恒生銀行
HANG SENG BANK

2022 Interim Report

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* Where possible, percentages in this section have been rounded to the nearest percentage point to facilitate easy reading. Percentage-based indicators remain at 1 or 2 decimal places as appropriate.

The abbreviations '$m', '$bn' and '$tn' represent millions, billions and trillions of dollars respectively.

RESULTS IN BRIEF

	30 June 2022	*30 June 2021*
For the half-year ended	**HK$m**	HK$m
Net operating income before change in expected credit losses and other credit impairment charges	**14,944**	17,326
Operating profit	**5,533**	10,223
Profit before tax	**5,439**	10,298
Profit attributable to shareholders	**4,704**	8,767
	%	%
Return on average ordinary shareholders' equity	**5.2**	9.9
Cost efficiency ratio	**48.9**	39.0
	HK$	HK$
Earnings per share	**2.31**	4.44
Dividends per share	**1.40**	2.20

	At 30 June 2022	*At 31 December 2021*
At period-end	**HK$m**	HK$m
Shareholders' equity	**182,496**	184,332
Total assets	**1,846,914**	1,820,185
	%	%
Capital ratios		
– Common Equity Tier 1 ('CET1') Capital Ratio	**14.6**	15.9
– Tier 1 Capital Ratio	**16.1**	17.5
– Total Capital Ratio	**17.4**	18.9
Liquidity ratios		
– Liquidity coverage ratio	**228.0**	192.7
– Net stable funding ratio	**155.0**	147.4

The Importance of a Future-proof Business

Dramatic events at home and overseas in the first half of 2022 have again served as a strong reminder of the importance of future-proofing ourselves and of building resilience to overcome challenges, both big and small.

As much as life in Hong Kong has been impacted by the fifth wave of the Covid-19 pandemic as well as rising global commodities prices and inflationary pressures, our city's solid financial foundation and strong reserves have helped us weather the uncertainties in a relatively stable manner. A recent IMF report commended Hong Kong's resilience under the pandemic and reaffirmed our city's position as a major international financial centre, with robust regulatory frameworks and sound macroprudential policies. The report also recognised the steps Hong Kong has taken to address climate change and promote the development of a green and sustainable finance ecosystem.

Amid current uncertainties, Hang Seng has maintained a long-term perspective and continued to build for future growth.

Our attributable profit for the first half of 2022 was HK$4,704 million. The Directors have declared a second interim dividend of HK$0.70 per share, bringing the total distribution for the first half of the year to HK$1.40 per share.

Looking ahead, we can expect to benefit from mega-trends such as technology, innovation and actions to address climate change. This is an important opportunity for Hong Kong with its unique position as a core city in the Greater Bay Area ('GBA'), which is expected to see its GDP grow from around US$2tn in 2021 to around US$5.8tn by 2040. With strong policy support, the region is fast emerging as a globally competitive centre for innovation, financial services and green technologies.

As we move into this exciting new phase, Hang Seng's long track record as a market innovator, unique blend of competitive strengths, especially our long and deep relationships with our loyal customers and our reach, and progressive approach to driving long-term business growth put us in a strong position to contribute to Hong Kong and the GBA's continuing development and success.

Technology + Talent: A Key Differentiator

As fintech, big data and AI become major themes for the future, Hang Seng invested early in technology as well as building an agile and resilient business infrastructure. As a result, we have established ourselves as a local market leader for digital services innovation and provided support for the overall development of fintech in Hong Kong. We are also sharing our expertise with innovation start-ups to accelerate development of the fintech ecosystem in Hong Kong and the GBA, benefitting both our Bank and the financial services industry.

Technology alone is only a part of the solution. To realise maximum benefit from our investments in hardware, we must also become a fully data-driven organisation. At the same time, in an increasingly competitive operating environment, upskilling our people is a key business differentiator. As part of continuous learning, all our staff will go through a comprehensive Bank-wide Data Literacy Empowerment Programme. With colleagues better able to understand and manage data in their day-to-day work, we will be able to more rapidly advance our business objectives and keep pace with the evolution of the banking industry. This forward-thinking approach will also support our efforts to attract and retain top talent.

