged by operating conditions in 2022, we have responded swiftly and effectively. The positive impacts are demonstrated in our strong second-half versus first-half performance, notably a 16% increase in attributable profit.

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

Return on average ordinary shareholders' equity was 5.5%, compared with 7.7% in 2021. Return on average total assets was 0.5%, compared with 0.8% in the previous year.

On 31 December 2022, our common equity tier 1 capital ratio was 15.2%, our tier 1 capital ratio was 16.8% and our total capital ratio was 18.1%. Our liquidity coverage ratio was 281.3%, which is comfortably above the statutory requirement.

Gross loans and advances to customers were down by HK$60bn, or 6%, compared with a year earlier.

We grew customer deposits, including certificates of deposit and other debt securities in issue, by HK$50bn, or 4%, compared with the end of 2021.

Values

Against a demanding environment, we have continued to deliver on our purpose which is to provide best-in-class, trusted and friendly financial services to customers to drive their success – now and for generations to come.

Our financial fundamentals are strong and our long-term growth drivers are gaining traction. We have enhanced our position and capabilities in key areas such as wealth management, sustainability and business in the GBA. We will continue with our prudent approach on risk management whilst diversifying income streams. Our investments in technology and staff development are future-proofing our operations and the skills of our colleagues.

Easing of Covid-related restrictions and opening of international borders are positive developments that will enable an upturn in commercial activity and consumer spending. New actions by the government to broaden scope of the various Connect schemes will also boost investor sentiment and help restore the confidence in financial markets.

I would like to thank my Hang Seng colleagues for their relentless commitment and positive attitude even in very difficult situations. We all continue to live and breathe our core values that put customer needs and shareholder return at the heart of our actions. This will not change.

Next month, Hang Seng Bank will celebrate our 90th anniversary. We have lived through times of turbulent changes and times of exceptional growth. The underlying strength of Hang Seng has only been increased with experience. I am confident we are well-positioned for the future and as the largest local bank in Hong Kong, we will advance inclusivity and prosperity for the betterment of our community.

Results Summary

Operating conditions in 2022 were challenged by mounting macroeconomic and geopolitical uncertainties and market volatilities arising from pandemic outbreaks. Wealth management income was affected by the temporary branch closures due to pandemic in the first half and reduced investor activity, as well as the impact of market movements on the life insurance business investment portfolio. Developments in credit conditions for the mainland China commercial real estate sector led to an increase in impaired loans and related expected credit losses ('ECL') charges on our mainland China commercial real estate loan portfolios to reflect the higher risk level.

The Group's financial performance in the first half of 2022 ('1H22') was generally down when compared with the same period in 2021. Moving into the second half of 2022 ('2H22'), the Group captured opportunities to further grow its net interest income on the back of rising interest rates. With the gradual relaxation of travel and social-distancing restrictions, economic recovery continued at a modest pace despite weakened export growth. The Group gained growth momentum in 2H22 and achieved double-digit growth in net operating income before change in ECL compared with 1H22. These favourable results were partly offset by the notable increase in ECL charges in 2H22 for a number of mainland China commercial real estate developers.

Net operating income before change in expected credit losses and other credit impairment charges was HK$33,972m, up 2%. In the difficult environment, the Group delivered a solid operating result. Net interest income rose by 22% as a result of rising interest rates. This was partly offset by the 47% reduction in non-interest income, reflecting the unfavourable impact of market movements on life insurance business and lower investment distribution revenue due to subdued investment activity. Operating expenses went up by 5% when compared with 2021, due to investment in people and technology to deliver operational efficiencies and enhanced customer experiences. Change in ECL increased by HK$4,819m to HK$7,626m, due mainly to the Group's exposure to the mainland China commercial real estate sector, which was experiencing more difficult credit conditions. We have downgraded certain corporates and made appropriate impairment allowances to reflect the higher risk from these exposures. This had an adverse impact on **operating profit**, which dropped by 29% to HK$11,557m. With investment property revaluation and share of associates' profits recording a deficit compared with a surplus for 2021, **profit before tax** dropped by 30% to HK$11,439m and **profit attributable to shareholders** was down by 27% at HK$10,165m.

Net interest income increased by HK$5,159m, or 22%, to HK$28,981m, supported by the 3% increase in average interest-earning assets and a 28-basis-points improvement in the net interest margin together with increased contribution from net-free funds amid rising interest rates. Average interest-earning assets grew by HK$46bn, or 3%, to HK$1,642bn, notably in financial investments and interbank placings. The growth in average interest-earning assets reflects the Bank's continuing efforts to strengthen its assets and liabilities and maintain a balanced growth strategy.

Net interest margin widened by 28 basis points to 1.77%, attributable mainly to the Group proactively managing its assets and liabilities amid global interest rate rises, which resulted in a widening of deposit spreads and an increase in net-free fund contribution. The net interest spread increased by 17 basis points to 1.59%. The contribution from net-free funds grew by 11 basis points to 0.18%, benefitting from the rising interest rates.

Net fee income dropped by HK$1,508m, or 23%, to HK$5,069m, due mainly to reduced demand for wealth management products, as a result of muted investor sentiment and the impact of the fifth Covid wave in Hong Kong, which resulted in the temporary closure of parts of the Bank's branch network during 1H22. The volatility in global equity markets and the unfavourable investment climate dampened investor activity, leading to a 41% drop in fee income from retail investment funds. With lower stock turnover volumes, stockbroking and related services income was down by 30%. Card services income fell by 3%, due mainly to lower card spending and merchant sales with the persistence of the pandemic in Hong Kong especially in 1H22. Credit facilities fees was down by 32%, due to lower new corporate lending activities. Import and export fee income dropped by 16%. Insurance business fee income was down by 4%. These unfavourable factors were partly offset by higher fee income from account services and remittances, which were up by 8% and 4% respectively.

Net income/(loss) from financial instruments measured at fair value through profit or loss recorded a loss of HK$429m compared with a gain of HK$4,346m in 2021.

Net income/(loss) from assets and liabilities of insurance businesses measured at fair value through profit or loss recorded a loss of HK$2,049m compared with a gain of HK$2,610m in 2021. Investment returns on financial assets supporting insurance contract liabilities were adversely affected by unfavourable movements in the equity markets. 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/(loss).

Net trading income and net income from financial instruments designated at fair value through profit or loss together decreased by HK$128m, or 7%, to HK$1,611m, with higher revenue from funding swap transactions more than offset by the losses of equity-linked derivatives products in life insurance business investment portfolio and lower debt securities trading income.

Change in expected credit losses and other credit impairment charges increased by HK$4,819m, or 172%, to HK$7,626m.

In the fourth quarter of 2021, a number of mainland China property developers faced liquidity issues as a result of developments in the mainland China property market. The Bank updated its outlook for the mainland China commercial real estate sector, and took early actions to actively manage its portfolio and make higher provisions for ECL throughout 2021. In light of the ongoing refinancing risk facing the mainland China commercial property sector in 2022, the Bank has made further ECL charges on certain sizable corporations in the sector. The Bank will continue to proactively manage its portfolio in order to minimise further adverse impacts and maintain overall quality. Change in ECL for stage 1 and stage 2 unimpaired credit exposures recorded a net charge of HK$1,282m compared with HK$1,065m in 2021. This is a net impact of additional charges made during the year mainly in the mainland China commercial real estate sector and increase in ECL from the update of the economic outlook to reflect heightened economic uncertainty, inflation and rising interest rates, partly offset by the migration of previously provided stage 2 allowances to stage 3 allowances. Wealth and Personal Banking ('WPB') recorded a net ECL release in stage 1 and 2 of HK$3m, compared with a net release of HK$179m for 2021. Commercial Banking ('CMB') and Global Banking ('GB') together recorded net ECL charges in stage 1 and 2 for both years, with a collective increase of HK$38m to HK$1,280m in 2022 when compared with 2021.

Change in ECL for stage 3 and purchased or originated credit-impaired exposures ('impaired credit exposures') increased by HK$4,602m to HK$6,344m when compared with 2021, driven primarily by an increase in ECL charges related to developments in the mainland China commercial real estate sector. WPB's position remained intact with a net charge of HK$500m for 2022. ECL charges for mainly CMB and GB increased by HK$4,595m to HK$5,844m, related primarily to the mainland China commercial real estate sector portfolio.