Local Expertise, World-class Standards

With growing global focus on climate-related risks, and to support the Hong Kong Government's ambitious Climate Action Plan 2050, we are helping to drive the transition to a low-carbon economy. From taking action in our own operations to offering ESG-related products and services to customers and tracking the ESG performance of publicly listed entities by our Hang Seng Indexes Company, we are supporting the sustainable growth of our markets.

Hang Seng has built a leading market position in Hong Kong for wealth management services and asset management expertise. The selection of our wholly owned asset management company to be the new manager of The Tracker Fund of Hong Kong and having one of our exchange-traded funds included in the new ETF Connect scheme are important acknowledgements of our capabilities.

Driving Towards the Future

Our long-term success is firmly tied to that of our customers, our city and the GBA.

The past six months have tested us and there are likely to be fresh challenges ahead. Nevertheless, we are starting to see some positive developments. Consumer and business sentiment in Hong Kong are showing signs of improvement, supported by Government actions such as the Consumption Voucher Scheme and employment assistance. As conditions return to a more even keel and social-distancing measures gradually relax, we should also see cross-boundary economic activities regain momentum.

On our part, we will keep pace with needs of our customers and our markets, further leveraging our unique strengths to keep driving our industry forward to support Hong Kong as part of our clear and focused long-term growth strategy.

We remain inspired by the people of our city who, in both good and difficult times, continue to demonstrate the resilience, resourcefulness and 'can-do' spirit that are cornerstones of Hong Kong's dynamism and success. Nowhere is this better reflected than in the commitment and actions of our staff, who consistently go the extra mile to make banking and wealth management easier for customers, contribute to community initiatives and help make Hang Seng a great place to work.

I am sincerely grateful to the Hang Seng management team and every member of staff for their tireless efforts to support the long-term growth of our business. We have a clear direction and the right people and strategy to get us where we want to go. We will continue moving forward together with our customers and the community as we grow our business by contributing to the continuing growth story of Hong Kong and the GBA.

Irene Lee
Chairman
1 August 2022

There is no denying that the first half has been particularly difficult. The fifth wave of the pandemic continued to disrupt trade and business activities. Global economic headwinds and international geopolitical tensions have created complications and challenges for all businesses. These have inevitably impacted financial performances.

That said, our business remains resilient and we have a clear focus on Hang Seng's long-term strategy, which has not changed. We are increasing momentum and expanding our customer base, adding value for customers and enhancing our digital and customer experience.

Some of the highlights of our first-half achievements include:

- all our businesses recorded an increase in net interest income;
- we achieved growth in targeted customer groups, especially the young and emerging affluent segments, together with corporate clients;
- our Hang Seng China Enterprises Index exchange-traded fund is amongst the first four ETFs to become eligible for southbound trading under the new ETF Connect;
- our wholly owned subsidiary, Hang Seng Investment Management, has been selected to manage The Tracker Fund of Hong Kong;
- we launched Hong Kong's first mobile cheque deposit service for both business and personal banking customers and we introduced over 350 new digital initiatives and enhancements; and
- we became the first bank to launch US equity-linked investments on online platforms.

At the same time, we continue to develop our capabilities to capture increasing wealth management needs in the Greater Bay Area ('GBA') with the opening of dedicated Cross-boundary Wealth Management Centres in strategic locations.

In all of our minds, there is the importance of the sustainability agenda. This will not be compromised.

- we are actively assisting our clients to transition to low-carbon with tailored solutions. The dollar value of our newly approved corporate green and sustainability-linked loans in Hong Kong more than doubled from a year ago;
- we are helping our personal banking customers to become greener with the launch of green mortgages, electric vehicle loans, green shopping offers and ESG-themed investment products; and
- our Hang Seng Indexes Company introduced the Hang Seng Climate Change 1.5°C Target Index and other ESG-focused indexes to provide benchmarks for investors interested in integrating climate and ESG considerations into their portfolios.

Yet, our financial performance has been impacted by the difficult external environment.

First, there was a significant drop in insurance income due to the adverse impact of market movements on the life insurance investment portfolio. This was further exacerbated by the unfavourable discounting impact of interest rate rises. Operating profit before expected credit losses, as a result, declined by 28%.

Second, with greater refinancing risk in the mainland commercial real estate sector, notable adjustments were made to our expected credit losses ('ECL').

The combined impact of these two factors led to a reduction of 46% in attributable profit.

Nonetheless, our agile business structure has enabled us to respond effectively to changing customer needs in fast-moving market conditions. We are seeing improved growth in areas such as trade loans, personal lending, turnover of various fixed-term instruments and foreign exchange business when compared with the second half of 2021.

Wealth and Personal Banking

In our Wealth and Personal Banking business, we stepped up marketing and customer acquisition efforts to drive growth in different customer segments. Our latest Prestige Banking campaign emphasises our ongoing commitment to support customers at every life stage, whether it be raising children or planning for retirement. Our proposition is resonating well with consumers based on the attention, discussion and enquiries that the campaign has triggered.

Sustainability-focused actions continue to grow in importance. In response, we have launched a series of green solutions for personal banking customers while enriching ESG-investment opportunities. Year-on-year, sales of ESG wealth management solutions increased by 3% and assets under management of ESG funds was up by 59%. We registered a 10% market share in applications for the Government-issued Green Bond.

Our net insurance premiums income increased by 78% as customers responded favourably to new insurance products that offer both short and long-term protection coverage together with wealth accumulation.

We continued to be the market leader for digital insurance in the first quarter of the year, supported in part by a 241% year-on-year increase in the number of digital insurance policies sold. Short-term life insurance plans with savings features enriched the health and wellness proposition and are offered through our popular Olive Wellness App. Active users on the app increased by 127% year-on-year.

Increased volatility in the financial markets and dampened investor sentiment, however, affected our overall wealth management income. It was down by HK$2,633m, or 57%, year-on-year, of which the adverse impact of market movements on life insurance manufacturing accounted for HK$2,127m, or 81%, of the decline.

On the lending side, we grew our market share for new mortgage registrations and remain among Hong Kong's top three lenders. New personal loans drawdowns increased by 32%, driven mainly by demand for tax loans. Attractive credit card offers helped to maintain card spending at similar levels to the same period last year. Deposits also grew along with the customer base in strategic segments.

Commercial Banking, Global Banking and Global Markets

In our wholesale business, our priority remained to assist customers in overcoming prevailing challenges. We also supported them to future-proof their operations to ensure sustainability.

The total value of newly approved green and sustainability-linked loans in Hong Kong in the first half grew by 175% to HK$17bn year-on-year. Tailored solutions facilitated business customers to adopt cutting-edge solutions to modernise their operations and transition towards a low-carbon economy. As an example, a HK$1bn sustainability-linked loan facility signed recently with a large Hong Kong corporation involves a financing mechanism that incentivises the company to fulfil a set of ESG metrics.

Establishing strategic partnerships is strengthening our ability to capture a larger share of business among 'new economy' companies in sectors with strong growth potential. An example would be the renewable energy sector.

Trade loans increased by 15% year-on-year, another reflection of how we are expanding relationships. Clients with cross-boundary business interests can now also enjoy fast and flexible reallocation of credit limits with our Credit Link service.

Global Markets recorded an 11% year-on-year increase in profit before tax. Amid volatile conditions in the international financial markets, our trading teams moved swiftly and effectively to capture income-generating opportunities.

We supported the development of the green and social bond secondary market as we now accept ESG bonds as collateral for securities financing. We also enriched the Global Markets product suite by extending US equity-linked investments to more structured products, and enhanced service capabilities by implementing new fintech and digital solutions to support business growth.

Hang Seng China

In the mainland, our wholly owned subsidiary, Hang Seng China, leveraged its market expertise and close ties to our Hong Kong operations to maintain satisfactory business momentum.

Trade loan business achieved robust growth, with revenue up by 32%, and the portfolio balance recorded growth of 5% when compared to end-2021. Hang Seng China saw increases in both net interest income and non-interest income, resulting in a 7% rise in net operating income before ECL. However, operating profit fell, primarily due to ECL provisions made in light of developments in the credit environment. This is reflected in a net ECL charge for the first half of 2022, compared with a net release in the first half of last year.