Gross impaired loans and advances increased by HK$13.8bn, to HK$24.2bn, against 2021 year-end. Certain impaired corporate loans were downgraded during the year to reflect the latest developments in the mainland China commercial real estate sector. Taking into account the provided collaterals and allowances for ECL, the Group considers that the current provision level is adequate. Gross impaired loans and advances as a percentage of gross loans and advances to customers stood at 2.56% as at 31 December 2022, compared 1.92% at 30 June 2022 and 1.04% at 31 December 2021. Overall credit quality remained robust.

Net insurance premium income increased by HK$6,468m, or 46%, to HK$20,551m, contributed mainly from strong sales of the Bank's new whole-life product, especially single-pay payment mode, for the high-net-worth customer segment. Correspondingly, there was also an increase in '**Net insurance claims and benefits paid and movement in liabilities to policyholders**' which rose by HK$2,876m, or 18%, to HK$19,226m.

Other operating income/(loss) registered a loss of HK$1,274m compared with a profit of HK$322m for 2021, due mainly to the change in the movement in PVIF. The negative adjustment to PVIF has moved from HK$188m in 2021 to HK$1,743m in 2022, reflecting the combined effects of several factors. Negative adjustment to PVIF arising from actuarial assumption updates along with the unfavourable discounting impact of interest rate rises in the valuation of PVIF, offset by positive adjustment to PVIF to account for the sharing of unfavourable investment returns attributable to policyholders.

Operating expenses increased by HK$644m, or 5%, to HK$14,778m. This reflects an increase in investments, mainly IT-related costs to enhance our digital capabilities, as well as amortisation of intangible assets and staff costs.

Staff costs increased by 2%, mainly in wages and salaries, partly offset by lower performance-related pay and reduction in headcount. Depreciation charges were down by 4%. Amortisation of intangible assets increased by 49%, related mainly to capitalised IT systems development costs to support business growth within the Group. General and administrative expenses were up by 7%, reflecting continued investment in digital capabilities across all business segments and higher marketing and advertising expenses.

The cost efficiency ratio rose by 0.9 percentage points to 43.5%, as the increase in costs slightly outpaced the increase in total revenue.

Reflecting the unfavourable property market as compared with 2021, **net surplus/(deficit) on property revaluation** recorded a net deficit of HK$108m compared with a net surplus of HK$82m in 2021. **Share of profits of associates** recorded a net deficit of HK$10m, compared with a net surplus of HK$72m in 2021, mainly reflecting the revaluation deficit of a property investment company.

2H22 compared with 1H22

Despite difficult operating conditions in 1H22, we used our competitive strength to serve the diverse financial needs of customers and maintain business momentum to deliver a strong performance in 2H22, with double-digit growth in net operating income before changes in ECL and profit attributable to shareholders.

Net operating income before change in expected credit losses and other credit impairment charges grew by HK$4,084m, or 27%, to HK$19,028m, driven by the 35% growth in net interest income, partly offset by the 7% drop in non-interest income. With the 2% increase in operating expenses and notable provisions made on ECL charges, **operating profit** increased by HK$491m, or 9%. **Profit attributable to shareholders** increased by HK$757m, or 16%, when compared with 1H22.

Net interest income was up HK$4,269m, or 35%, driven by a stronger net interest margin as the Group proactively managed its assets and liabilities on the back of rising interest rates. The net interest margin improved by 48 basis points to 2.00%, reflecting widened deposit spreads and increased contribution from net-free funds. However, the increasing competition for time deposits resulting in a change in less favourable deposit mix from current and savings account deposits (‘CASA’) to time deposits and will place downward pressure on deposit spreads.

Non-interest income fell by HK$185m, or 7%, mainly reflecting lower levels of customer activity across the Group's fee-generating business, notably in stockbroking, retail investment funds and credit facilities fee income, partly offset by the increase in card services income.

Operating expenses increased by HK$152m, or 2%, driven mainly by higher general and administrative expenses with increases in marketing and advertising costs, consultancy fees, data-processing fees and IT-related investment. The Group will continue to actively manage operating expenses to facilitate the continued direction of resources towards further optimising its digital capabilities and customer experience. The cost efficiency ratio improved by 9.7 percentage points to 39.2%, as revenue grew at a faster pace than the increase in operating expenses in 2H22. The Group achieved a positive jaw of 25.2% when compared with 1H22.

The Group continued to make significant provisions to its ECL in 2H22 in response to the challenges faced by the mainland China commercial real estate developers. Total **ECL charges** increased by HK$3,434m to HK$5,530m, due to higher impairment charges under stage 3 impaired credit exposures. Stage 1 and 2 ECL charges recorded a net charge of HK$2,077m in 2H22 due to higher ECL made against the mainland China commercial real estate sector. This compared with a net release of HK$795m in 1H22, due to the migration of previously provided stage 2 allowances to stage 3 allowances on mainland China commercial real estate sector. Stage 3 ECL charges increased by HK$562m when compared with 1H22 to HK$3,453m, reflecting the downgrade of certain corporate customers related to mainland China commercial real estate sector.

Net deficit on property revaluation was broadly the same when compared with 1H22. **Share of profits/(losses) of associates** recorded a profit compared with a loss in 1H22, mainly reflecting the property revaluation movement of a property investment company.

Consolidated Balance Sheet and Key Ratios

Assets

Total assets increased by HK$74bn, or 4%, to HK$1,894bn compared with 2021 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$1bn, or 4%, to HK$18bn. Trading assets and financial assets designated at fair value were down by HK$3bn, or 3%, to HK$76bn.

Customer loans and advances (net of allowances for ECL) decreased by HK$66bn, or 7%, to HK$931bn. Loan growth was muted, partly reflecting the adverse impact of the fifth Covid wave in Hong Kong and disruptions to the global supply chain, as well as the Group's risk mitigation efforts. Loans for use in Hong Kong decreased by 4%. Lending to industrial, commercial and financial sectors decreased by 9%. Lending for property development and property investment was down by 11%. There was increased lending to information technology and financial concerns sectors, but these were more than offset by the decline in loans outstanding from the wholesale and retail trade, manufacturing, transport and transport equipment and 'Others' sectors. Lending to individuals grew by 3%. With a less active property market, residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending grew by 4% and 1% respectively. Credit card advances grew by 1% while other personal lending dropped by 2%.

Trade finance lending decreased by 15%, due mainly to the slowdown of global trade volumes and loan repayment during the year.

Loans for use outside Hong Kong were down by 12%, due mainly to decreased lending by the Group's mainland banking subsidiary and loans for use outside Hong Kong granted by the Hong Kong office, reflecting the Group's risk mitigation efforts.

Whilst customer lending was sluggish, financial investments grew by HK$122bn, or 24%, to HK$623bn, reflecting the partial redeployment of the commercial surplus and yields enhancement.

Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK$50bn, or 4%, to HK$1,389bn against the end of 2021. Growth in time deposits in response to rising interest rates was partly offset by the decrease in CASA. CASA as a percentage of total customer deposits fell from 76% at year-end 2021 to 55% at year-end 2022. At 31 December 2022, the advances-to-deposits ratio was 67.1%, compared with 74.5% at 31 December 2021.

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Customer loans and advances (net of allowances for ECL)	**931,334**	997,397
Customer deposits, including certificates of deposit and other debt securities in issues	**1,388,841**	1,338,800
Advances-to-deposits ratio	**67.1%**	74.5%

At 31 December 2022, shareholders' equity was HK$184bn, broadly the same level as at the end of 2021. Retained profits increased by HK$2.6bn, or 2%, reflecting profit accumulation after the appropriation of dividends paid during the year. Financial assets at fair value through other comprehensive income reserve decreased by HK$0.8bn, or 30%, mainly reflecting the fair value movement of the Group's investments in financial assets measured at fair value through other comprehensive income. Other reserves dropped by HK$1.3bn, or 70%, mainly reflecting the decrease in the foreign currency exchange reserve as a result of the depreciation of the RMB currency. The cash flow hedging reserve recorded a negative reserve of HK$0.8bn, compared with a positive reserve of HK$46m at the end of 2021, mainly reflecting the interest rate movements of hedging derivatives during the year.

Key ratios

Return on average total assets was 0.5% (0.8% for 2021). **Return on average ordinary shareholders' equity** was 5.5% (7.7% for 2021).