Financial Overview

Rising interest rates and a 3% increase in average interest-earning assets helped drive a recovery in net interest income, which grew by 4% year-on-year to HK$12,356m. The net interest margin improved by one basis point to 1.52%.

Investor caution amid the downturn in financial markets led to declines in revenue from stock-broking activity and investment funds sales. Wealth management business activity was also affected by a large number of temporary branch closures during the fifth wave of Covid-19. The performance of equities markets also had an impact on our life insurance investment portfolio.

Net operating income before change in ECL and other credit impairment charges fell by 14% year-on-year to HK$14,944m, following a 52% drop in non-interest income.

Year-on-year, operating expenses were up 8% at HK$7,313m. Investments in technology, our people and our brand continue to demonstrate their value through improved business resilience, enhanced operational efficiencies and better service outcomes for customers. Nevertheless, with rising inflationary pressures, we are cognisant of the need to maintain appropriate cost discipline. Compared with the second half of 2021, we recorded a 1% reduction in operating expenses.

The net effect of the year-on-year drop in net operating income and rise in operating costs was an increase in our cost efficiency ratio to 48.9%.

In responding to conditions in the mainland commercial real estate sector, we have increased our ECL. Year-on-year, net ECL charges rose by HK$1,757m to HK$2,096m. The situation remains fluid and we remain highly vigilant. We will continue to take early actions and actively manage our portfolio to minimise further adverse impacts and maintain the overall quality of our portfolio of assets. As at 30 June 2022, gross impaired loans and advances as a percentage of gross loans and advances to customers was 1.92% compared with 1.04% at the end of last year.

Overall, operating profit was down 46% to HK$5,533m.

We recorded a net deficit of HK$59m on property revaluation, compared with a net surplus of HK$39m in the same period in 2021.

Profit before tax declined by 47% to HK$5,439m. Attributable profit was down by 46% at HK$4,704m. Earnings per share fell by 48% to HK$2.31 per share. For our individual business segments, profit before tax for Wealth and Personal Banking, Commercial Banking, and Global Banking and Markets, fell by 55%, 54% and 17% respectively year-on-year.

Return on average ordinary shareholders' equity was 5.2%, compared with 9.9% for the same period in 2021. Return on average total assets was 0.5%, compared with 1.0% for the same period last year.

At 30 June 2022, our common equity tier 1 capital ratio was 14.6%, our tier 1 capital ratio was 16.1%, and our total capital ratio was 17.4%. Our liquidity coverage ratio was 228.0%, which is comfortably above the statutory requirement.

Gross loans and advances to customers were HK$992bn, down 1% when compared with 2021 year-end.

Customer deposits, including certificates of deposit and other debt securities in issue, were up by HK$19bn, or 1%, at HK$1,358bn against the end of 2021.

Second-half 2022 Outlook

I must offer my heartfelt thanks and appreciation to my colleagues throughout the Bank. They continued to provide excellent services to our customers and the community in spite of the challenging operating environment.

Our people are our most valuable assets at the Bank. A major element of Hang Seng's strength is our open and inclusive culture. We are pleased that in a recent survey by Equileap, the leading global provider of data on gender equality, Hang Seng ranked number one in Hong Kong for gender equality and is one of only two companies in Asia Pacific achieving gender balance at all company levels.

It has been a bumpy ride in the first half. Key economic and market indicators suggest that the operating environment will remain challenging for the rest of the year. External risks, including developments in the mainland commercial real estate sector, inflation, rising commodities prices and the pandemic situation will be areas to keep a close eye on.

On a positive note, the upward trend in market interest rates is shoring up the net interest margin and we are starting to see the positive effects in our interest-earning activities. We look forward to a resumption in cross-boundary movements to further stimulate economic and social activities.