At 31 December 2022, the **common equity tier 1 ('CET1') capital ratio**, **tier 1 ('T1') capital ratio** and **total capital ratio** were 15.2%, 16.8% and 18.1% respectively, well above the regulatory requirement.

Under the Banking (Liquidity) Rules, the average **liquidity coverage ratio ('LCR')** ranged from 188.9% to 275.3% for the quarters ended 31 March, 30 June, 30 September and 31 December 2022. The average LCR ranged from 191.8% to 214.4% for the corresponding quarters in 2021. For both years, the Group maintained a healthy average LCR that was higher than the statutory requirement of 100%. The LCR at 31 December 2022 was 281.3% compared with 192.7% at 31 December 2021. The period-end **net stable funding ratio ('NSFR')** ranged from 151.3% to 163.8% for the quarters ended 31 March, 30 June, 30 September and 31 December 2022, well in excess of the regulatory requirement of 100%. The period-end NSFR ranged from 146.6% to 150.5% for the corresponding quarters in 2021.

Dividends

The Directors have declared a fourth interim dividend of HK$2.00 per share, which will be payable on 21 March 2023 to shareholders on the register as of 8 March 2023. Together with interim dividends for the first three quarters, the total distribution for 2022 will be HK$4.10 per share.

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking*	*Global Markets*	*Other* [2]	*Total*
Year ended 31 December 2022 [1]						
Net interest income/(expense)	**17,160**	**8,149**	**2,411**	**1,524**	**(263)**	**28,981**
Net fee income/(expense)	**3,225**	**1,224**	**343**	**(58)**	**335**	**5,069**
Net income/(loss) from financial instruments measured at fair value through profit or loss	**(1,888)**	**241**	–	**1,120**	**98**	**(429)**
Gains less losses from financial investments	**(10)**	–	–	**85**	–	**75**
Dividend income	–	–	–	–	**225**	**225**
Net insurance premium income	**18,838**	**1,713**	–	–	–	**20,551**
Other operating income/(loss)	**(1,462)**	**(52)**	**2**	–	**238**	**(1,274)**
Total operating income	**35,863**	**11,275**	**2,756**	**2,671**	**633**	**53,198**
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(17,576)**	**(1,650)**	–	–	–	**(19,226)**
Net operating income before change in expected credit losses and other credit impairment charges	**18,287**	**9,625**	**2,756**	**2,671**	**633**	**33,972**
of which: - external	***11,255***	***10,859***	***4,983***	***7,502***	***(627)***	***33,972***
- inter-segment	***7,032***	***(1,234)***	***(2,227)***	***(4,831)***	***1,260***	–
Change in expected credit losses and other credit impairment charges	**(497)**	**(5,436)**	**(1,688)**	**(4)**	**(1)**	**(7,626)**
Net operating income	**17,790**	**4,189**	**1,068**	**2,667**	**632**	**26,346**
Operating expenses *	**(9,083)**	**(3,414)**	**(688)**	**(643)**	**(950)**	**(14,778)**
Impairment loss on intangible assets	–	–	–	–	**(11)**	**(11)**
Operating profit/(loss)	**8,707**	**775**	**380**	**2,024**	**(329)**	**11,557**
Net surplus/(deficit) on property revaluation	–	–	–	–	**(108)**	**(108)**
Share of profits/(losses) of associates	**(10)**	–	–	–	–	**(10)**
Profit/(loss) before tax	**8,697**	**775**	**380**	**2,024**	**(437)**	**11,439**
Share of profit/(loss) before tax	**76.0%**	**6.8%**	**3.3%**	**17.7%**	**(3.8)%**	**100.0%**
* *Depreciation/amortisation included in operating expenses*	**(803)**	**(11)**	**(2)**	**(1)**	**(1,859)**	**(2,676)**
As at 31 December 2022						
Gross loans and advances to customers	**382,727**	**353,172**	**208,829**	–	–	**944,728**
Customer deposits [3]	**931,170**	**319,090**	**123,229**	**15,352**	–	**1,388,841**
Interest in associates	**2,256**	–	–	–	–	**2,256**
Non-current assets acquired during the year	**168**	**29**	–	**4**	**1,686**	**1,887**
Net fee income by segment						
- securities broking and related services	**1,322**	**92**	**1**	**20**	–	**1,435**
- retail investment funds	**911**	**15**	–	–	–	**926**
- insurance	**333**	**72**	**76**	–	–	**481**
- account services	**265**	**126**	**7**	**3**	–	**401**
- remittances	**80**	**164**	**34**	–	–	**278**
- cards	**2,582**	**26**	–	–	–	**2,608**
- credit facilities	**16**	**306**	**140**	–	–	**462**
- imports/exports	–	**311**	**37**	–	–	**348**
- other	**126**	**146**	**51**	**9**	**335**	**667**
Fee income	**5,635**	**1,258**	**346**	**32**	**335**	**7,606**
Fee expense	**(2,410)**	**(34)**	**(3)**	**(90)**	–	**(2,537)**
Net fee income/(expense)	**3,225**	**1,224**	**343**	**(58)**	**335**	**5,069**

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking*	*Global Markets*	*Other* [2]	*Total*
Year ended 31 December 2021 *(re-presented)* [1]						
Net interest income/(expense)	13,013	7,037	2,369	1,792	(389)	23,822
Net fee income/(expense)	4,468	1,523	390	(79)	275	6,577
Net income 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	33,865	9,927	2,757	2,669	314	49,532
Net insurance claims and benefits paid and movement in liabilities to policyholders	(15,359)	(991)	–	–	–	(16,350)
Net operating income before change in expected credit losses and other credit impairment charges	18,506	8,936	2,757	2,669	314	33,182
of which: - external	*16,961*	*9,195*	*3,451*	*3,277*	*298*	*33,182*
- inter-segment	*1,545*	*(259)*	*(694)*	*(608)*	*16*	–
Change in expected credit losses and other credit impairment charges	(314)	(1,326)	(1,165)	(2)	–	(2,807)
Net operating income	18,192	7,610	1,592	2,667	314	30,375
Operating expenses *	(8,582)	(3,463)	(630)	(664)	(795)	(14,134)
Impairment loss on intangible assets	–	–	–	–	(10)	(10)
Operating profit/(loss)	9,610	4,147	962	2,003	(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	962	2,003	(409)	16,385
Share of profit/(loss) before tax	59.1%	25.3%	5.9%	12.2 %	(2.5)%	100.0%
* *Depreciation/amortisation included in operating expenses*	(820)	(10)	(1)	(2)	(1,705)	(2,538)
As at 31 December 2021 *(re-presented)*						
Gross loans and advances to customers	375,095	402,067	227,163	–	–	1,004,325
Customer deposits [3]	874,709	334,003	117,776	26,188	(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
Net fee income by segment						
- securities broking and related services	1,866	162	6	6	–	2,040
- retail investment funds	1,539	28	–	–	–	1,567
- insurance	339	85	78	–	–	502
- account services	247	116	7	1	–	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	31	7	273	626
Fee income	6,917	1,551	396	14	273	9,151
Fee expense	(2,449)	(28)	(6)	(93)	2	(2,574)
Net fee income/(expense)	4,468	1,523	390	(79)	275	6,577

[1] To align with the presentation of relevant segmental information for business management and operation, the segmental information of Global Banking and Global Markets have been split. Additional information on external/inter-segment of net operating income before change in expected credit losses and other credit impairment charges has also been included. Comparative figures have been re-presented to conform with current year's presentation.
[2] Deposits balances under 'Other' segment, as applicable, mainly relating to the consolidated elimination of Negotiable Certificates of Deposits ('NCDs') issued by Hang Seng Bank (China) Limited to Hang Seng Bank Limited.
[3] Customer deposits balances include current, savings and other deposit accounts, certificates of deposit and other debt securities in issue.

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

WPB remained resilient against the backdrop of the fifth Covid wave in Hong Kong and increased volatility in investment markets. Net operating income before change in ECL and other credit impairment charges fell by HK$219m year-on-year which was driven by the adverse impact of financial market movements on life insurance manufacturing of HK$3,084m. This was partly offset by the 32% growth in net interest income, particularly in 2H22, riding on the interest rate hike cycle. Net interest income grew by 53% in 2H22 compared with 1H22.