Diana Cesar
Executive Director and Chief Executive
1 August 2022

FINANCIAL PERFORMANCE

Income Analysis

Summary of financial performance

Figures in HK$m	***Half-year ended 30 June 2022***	*Half-year ended 30 June 2021*
Net operating income before change in expected credit losses and other credit impairment charges	**14,944**	17,326
Operating expenses	**7,313**	6,754
Operating profit	**5,533**	10,223
Profit before tax	**5,439**	10,298
Profit attributable to shareholders	**4,704**	8,767
Earnings per share (in HK$)	**2.31**	4.44

Moving into first half of 2022 ('1H 2022'), the volatile and challenging market conditions, emergence of the severe fifth wave of the Covid-19 pandemic and developments in the mainland commercial real estate sector have continued to create economic uncertainty and weaken business momentum. Given this difficult operating environment, the Group's key financial indicators for 1H 2022 are generally down on the same period in 2021 ('1H 2021'). However, the Group has recorded improvements in certain areas when compared with second half of 2021 ('2H 2021'), reflecting its effective actions to maintain business momentum amid the market uncertainty and global economic slowdown. Also on the positive side, the Group's net interest income benefitted from the continued upward path of interest rates during 1H 2022.

Net operating income before change in expected credit losses and other credit impairment charges was HK$14,944m, down 14%. This result mainly reflects the unfavourable impact of market movements on life insurance business and lower investment distribution revenue, partly offset by the 4% increase in net interest income. Operating expenses increased by 8% when compared with 1H 2021. Change in expected credit losses and other credit impairment charges ('ECL') increased by HK$1,757m to HK$2,096m. The increase was due mainly to new and additional impairment charges relating to the mainland commercial real estate sector and reflect the Bank's proactive and prudent approach to credit risk management. This had an adverse impact on **operating profit**, which fell by 46% to HK$5,533m. Investment property revaluation recorded a deficit of HK$59m compared with a surplus of HK$39m for the same period last year. **Profit before tax** decreased by 47% to HK$5,439m and **profit attributable to shareholders** was down 46% at HK$4,704m.

Net interest income increased by HK$473m, or 4%, to HK$12,356m. Average interest-earning assets grew by HK$50bn, or 3%, to HK$1,638bn, driven by the growth in average customer loans and interbank placings together with the improved net interest margin. The growth in interest-earning assets reflects the Bank's continuing efforts to strengthen its asset and liability management and maintain a balanced growth strategy to sustainably expand average loans and deposits.

Net interest margin improved by one basis point to 1.52%, driven by higher market interest rates. Net interest spread dropped by one basis point to 1.42%. The contribution from net-free funds grew by two basis points to 0.10%, benefiting from the modest increase in the average HIBOR.

Figures in HK$m	***Half-year ended 30 June 2022***	*Half-year ended 30 June 2021*
Net interest income/(expense) arising from:		
– financial assets and liabilities that are not at fair value through profit or loss	**12,823**	12,343
– trading assets and liabilities	**65**	57
– financial instruments designated and otherwise mandatorily measured at fair value through profit or loss	**(532)**	(517)
	12,356	11,883
Average interest-earning assets	**1,637,980**	1,587,529
Net interest spread	**1.42%**	1.43%
Net interest margin	**1.52%**	1.51%

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 or 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	***Half-year ended 30 June 2022***	*Half-year ended 30 June 2021*
Net interest income and expense reported as 'Net interest income'		
– Interest income	**15,039**	13,945
– Interest expense	**(2,216)**	(1,606)
– Net interest income	**12,823**	12,339
Net interest income and expense reported as 'Net income from financial instruments measured at fair value through profit or loss'	**(467)**	(456)
Average interest-earning assets	**1,591,737**	1,550,173
Net interest spread	**1.54%**	1.54%
Net interest margin	**1.62%**	1.61%

Net fee income decreased by HK$1,086m, or 29%, to HK$2,623m, as demand for wealth management products was lower than in 1H 2021, reflecting muted investor sentiment with the uncertain equity markets and the impact of the fifth Covid-19 wave in Hong Kong, which resulted in the temporary closure of parts of the Bank's branch network. Stockbroking and related services income dropped by 38%, reflecting the decline in equity market trading turnover. Income from retail investment funds also decreased by 41% due to lower sales volume. Card services income reduced by 6%, due mainly to lower card spending and merchant sales with the persistence of the pandemic in Hong Kong. Credit facilities fees were down by 33%, due to lower new corporate lending activities. Insurance business fee income was down by 5%. Fee income from account services, imports/exports and remittance increased by 5%, 7% and 5% respectively.