Our balance sheet remains strong. In 2H22, intensified market competition in retail deposits accelerated the shift of funds from current/savings accounts to time deposits. Despite the headwinds, we deepened customer relationships and increased our customer deposits by 6% year-on-year. Gross loans and advances to customers grew by 2% and we sustained market position in various areas, including mortgage registrations, card receivables and personal loans. To meet our customers' needs for sustainable solutions, we introduced Green Mortgages and Electric Vehicle Loans.

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

Our insurance business remained resilient, despite the unfavourable macroeconomic environment and the disruptive effects of the pandemic. Enhancements to our savings/protection products further strengthening our retirement and legacy planning proposition and helped us to capture growth in strategic customer segments. We grew net insurance premiums income by 44% year-on-year. We continued to invest in service innovations and advanced our strategic imperatives. We maintained a top 3 market position in digital insurance, supported in part by the 135% year-on-year increase in the number of digital insurance policies sold.

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

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

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

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

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

We introduced our digital influencer, Hazel, who is Hong Kong's first digital influencer in the banking sector. Riding on our 'Green Moments' campaign, we also launched our first non-fungible token ('NFT'), co-created with local Hong Kong artists.

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

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

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

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

Non-interest income fell by 22% year-on-year, with external factors such as Hong Kong's fifth Covid wave, signs of weakness in the global economy and increased market volatility having an adverse impact on commercial activity and trade flows. The movements in the financial markets also unfavourably affected our insurance business.

As we moved into the second-half of 2022 with the increasing market interest rate and the relaxation of social distancing restriction, net operating income before change in ECL increased 17% against first half of 2022. We continued to provide tailor-made solutions to meet the specific needs of our customers. Sales of keyperson insurance recorded strong growth.

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

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

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

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

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

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

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

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

With the impact of the fifth wave of Covid in Hong Kong and the slowdown in the global economy, reduced business activity in the market resulted in an 11% year-on-year drop in non-interest income to HK$345m.

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

Year-on-year, we increased our trade loan balance by 41% to HK$22bn which boost up the related net interest income by 75%. Trade related non-interest income also achieved a 15% growth.

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

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

In close collaboration with the Global Market team, we were captured more business providing hedging solutions in the high interest rate environment.

Global Markets ('GM') maintained net operating income before change in ECL and other credit impairment charges largely in line with last year at HK$2,671m. Operating profit and profit before tax both increased by 1% to HK$2,024m.

Net interest income decreased by 15% to HK$1,524m, due to the rapid tightening of global financial conditions in 2022, with rising interest rates challenging the net interest margin. The Markets Treasury team continued to actively seek good market opportunities, and take actions to enhance and diversify the portfolio, while upholding appropriate risk management standards.

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

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

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

<u>Key awards and recognitions</u>

The Bank efforts as a fintech advocate and pioneer attracted industry recognition, including the 'Best Use Case Award' from the HKMA in its Central Bank Digital Currency Track Pitching Competition for our innovative e-HKD use case proposal and won the 'Best FinTech Transformation' award during Hong Kong FinTech Week.

Other recognitions include:

- 'Best Payment Bank in Hong Kong' and 'Best API Initiatives' in *The Asian Banker Transaction Banking Awards*
- 'Gold Award of Corporate Achievements – FinTech Solutions – Banking Tech' in the *IFAI Fintech Achievement Awards*
- 'E-Commerce - Banking' and 'Mobile - Banking' in the *Hong Kong Business Technology Excellence Awards*
- 'Best in Payments and Collections' from *The Asset*

For our efforts to help drive long-term growth and development in the GBA, we received the 'Greater Bay Area Enterprise Award' from *Hong Kong Business.*

Figures in HK$m	***Year ended 31 December*** ***2022***	*2021*
Interest income calculated using effective interest method	**39,316**	28,030
Interest income – others	**915**	477
Interest income	**40,231**	28,507
Interest expense	**(11,250)**	(4,685)
Net interest income	**28,981**	23,822
Fee income	**7,606**	9,151
Fee expense	**(2,537)**	(2,574)
Net fee income	**5,069**	6,577
Net income/(loss) from financial instruments measured at fair value through profit or loss	**(429)**	4,346
Gains less losses from financial investments	**75**	206
Dividend income	**225**	176
Net insurance premium income	**20,551**	14,083
Other operating income/(loss)	**(1,274)**	322
Total operating income	**53,198**	49,532
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(19,226)**	(16,350)
Net operating income before change in expected credit losses and other credit impairment charges	**33,972**	33,182
Change in expected credit losses and other credit impairment charges	**(7,626)**	(2,807)
Net operating income	**26,346**	30,375
Employee compensation and benefits	**(6,445)**	(6,311)
General and administrative expenses	**(5,657)**	(5,285)
Depreciation expenses	**(1,974)**	(2,066)
Amortisation of intangible assets	**(702)**	(472)
Operating expenses	**(14,778)**	(14,134)
Impairment loss on intangible assets	**(11)**	(10)
Operating profit	**11,557**	16,231
Net surplus/(deficit) on property revaluation	**(108)**	82
Share of profits/(losses) of associates	**(10)**	72
Profit before tax	**11,439**	16,385
Tax expense	**(1,288)**	(2,439)
Profit for the year	**10,151**	13,946
Profit attributable to:		
Shareholders of the Bank	**10,165**	13,960
Non-controlling interests	**(14)**	(14)
Earnings per share – basic and diluted (in HK$)	**4.95**	6.93

Details of dividends payable to shareholders of the Bank attributable to the profit for the year are set out on page 36.

Figures in HK$m	***Year ended 31 December*** ***2022***	*2021*
Profit for the year	**10,151**	13,946
Other comprehensive income		
Item 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 gains /(losses) taken to equity	**(1,416)**	(1,391)
- fair value (gains)/losses transferred to Consolidated Income Statement:		
-- on hedged items	**550**	829
-- on disposal	**(85)**	(98)
- release of expected credit losses recognised in the Consolidated Income statement	**(1)**	–
- deferred taxes	**137**	41
- exchange differences	**118**	349
Cash flow hedge reserve:		
- fair value gains/(losses) taken to equity	**2,213**	2,207
- fair value (gains)/losses transferred to Consolidated Income statement	**(3,245)**	(2,464)
- deferred taxes	**170**	43
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	**(1,302)**	522
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	**(6)**	4
- deferred taxes	**1**	(1)
Equity instrument designated at fair value through other comprehensive income:		
- fair value gains/(losses) taken to equity	**320**	(1,961)
- exchange differences	**(430)**	173
Premises:		
- unrealised surplus/(deficit) on revaluation of premises	**690**	1,310
- deferred taxes	**(118)**	(220)
- exchange differences	**(25)**	9
Defined benefit plans:		
- actuarial gains/(losses) on defined benefit plans	**(18)**	352
- deferred taxes	**3**	(58)
Exchange differences and others	**(2)**	(3)
Other comprehensive income for the year, net of tax	**(2,446)**	(357)
Total comprehensive income for the year	**7,705**	13,589
Total comprehensive income for the year attributable to:		
- shareholders of the Bank	**7,719**	13,603
- non-controlling interests	**(14)**	(14)
	7,705	13,589

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
ASSETS		
Cash and balances at central banks	**17,609**	16,896
Trading assets	**47,373**	47,433
Derivative financial instruments	**22,761**	13,224
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**28,861**	31,326
Reverse repurchase agreements – non-trading	**42,364**	18,821
Placings with and advances to banks	**62,326**	72,493
Loans and advances to customers	**931,334**	997,397
Financial investments	**622,616**	500,386
Interest in associates	**2,256**	2,341
Investment properties	**11,998**	9,545
Premises, plant and equipment	**27,498**	31,205
Intangible assets	**24,514**	25,486
Other assets	**52,295**	53,632
Total assets	**1,893,805**	1,820,185
LIABILITIES AND EQUITY		
Liabilities		
Deposits from banks	**5,205**	5,333
Current, savings and other deposit accounts	**1,249,486**	1,230,216
Repurchase agreements – non-trading	**11,304**	16,592
Trading liabilities	**46,323**	44,291
Derivative financial instruments	**20,992**	12,252
Financial liabilities designated at fair value	**46,309**	27,399
Certificates of deposit and other debt securities in issue	**93,379**	81,567
Other liabilities	**36,739**	31,179
Liabilities under insurance contracts	**165,594**	154,551
Current tax liabilities	**389**	603
Deferred tax liabilities	**6,645**	7,302
Subordinated liabilities	**27,479**	24,484
Total liabilities	**1,709,844**	1,635,769
Equity		
Share capital	**9,658**	9,658
Retained profits	**142,680**	140,100
Other equity instruments	**11,744**	11,744
Other reserves	**19,814**	22,830
Total shareholders' equity	**183,896**	184,332
Non-controlling interests	**65**	84
Total equity	**183,961**	184,416
Total equity and liabilities	**1,893,805**	1,820,185

For the year ended 31 December 2022

Figures in HK$m	Share capital	Other equity instrument	Retained profits[1]	Other Reserves: Premises revaluation reserve	Other Reserves: Financial assets at FVOCI reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others[2]	Total shareholders' equity	Non-controlling interests	Total equity
At 1 January 2022	9,658	11,744	140,100	18,428	2,499	46	1,180	677	184,332	84	184,416
Profit for the year	–	–	10,165	–	–	–	–	–	10,165	(14)	10,151
Other comprehensive income (net of tax)	–	–	(17)	547	(807)	(862)	(1,302)	(5)	(2,446)	–	(2,446)
Debt instruments at fair value through other comprehensive income	–	–	–	–	(697)	–	–	–	(697)	–	(697)
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	(110)	–	–	–	(110)	–	(110)
Cash flow hedges	–	–	–	–	–	(862)	–	–	(862)	–	(862)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(5)	(5)	–	(5)
Property revaluation	–	–	–	547	–	–	–	–	547	–	547
Actuarial losses on defined benefit plans	–	–	(15)	–	–	–	–	–	(15)	–	(15)
Exchange differences and others	–	–	(2)	–	–	–	(1,302)	–	(1,304)	–	(1,304)
Total comprehensive income for the year	–	–	10,148	547	(807)	(862)	(1,302)	(5)	7,719	(14)	7,705
Dividends paid[3]	–	–	(7,455)	–	–	–	–	–	(7,455)	–	(7,455)
Coupons paid on AT1 capital instruments	–	–	(710)	–	–	–	–	–	(710)	–	(710)
Movement in respect of share-based payment arrangements	–	–	5	–	–	–	–	5	10	–	10
Others	–	–	–	–	–	–	–	–	–	(5)	(5)
Transfers[4]	–	–	592	(637)	45	–	–	–	–	–	–
At 31 December 2022	9,658	11,744	142,680	18,338	1,737	(816)	(122)	677	183,896	65	183,961

[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 2022, the Group is not required to restrict any reserves which can be distributed to shareholders (2021: HK$441m) as the impairment allowance for Stage 1 and 2 loans and advances to customers exceeded the expected regulatory reserve balance.*

[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 2021 and the first three interim dividends of 2022 amounted to HK$3,441m and HK$4,014m respectively.*

[4] *This includes transfers from the premises revaluation reserve to retained earnings in relation to depreciation of revalued properties, and from financial assets at FVOCI reserve to retained earnings in relation to the disposal loss of equity investments at FVOCI.*

For the year ended 31 December 2021

Figures in HK$m	Share capital	Other equity instrument	Retained profits	Other Reserves: Premises revaluation reserve	Other Reserves: Financial assets at FVOCI reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others	Total shareholders' equity	Non-controlling interests	Total equity
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	–	–	(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

Net interest income

Figures in HK$m	***2022***	*2021*
Net interest income/(expense) arising from:		
- financial assets and liabilities that are not at fair value through profit and loss	**30,085**	24,719
- trading assets and liabilities	**177**	130
- financial instruments designated and otherwise mandatorily measured at fair value through profit or loss	**(1,281)**	(1,027)
	28,981	23,822
Average interest-earning assets	**1,641,898**	1,595,483
Net interest spread	**1.59%**	1.42%
Net interest margin	**1.77%**	1.49%

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/(loss) 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	***2022***	*2021*
Net interest income and expense reported as 'Net interest income'		
- Interest income	**39,316**	28,030
- Interest expense	**(9,231)**	(3,315)
- Net interest income	**30,085**	24,715
Net interest income and expense reported as 'Net income from financial instruments measured at fair value through profit or loss'	**(1,104)**	(893)
Average interest-earning assets	**1,595,258**	1,556,663
Net interest spread	**1.70%**	1.52%
Net interest margin	**1.89%**	1.59%

Net fee income

Figures in HK$m	***2022***	*2021*
- securities broking and related services	**1,435**	2,040
- retail investment funds	**926**	1,567
- insurance	**481**	502
- account services	**401**	371
- remittances	**278**	268
- cards	**2,608**	2,679
- credit facilities	**462**	682
- imports/exports	**348**	416
- other	**667**	626
Fee income	**7,606**	9,151
Fee expense	**(2,537)**	(2,574)
	5,069	6,577

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

Figures in HK$m	***2022***	*2021*
Net trading income		
- trading income	**1,834**	1,560
- other trading income/(expense) from ineffective fair value hedges	**(6)**	(3)
	1,828	1,557
Net income/(expense) from financial instruments designated at fair value through profit or loss	**(217)**	182
Net income/(expense) 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	**(2,058)**	2,611
- liabilities to customers under investment contracts	**9**	(1)
	(2,049)	2,610
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**9**	(3)
	(429)	4,346

Other operating income/(loss)

Figures in HK$m	***2022***	*2021*
Rental income from investment properties	**276**	269
Movement in present value of in-force long-term insurance business	**(1,743)**	(188)
Net gains/(losses) from disposal of fixed assets	**(15)**	(48)
Net gains/(losses) from the derecognition of loans and advances to customers measured at amortised cost	**2**	4
Others	**206**	285
	(1,274)	322

Analysis of income from wealth management business

Figures in HK$m	***2022***	*2021*
Investment services income[1]:		
- retail investment funds	**903**	1,552
- structured investment products	**453**	390
- securities broking and related services	**1,411**	2,005
- margin trading and others	**65**	71
	2,832	4,018
Insurance income:		
- life insurance:		
- net interest income	**4,542**	4,273
- non-interest income/(expense)	**(81)**	(40)
- 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)	**(2,399)**	2,879
- net insurance premium income	**20,551**	14,083
- net insurance claims and benefits paid and movement in liabilities to policyholders	**(19,226)**	(16,350)
claims, benefits and surrenders paid/payable	***(11,923)***	*(11,037)*
movement in liabilities to policyholders	***(7,303)***	*(5,313)*
- movement in present value of in-force long-term insurance business	**(1,743)**	(188)
	1,644	4,657
- general insurance and others	**243**	278
	1,887	4,935
	4,719	8,953
Of which: Market impacts	**(3,149)**	69

[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.

Analysis of income from wealth management business *(continued)*

Wealth management business income decreased by HK$4,234m, or 47%, to HK$4,719m, mainly due to the net adverse movements in market impacts in life insurance manufacturing, reflecting unfavourable movement in equity markets and discounting impact on PVIF. Investment distribution revenue, notably in retail investment funds and securities broking and related services, fell by HK$1,186m, or 30%, to HK$2,832m as muted customer sentiment led to lower activity in equity markets when compared with a more favourable investment sentiment in 2021.

Income from insurance business (included under 'net interest income', 'net fee income', 'net income/(loss) 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/(loss)', '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') decreased by HK$3,048m, or 62%, to HK$1,887m. This has included the market impacts with a loss of HK$3,149m compared with a gain of HK$69m in 2021.

Net insurance premium income increased by HK$6,468m, or 46%, to HK$20,551m, contributed from overwhelming sales of our new whole life product (combining the feature of asset accumulation with enhanced guaranteed cash value, legacy planning and whole-life protection in one single product), especially single pay payment mode, in the high net worth customer segment. Correspondingly, there was also an increase in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

The market impact represents the total profit or loss impact on deviations of economic parameters (e.g. yield curve movement and investment return) at the start of the year or against the valuation assumptions, in coming up the income from insurance business. The deterioration in market impact was mainly due to the net effect of unfavourable discounting impact from interest rate increase in valuation of present value of in-force, coupled with the unfavourable investment performance in 2022; as compared with the market impacts dominated by favourable investment performance in 2021. In general, if the high interest rate is sustained, it should be beneficial to life insurance business in long run.

To the extent that the investment returns were attributable to policyholders, there was an offsetting effect in 'net insurance claims and benefits paid and movement in liabilities to policyholders' and 'movement in PVIF' under 'other operating income/(loss)'.