Net income/(loss) from financial instruments measured at fair value through profit or loss recorded a loss of HK$1,070m compared with a gain of HK$2,685m for 1H 2021.

Net income/(expenses) from assets and liabilities of insurance businesses measured at fair value through profit or loss recorded a loss of HK$1,909m compared with a gain of HK$1,821m for 1H 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.

Net trading income and net income from financial instruments designated at fair value through profit or loss together decreased by HK$38m, or 4%, to HK$826m, with higher foreign exchange revenue more than offset by lower income from structured products.

Change in expected credit losses and other credit impairment charges increased by HK$1,757m to HK$2,096m when compared with 1H 2021.

The Bank regularly reviews its forward economic guidance to reflect changes in the economic outlook and other factors that may influence the credit environment. The increase in ECL charges in 1H 2022 was primarily driven by an increase in ECL charges related to developments in mainland commercial real estate sector. The Group remains vigilant and will continue to closely monitor the market situation.

Change in ECL for stage 1 and stage 2 unimpaired credit exposures recorded a net release of HK$795m in 1H 2022, due mainly to the migration to stage 3 allowances related to the significant build-up of stage 2 allowances in late 2021 to reflect the tightening liquidity and increased refinancing risks in the mainland commercial real estate sector in 2H 2021. Compared with the net release of HK$346m for 1H 2021, the result was a HK$449m year-on-year increase in ECL net releases. Wealth and Personal Banking ('WPB') recorded a net charges of HK$49m for 1H 2022 compared with a net release of HK$63m for 1H 2021. Commercial Banking ('CMB') and Global Banking and Markets ('GBM') together recorded an increase in net release of HK$561m.

Change in ECL for stage 3 and purchased or originated credit-impaired exposures ('impaired credit exposures') increased by HK$2,206m to HK$2,891m when compared with 1H 2021, primarily driven by an increase in ECL charges related to developments in the mainland commercial real estate sector. WPB recorded a decrease in net charges of HK$40m, due mainly to lower charges on credit card and personal loan portfolios. The remaining increases in net charges of HK$2,246m were related to CMB and GBM.

Gross impaired loans and advances increased by HK$8,595m, or 82%, against 2021 year-end to HK$19,024m. Certain impaired corporate loans through the Group's Hong Kong office and mainland banking subsidiary were downgraded during the period to reflect the latest developments in the mainland 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 1.92% as at 30 June 2022, compared with 0.69% at 30 June 2021 and 1.04% at the end of December 2021. Overall credit quality remained robust.

Net insurance premium income increased by HK$5,210m, or 77%, to HK$12,008m, 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$4,283m, or 52%, to HK$12,590m.

Other operating income increased by HK$1,153m, or 285%, to HK$1,558m, due mainly to the change in the movement in PVIF. PVIF increased by HK$1,204m to HK$1,335m, reflecting the combined effect of several factors. Positive adjustment to PVIF to account for the sharing of unfavourable investment returns attributable to policyholders and actuarial assumption change impact mainly related to a gain of HK$645m from the pricing update for policyholder funds held on deposit with us to reflect the cost of the provision of these services. This was partially offset by the unfavourable discounting impact of interest rate rises in the valuation of PVIF.

Operating expenses increased by HK$559m, or 8%, to HK$7,313m, reflecting 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 decreased by 2%. Amortisation of intangible assets increased by 53%, related mainly to capitalised IT systems development costs to support business growth within the Group. General and administrative expenses were up by 18%, reflecting continued investment in digital capabilities across all business segments and marketing and advertising expenses.