The negative adjustment to PVIF movement has moved from HK$188m in 2021 to HK$1,743m in 2022, reflecting the combined effect of several factors. Negative adjustment to PVIF arising from net impact from actuarial assumption updates along with unfavourable discounting impact of interest rate rises in the valuation of PVIF, offset by positive adjustment to PVIF to account for the sharing of unfavourable investment returns attributable to policyholders.

General insurance income and others decreased by HK$35m, or 13%, to HK$243m compared with 2021, mainly due to lower MPF commission income arising from the unfavourable fund performance, which aligned with major equities index movements in the markets.

Change in expected credit losses and other credit impairment charges

Figures in HK$m	***2022***	*2021*
Loans and advances to banks and customers	**7,669**	2,844
- new allowances net of allowance releases	**7,367**	2,983
- recoveries of amounts previously written off	**(131)**	(167)
- other movements	**433**	28
Loan commitments and guarantees	**(8)**	(43)
Other financial assets	**(35)**	6
	7,626	2,807

Operating expenses

Figures in HK$m	***2022***	*2021*
Employee compensation and benefits:		
- salaries and other costs	**5,941**	5,811
- retirement benefit costs	**504**	500
	6,445	6,311
General and administrative expenses:		
- rental expenses	**18**	22
- other premises and equipment	**1,875**	1,795
- marketing and advertising expenses	**440**	378
- other operating expenses	**3,324**	3,090
	5,657	5,285
Depreciation of premises, plant and equipment[1]	**1,974**	2,066
Amortisation of intangible assets	**702**	472
	14,778	14,134
Cost efficiency ratio	**43.5%**	42.6%

Full-time equivalent staff numbers by region	***At 31 December 2022***	*At 31 December 2021*
Hong Kong and others	**7,101**	7,708
Mainland China	**1,607**	1,688
	8,708	9,396

[1] Included depreciation of right-of-use assets of HK$514m in 2022 (2021: HK$574m).

Tax expense

Taxation in the Consolidated Income Statement represents:

Figures in HK$m	***2022***	*2021*
Current tax – provision for Hong Kong profits tax		
- Tax for the year	**1,845**	2,391
- Adjustment in respect of prior years	**(23)**	75
Current tax – taxation outside Hong Kong		
- Tax for the year	**204**	77
- Adjustment in respect of prior years	**1**	–
Deferred tax		
- Origination and reversal of temporary differences	**(739)**	(104)
	1,288	2,439

The current tax provision is based on the estimated assessable profit for 2022, 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 2021). 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$9,455m in 2022 (2021: HK$13,257m), which has been 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 2021).

Dividends/Distributions

	2022		*2021*	
(a) Dividends to ordinary shareholders	***HK$ per share***	***HK$m***	*HK$ per share*	*HK$m*
First interim	**0.70**	**1,338**	1.10	2,103
Second interim	**0.70**	**1,338**	1.10	2,103
Third interim	**0.70**	**1,338**	1.10	2,103
Fourth interim	**2.00**	**3,824**	1.80	3,441
	4.10	**7,838**	5.10	9,750

	2022	*2021*
	HK$m	*HK$m*
(b) Distributions to holders of AT1 capital instruments classified as equity		
Coupons paid on AT1 capital instruments	**710**	703

Segmental analysis

Hong Kong Financial Reporting Standard 8 ('HKFRS 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 five 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** provides tailored financial solutions to major corporate and institutional clients. Undertaking a long-term relationship management approach, its services include general banking and transaction banking, corporate lending, deposit and cash management;
- **Global Markets** provides tailored solutions and services in foreign exchange, bullion, equities, fixed income and securities financing as well as managing the funding and liquidity position of the Group and other market risk position arising from banking and client activities;
- **Other** mainly represents the Group's holdings of premises apart from outlets dedicated for Wealth and Personal Banking, 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 19.

Segmental analysis *(continued)*

(a) Segmental result *(continued)*

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking*	*Global Markets*	*Other*	*Total*
Year ended 31 December 2022						
Profit/(loss) before tax	**8,697**	**775**	**380**	**2,024**	**(437)**	**11,439**
Share of profit/(loss) before tax	**76.0%**	**6.8%**	**3.3%**	**17.7%**	**(3.8)%**	**100.0%**
Year ended 31 December 2021 (re-presented)						
Profit/(loss) before tax	9,682	4,147	962	2,003	(409)	16,385
Share of profit/(loss) before tax	59.1%	25.3%	5.9%	12.2%	(2.5)%	100.0%

(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 2022					
Total operating income/(loss)	**49,862**	**3,111**	**255**	**(30)**	**53,198**
Profit/(loss) before tax	**11,050**	**219**	**170**	–	**11,439**
At 31 December 2022					
Total assets	**1,766,884**	**139,595**	**22,337**	**(35,011)**	**1,893,805**
Total liabilities	**1,590,976**	**123,633**	**20,713**	**(25,478)**	**1,709,844**
Interest in associates	**2,256**	–	–	–	**2,256**
Non-current assets[1]	**62,503**	**1,468**	**39**	–	**64,010**
Contingent liabilities and commitments	**506,097**	**72,291**	**5,496**	**(40,087)**	**543,797**
Year ended 31 December 2021					
Total operating income/(loss)	46,284	3,001	278	(31)	49,532
Profit/(loss) 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
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

[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 2022***	*At 31 December 2021*
Treasury bills	**17,568**	26,004
Other debt securities	**29,749**	21,388
Debt securities	**47,317**	47,392
Investment funds/equity shares	**43**	41
Reverse repurchase agreements	**13**	–
	47,373	47,433

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

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Debt securities	**8**	18
Equity shares	**4,075**	7,422
Investment funds	**23,920**	22,863
Other	**858**	1,023
	28,861	31,326

Loans and advances to customers

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Gross loans and advances to customers	**944,728**	1,004,325
Less: Allowances for expected credit losses	**(13,394)**	(6,928)
	931,334	997,397
Expected credit losses as a percentage of gross loans and advances to customers	**1.42%**	0.69%
Gross impaired loans and advances	**24,212**	10,429
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**2.56%**	1.04%

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 2022	**1,283,759**	**(822)**	**150,116**	**(3,572)**	**9,457**	**(2,700)**	**972**	–	**1,444,304**	**(7,094)**
Transfers of financial instruments:										
- transfers from Stage 1 to Stage 2	**(108,899)**	**208**	**108,899**	**(208)**	–	–	–	–	–	–
- transfers from Stage 2 to Stage 1	**17,916**	**(263)**	**(17,916)**	**263**	–	–	–	–	–	–
- transfers to Stage 3	**(2,803)**	**5**	**(16,608)**	**1,385**	**19,411**	**(1,390)**	–	–	–	–
- transfers from Stage 3	**16**	**(3)**	**23**	–	**(39)**	**3**	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	**105**	–	**(361)**	–	**(18)**	–	–	–	**(274)**
New financial assets originated and purchased [2]	**316,455**	**(232)**	**18,990**	**(413)**	**199**	**(114)**	**203**	**(19)**	**335,847**	**(778)**
Assets derecognised (including final repayments)	**(475,393)**	**89**	**(53,559)**	**298**	**(1,570)**	**115**	**(764)**	–	**(531,286)**	**502**
Changes to risk parameters – further lending/(repayment)	**142,770**	**76**	**(9,118)**	**14**	**(2,355)**	**(628)**	**(109)**	–	**131,188**	**(538)**
Changes to risk parameters – credit quality	–	**8**	–	**(2,343)**	–	**(4,055)**	–	–	–	**(6,390)**
Changes to model used for ECL calculation	–	–	–	**(2)**	–	–	–	–	–	**(2)**
Assets written off	–	–	–	–	**(899)**	**899**	–	–	**(899)**	**899**
Credit related modifications that resulted in derecognition	–	–	–	–	**(155)**	–	–	–	**(155)**	–
Foreign exchange and others	**(11,613)**	**2**	**(1,230)**	**19**	**(106)**	**86**	**(1)**	–	**(12,950)**	**107**
At 31 December 2022	**1,162,208**	**(827)**	**179,597**	**(4,920)**	**23,943**	**(7,802)**	**301**	**(19)**	**1,366,049**	**(13,568)**

	Total
ECL in income statement (charge)/release for the year	**(7,480)**
Add: Recoveries	**131**
Add/(less): Others	**(313)**
Total ECL (charge)/release for the year [3]	**(7,662)**