Full-time equivalent staff numbers by region	***At 30 June 2022***	*At 30 June 2021*
Hong Kong and others	**7,457**	8,028
Mainland	**1,666**	1,676
	9,123	9,704

	Half-year ended 30 June 2022	*Half-year ended 30 June 2021*
Cost efficiency ratio	**48.9%**	39.0%

The cost efficiency ratio rose by 9.9 percentage points to 48.9%, mainly reflecting the combined impact of lower revenue due to the decrease in non-interest income and the increase in operating expenses.

Reflecting the unfavourable property market as compared with 1H 2021, **net surplus/(deficit) on property revaluation** recorded a net deficit of HK$59m in 1H 2022, compared with a net surplus of HK$39m in 1H 2021. **Share of profits/(losses) of associates** recorded a loss of HK$35m compared with a profit of HK$36m in 1H 2021, mainly reflecting the revaluation deficit of a property investment company.

Analysis of income from wealth management business

Figures in HK$m	***Half-year ended 30 June 2022***	*Half-year ended 30 June 2021*
Investment services income[1]:		
– retail investment funds	**527**	897
– structured investment products	**231**	241
– securities broking and related services	**745**	1,205
– margin trading and others	**32**	38
	1,535	2,381
Insurance income:		
– life insurance:		
– net interest income	**2,135**	2,111
– non-interest income/(expense)	**(49)**	4
– 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)	**(2,124)**	1,814
– net insurance premium income	**12,008**	6,798
– net insurance claims and benefits paid and movement in liabilities to policyholders	**(12,590)**	(8,307)
claims, benefits and surrenders paid/payable	***(5,608)***	*(5,528)*
movement in liabilities to policyholders	***(6,982)***	*(2,779)*
– movement in present value of in-force long-term insurance business	**1,335**	131
	715	2,551
– general insurance and others	**135**	158
	850	2,709
	2,385	5,090
Of which: Market impacts	**(2,074)**	158

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/(loss) from financial instruments measured at fair value through profit or loss.*

Wealth management business income decreased by HK$2,705m, or 53%, to HK$2,385m, 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 fell as muted customer sentiment led to lower activity in equity markets when compared with a relatively strong 1H 2021.

Total investment services income fell by HK$846m, or 36%, to HK$1,535m, notably in retail investment funds and securities broking and related services.

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', '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$1,859m, or 69%, to HK$850m. This has included the market impacts with a loss of HK$2,074m compared with a gain of HK$158m in 1H 2021.

Net insurance premium income increased by HK$5,210m, or 77%, to HK$12,008m, 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 1H 2022; as compared with the market impacts dominated by favourable investment performance in 1H 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'.

The movement in PVIF in 1H 2022 increased by HK$1,204m to HK$1,335m, reflecting the combined effect of several factors. Positive adjustment to PVIF to account for the sharing of unfavourable investment returns attributable to policyholders and actuarial assumption change impact mainly related to a gain of HK$645m from the pricing update for policyholder funds held on deposit with us to reflect the cost of the provision of these services. This was partially offset by the unfavourable discounting impact of interest rate rises in the valuation of PVIF.

General insurance income and others decreased by HK$23m, or 15%, to HK$135m compared with 1H 2021, mainly due to lower MPF commission income arising from the unfavourable fund performance, which aligned with major equities index movements in the markets.

First half of 2022 compared with second half of 2021

The Group continued to demonstrate strength and resilience in 1H 2022, providing the services and solutions to meet the various needs of personal and business customers amid a period of tremendous uncertainty around the world.

Net operating income before change in expected credit losses and other credit impairment charges was HK$14,944m, down by HK$912m, or 6%, reflecting a 34% decrease in non-interest income, partly offset by a 3% increase in net interest income. With lower operating expenses and ECL charges, declines in **operating profit** and **profit attributable to shareholders** compared with 2H 2021 were more moderate compared with year-on-year decreases. **Operating profit** was down HK$475m, or 8%, and **profit attributable to shareholders** fell by HK$489m, or 9%.

Net interest income increased by HK$417m, or 3%, driven mainly by a 2% increase in average interest-earning assets and contribution from net free funds amid a rise in market interest rates, notwithstanding the greater number of calendar days in 2H 2021. Net interest margin improved by four basis points to 1.52%. Both net interest spread and contribution from net free funds widened by two basis points.