[1] *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*
[2] *Includes the new financial assets originated and purchased during the year, but subsequently transferred from stage 1 to stage 2 or stage 3 at 31 December 2022.*
[3] *The provision for ECL balance at 31 December 2022 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 releases amount to HK$135m and HK$36m (2021: HK$179m and charges of HK$2m) 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 2022		*At 31 December 2021*	
	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	**3,607**	**0.38**	1,197	0.12
- more than six months but not more than one year	**2,524**	**0.27**	257	0.03
- more than one year	**3,190**	**0.34**	2,217	0.22
	9,321	**0.99**	3,671	0.37

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 2022		*At 31 December 2021*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**3,087**	**0.33**	2,331	0.23

Rescheduled loans and advances to customers increased by HK$0.8bn to HK$3.1bn when compared with 2021 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 2022***	*At 31 December 2021*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**54,966**	73,939
Property investment	**148,207**	153,957
Financial concerns	**3,063**	1,974
Stockbrokers	**10**	9
Wholesale and retail trade	**24,253**	28,117
Manufacturing	**19,202**	21,851
Transport and transport equipment	**13,518**	16,834
Recreational activities	**280**	837
Information technology	**11,532**	6,868
Other	**88,420**	97,142
	363,451	401,528
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**38,779**	38,320
Loans and advances for the purchase of other residential properties	**253,158**	242,820
Credit card loans and advances	**28,744**	28,435
Other	**30,833**	31,336
	351,514	340,911
Total gross loans and advances for use in Hong Kong	**714,965**	742,439
Trade finance	**35,333**	41,732
Gross loans and advances for use outside Hong Kong	**194,430**	220,154
Gross loans and advances to customers	**944,728**	1,004,325

Financial investments

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Financial investments measured at fair value through other comprehensive income		
- treasury bills	**267,413**	225,910
- debt securities	**88,645**	127,982
- equity shares	**4,933**	5,267
Debt instruments measured at amortised cost		
- treasury bills	**89,968**	2,300
- debt securities	**171,751**	139,080
Less: Allowances for expected credit losses	**(94)**	(153)
	622,616	500,386
Fair value of debt instruments at amortised cost	**242,541**	148,020
Treasury bills	**357,380**	228,210
Certificates of deposit	**2,025**	1,638
Other debt securities	**258,278**	265,271
Debt securities	**617,683**	495,119
Equity shares	**4,933**	5,267
	622,616	500,386

Intangible assets

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Present value of in-force long-term insurance business	**20,620**	22,363
Internally developed/acquired software	**3,565**	2,794
Goodwill	**329**	329
	24,514	25,486

Other assets

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Items in the course of collection from other banks	**5,598**	3,744
Bullion	**6,887**	8,470
Prepayments and accrued income	**5,820**	4,732
Acceptances and endorsements	**12,799**	11,121
Less: Allowances for expected credit losses	**(23)**	(12)
Reinsurers' share of liabilities under insurance contracts	**6,020**	5,848
Settlement accounts	**8,119**	13,711
Cash collateral	**3,105**	2,343
Other accounts	**3,970**	3,675
	52,295	53,632

Other accounts included 'Assets held for sale' of HK$217m (31 December 2021: HK$35m).

Current, savings and other deposit accounts

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Current, savings and other deposit accounts:		
- as stated in Consolidated Balance Sheet	**1,249,486**	1,230,216
- structured deposits reported as financial liabilities designated as fair value	**37,138**	24,012
	1,286,624	1,254,228
By type:		
- demand and current accounts	**103,397**	150,127
- savings accounts	**656,190**	871,281
- time and other deposits	**527,037**	232,820
	1,286,624	1,254,228

Trading liabilities

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Short positions in securities	**46,323**	44,291

Financial liabilities designated at fair value

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Certificates of deposit in issue	**6,945**	-
Structured deposits	**37,138**	24,012
Other structured debt securities in issue	**1,893**	3,005
Liabilities to customers under investment contracts	**333**	382
	46,309	27,399

Certificates of deposit and other debt securities in issue

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Certificates of deposit and other debt securities in issue:		
- as stated in Consolidated Balance Sheet	**93,379**	81,567
- certificates of deposit in issue designated at fair value	**6,945**	-
- other structured debt securities in issue reported as financial liabilities designated at fair value	**1,893**	3,005
	102,217	84,572
By type:		
- certificates of deposit in issue	**100,324**	81,567
- other debt securities in issue	**1,893**	3,005
	102,217	84,572

Other liabilities

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Items in the course of transmission to other banks	**5,632**	6,102
Accruals	**6,640**	3,762
Acceptances and endorsements	**12,799**	11,121
Retirement benefit liabilities	**414**	339
Settlement accounts	**1,400**	1,874
Cash collateral	**3,766**	2,232
Lease liabilities	**1,426**	1,880
Other	**4,662**	3,869
	36,739	31,179

Shareholders' equity

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Share capital	**9,658**	9,658
Retained profits	**142,680**	140,100
Other equity instruments	**11,744**	11,744
Premises revaluation reserve	**18,338**	18,428
Cash flow hedging reserve	**(816)**	46
Financial assets at fair value through other comprehensive income reserve	**1,737**	2,499
Other reserves	**555**	1,857
Total reserves	**174,238**	174,674
Total shareholders' equity	**183,896**	184,332
Return on average ordinary shareholders' equity	**5.5%**	7.7%

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during 2022.

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 collective investment scheme exposures, the Group uses the look-through approach to calculate the risk-weighted amount. For counterparty credit risk, the Group uses the standardised (counterparty credit risk) approach to calculate its default risk exposures for derivatives, and the comprehensive approach for securities financing transactions. 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 2022***	*At 31 December 2021*
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**143,883**	144,651
- Shareholders' equity per Consolidated Balance Sheet	**183,896**	184,332
- Additional Tier 1 ('AT1') perpetual capital instruments	**(11,744)**	(11,744)
- Unconsolidated subsidiaries	**(28,269)**	(27,937)
Non-controlling interests	–	–
- Non-controlling interests per Consolidated Balance Sheet	**65**	84
- Non-controlling interests in unconsolidated subsidiaries	**(65)**	(84)
Regulatory deductions to CET1 capital	**(27,461)**	(28,052)
- Cash flow hedge reserve	**472**	2
- Changes in own credit risk on fair valued liabilities	**(6)**	(6)
- Property revaluation reserves[1]	**(24,418)**	(24,617)
- Regulatory reserve	–	(441)
- Intangible assets	**(3,011)**	(2,359)
- Deferred tax assets net of deferred tax liabilities	**(346)**	(90)
- Valuation adjustments	**(152)**	(126)
- Excess of total expected loss amount over total eligible provisions under the IRB	–	(415)
Total CET1 Capital	**116,422**	116,599
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	**128,166**	128,343
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**11,555**	11,460
- Property revaluation reserves[1]	**10,988**	11,078
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**567**	382
Regulatory deductions to T2 capital	**(1,045)**	(1,045)
- Significant capital investments in unconsolidated financial sector entities	**(1,045)**	(1,045)
Total T2 Capital	**10,510**	10,415
Total Capital	**138,676**	138,758

[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 2022***	*At 31 December 2021*
Credit risk	**687,532**	659,956
Market risk	**19,883**	13,248
Operational risk	**57,311**	60,924
Total	**764,726**	734,128

(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 2022	*At 31 December 2021*
CET1 capital ratio	**15.2 %**	15.9 %
T1 capital ratio	**16.8 %**	17.5 %
Total capital ratio	**18.1 %**	18.9 %

In addition, the capital ratios of all tiers as of 31 December 2022 would be reduced by approximately 0.5 percentage point after the prospective fourth interim dividend payment for 2022. The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 31 December 2022	*Pro-forma At 31 December 2021*
CET1 capital ratio	**14.7 %**	15.4 %
T1 capital ratio	**16.3 %**	17.0 %
Total capital ratio	**17.6 %**	18.4 %

(d) Leverage ratio

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Leverage ratio	**7.3 %**	7.5 %
T1 capital	**128,166**	128,343
Exposure measure	**1,752,201**	1,704,064

Liquidity information

The Group is required under rule 11(1) of the Banking (Liquidity) Rules to calculate its LCR and 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*
- 2022	**275.3%**	**230.5%**	**206.8%**	**188.9%**
- 2021	191.8%	203.2%	214.4%	204.0%

The LCR as at 31 December 2022 was 281.3% compared with 192.7% at 31 December 2021.

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*
- 2022	**163.8%**	**155.2%**	**155.0%**	**151.3%**
- 2021	147.4%	146.6%	146.6%	150.5%

Contingent liabilities, contractual commitments and guarantees

Figures in HK$m	***At 31 December 2022***	*At 31 December 2021*
Contingent liabilities and financial guarantee contracts		
- Financial guarantees	**1,727**	2,431
- Performance and other guarantees	**23,216**	26,439
- Other contingent liabilities	**16**	80
	24,959	28,950
Commitments		
- Documentary credits and short-term trade-related transactions	**1,995**	3,233
- Forward asset purchases and forward forward deposits placed	**11,824**	10,633
- Undrawn formal standby facilities, credit lines and other commitments to lend	**505,019**	501,054
	518,838	514,920

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 2022 ('2022 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 21 February 2023. 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 178 to 191 of the 2021 statutory financial statements.

Standards applied during the year ended 31 December 2022

There were no new standards applied during the year ended 31 December 2022. During 2022, 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 2022 Annual Report.

---

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 2022 and which have not been adopted in the financial statements. Key changes of new standards are summarised as follows:

<u>HKFRS 17 'Insurance Contracts'</u>

HKFRS 17 'Insurance Contracts' is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively.

HKFRS 17 sets out the requirements that the Group will apply in accounting for insurance contracts it issues, reinsurance contracts it holds, and investment contracts with discretionary participation features.

The Group is at an advanced stage in the implementation of HKFRS 17, having put in place accounting policies, data and models, and made progress with preparing 2022 comparative data. Below set out the expectations of the impact of HKFRS 17, compared with the Group's current accounting policy for insurance contracts:

2. Future accounting standard development *(continued)*

- Under HKFRS 17, no present value of in-force business ('PVIF') asset will be recognised. Instead, the measurement of the insurance contract liability is based on groups of insurance contracts and will include the fulfilment cash flows, as well as the contractual service margin ('CSM'), which represents the unearned profit.
  - to identify groups of insurance contracts, individual contracts subject to similar dominant risk and managed together are identified as a portfolio of insurance contracts. Each portfolio is further separated by profitability group and issue date into periodic cohorts.
- The fulfilment cash flows comprise of:
  - the best estimates of future cash flows, including amounts expected to be collected from premiums and payouts for claims, benefits and expenses, which are projected using assumptions based on demographic and operating experience;
  - an adjustment for time value of money and financial risks associated with the future cash flows; and
  - an adjustment for non-financial risk that reflects the uncertainty about the amount and timing of the future cash flows.
- In contrast to the Group's HKFRS 4 accounting where profits are recognised up front, the CSM will be systematically recognised in revenue as services are provided over the expected coverage period of the group of contracts, without any change to the overall profit of the contracts. Losses resulting from the recognition of onerous contracts are recognised in income statement immediately.
- The CSM is adjusted depending on the measurement model of the group of insurance contracts. While the general measurement model ('GMM') is the default measurement model under HKFRS 17, the Group expects that the majority of its contracts will be accounted for under the variable fee approach ('VFA') which is mandatory to apply for insurance contracts with direct participation features upon meeting the eligibility criteria.
- HKFRS 17 requires entities to apply HKFRS 17 retrospectively as if HKFRS 17 had always been applied, using the full retrospective approach ('FRA') unless it is impracticable. When FRA is impracticable such as when there is a lack of sufficient and reliable data, an entity has an accounting policy choice to use either the modified retrospective approach ('MRA') or the fair value approach ('FVA'). The Group will apply the FRA for new business from 2019 at the earliest subject to practicability, and FVA for the majority of contracts for which FRA is impracticable. Where the FVA is used, the measurement takes into account the cost of the capital that a market participant within the jurisdiction would be expected to hold based on the asset and liability positions on the transition date.
- The Group decided to make use of the option to re-designate eligible financial assets held to support insurance liabilities currently measured at amortised cost, as financial assets measured at fair value through profit or loss. The Group will also make use of the risk mitigation option for a number of economic offsets between the VFA contracts and reinsurance contracts held that meet the requirements.

2. Future accounting standard development *(continued)*

Impact of HKFRS 17

- Changes to equity on transition are driven by elimination of the PVIF asset, the re-designation of certain eligible financial asset in the scope of HKFRS 9 the remeasurement of insurance liabilities and assets under HKFRS 17, and the recognition of the CSM.
- HKFRS 17 requires use of current market values for the measurement of insurance liabilities. The shareholder's share of the investment experience and assumption changes will be absorbed by the CSM and released over time to profit or loss under VFA. For contracts measured under GMM, the shareholder's share of the investment volatility is recorded in profit or loss as it arises. Under HKFRS 17, operating expenses will be lower as directly attributable costs will be incorporated in the CSM and recognised in the insurance service result.
- While the profit over the life of an individual contract will be unchanged its emergence will be later under HKFRS 17.
- All of these impacts will be subject to deferred tax.
- Estimates of the opening balance sheet as at 1 January 2022 have been calculated and are presented below, showing separately the impact on the total assets, liabilities and equity of our insurance manufacturing operations and Group equity. These estimates are based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change.

Impact of transition to HKFRS 17, at 1 January 2022	**Insurance manufacturing operations**			**Group**
	Assets	**Liabilities**	**Equity**	**Equity**
	HK$ bn	**HK$ bn**	**HK$ bn**	**HK$ bn**
Balance sheet values at 1 January 2022 under HKFRS 4	207.3	172.9	34.4	184.4
Removal of PVIF*	(22.4)	(3.7)	(18.7)	(18.7)
Replacement of HKFRS 4 liabilities with HKFRS 17	(1.3)	12.6	(13.9)	(14.3)
- Removal of HKFRS 4 liabilities and recording of HKFRS 17 fulfilment cash flows	(1.0)	(9.9)	8.9	8.8
- HKFRS 17 contractual service margin	(0.3)	22.5	(22.8)	(23.1)
Remeasurement effect of HKFRS 9 re-designations	6.5	-	6.5	6.5
Tax effect*	1.1	(0.1)	1.2	1.3
Estimated balance sheet values at 1 January 2022 under HKFRS 17	191.2	181.7	9.5	159.2

** PVIF of HK$22.4bn less deferred tax of HK$3.7bn constitute the overall estimated reduction in intangible assets, after tax, of HK$18.7bn on transition to HKFRS 17.*

- The Group's accounting for insurance contracts considers wider Group a broader set of cash flows than those arising within the insurance manufacturing entities. This includes the effect of eliminating intragroup fees associate with distribution of policies through the Group's banking channel and directly attributable costs incurred by other group entities. These factors lead to a further increase to the Group CSM after inclusion of distribution activities of approximately HK$0.3bn, with a consequential reduction to Group equity of approximately HK$0.3bn after inclusion of deferred tax.

3. Ultimate holding company

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

---

4. Register of shareholders

The Register of Shareholders of the Bank will be closed on Wednesday, 8 March 2023, during which no transfer of shares can be registered. To qualify for the fourth interim dividend for 2022, 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 not later than 4:30 pm on Tuesday, 7 March 2023. The fourth interim dividend will be payable on Tuesday, 21 March 2023, to shareholders whose names appear on the Register of Shareholders of the Bank on Wednesday, 8 March 2023. Shares of the Bank will be traded ex-dividend as from Monday, 6 March 2023.

---

5. 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 2022.

Further, to ensure that it is in line with international and local corporate governance best practices, 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. Throughout 2022, 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 2022.

6. Board of Directors

At 21 February 2023, the Board of Directors of the Bank comprises Irene Y L Lee* (Chairman), Diana Cesar (Chief Executive), Cordelia Chung*, Kathleen C H Gan#, Clement K M Kwok*, Patricia S W Lam*, David Y C Liao#, Huey Ru Lin*, Kenneth S Y Ng*, Say Pin Saw, Xiao Bin Wang* and Michael W K Wu*.

* Independent Non-Executive Directors
\# Non-Executive Directors

---

7. Press release and Annual Report

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

The 2022 Annual Report will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank and printed copies of the 2022 Annual Report will be sent to shareholders at or about the end of March 2023.

---

8. 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.

Press enquiries to:
Ruby Chan Telephone: (852) 2198 4236
Fiona Lau Telephone: (852) 2198 4231