Non-interest income fell by HK$1,329m, or 34%, mainly reflecting the unfavourable market impacts in life insurance business together with the impact of discounting due to interest rate rises in the valuation of PVIF. With Hong Kong experiencing a severe fifth wave of Covid-19 pandemic during 1H 2022, lower levels of customer activities were recorded across the Group's fee-generating business and this also had an adverse effect on net fee income.

Operating expenses decreased by HK$67m, or 1%, due mainly to lower general and administrative expenses, with a reduction in marketing and advertising costs, consultancy fees and IT-related investments, which collectively outweighed continued investment in technology and digital capabilities to drive business growth. The Group will continue to actively manage operating expenses to facilitate the continued direction of resources towards further optimising its digital capabilities.

ECL charges decreased by HK$372m, or 15%, to HK$2,096m. In 2H 2021, the Group built a material adjustment into its ECL to reflect tightening liquidity and increased refinancing risk in the mainland commercial real estate sector. Reflecting its proactive credit risk management, the Group also made significant adjustments to its ECL in 1H 2022 in response to further developments in the sector. The reduction in ECL charges mainly reflects allowances made on downgraded corporate customers. Stage 1 and 2 ECL charges recorded a net release of HK$795m in 1H 2022 compared with a net charge of HK$1,411m in 2H 2021, due mainly to the migration to stage 3 allowances related to the significant build-up of stage 2 allowances in 2H 2021 to reflect the tightening liquidity and increased refinancing risks in the mainland commercial real estate sector in the latter part of 2021. Stage 3 ECL charges were HK$2,891m for 1H 2022, compared with HK$1,057m for 2H 2021. The increase in ECL charges of HK$1,834m mainly reflects the aforesaid migration as mentioned above.

Net surplus/(deficit) on property revaluation recorded a net deficit of HK$59m in 1H 2022, compared with a net surplus of HK$43m in 2H 2021. **Share of profits/(losses) of associates** recorded a loss of HK$35m compared with a profit of HK$36m in 2H 2021.

Segmental Analysis

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

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Half-year ended 30 June 2022					
Profit/(loss) before tax	**2,521**	**1,281**	**1,815**	**(178)**	**5,439**
Share of profit/(loss) before tax	**46.3%**	**23.6%**	**33.4%**	**(3.3)%**	**100.0%**
Half-year ended 30 June 2021					
Profit/(loss) before tax	5,577	2,780	2,177	(236)	10,298
Share of profit/(loss) before tax	54.2%	27.0%	21.1%	(2.3)%	100.0%

Wealth and Personal Banking ('WPB') recorded a 25% year-on-year decrease in net operating income before change in ECL and other credit impairment charges to HK$7,378m. Operating profit dropped by 54% to HK$2,556m compared with the same period last year. Profit before tax decreased by 55% to HK$2,521m.

Net operating income before change in ECL and other credit impairment charges fell by HK$2,517m. Of this amount, HK$2,127m, or 85%, was due to the adverse impact of financial market movements on life insurance manufacturing and increases in interest rates. Rising interest rates are generally considered favourable for insurance business as they make insurance products more attractive to customers by improving future reinvestment yields. However, interest rate increases also lead to higher discount rates being used to determine the present value of profits on in-force insurance business.

In spite of these challenges, however, we continued to make good progress with growing our insurance business. We grew net insurance premium income by 78%, driven by the favourable response of customers to our new insurance products, which offer both short-term and long-term protection together with wealth accumulation.

The fifth wave of the pandemic during 1H 2022 resulted in disruptions to our operating hours and business activities, as well as the temporary closure of parts of our branch network. Amid the challenging conditions, we continued to invest in innovations, advance our strategic imperatives and undertake robust actions to grow our business. These actions facilitated our efforts to capture growth in strategic customer segments, further enhance our digital services proposition and uphold our commitment to sustainability.

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, we achieved an 18% increase in our Signature customer base and grew our Prestige and Preferred Banking customer base by 9%. With the launch of our new 'Trial Mode' campaign, we grew the young segment of our Preferred Banking customer base by 12% year-on-year. Deeper relationships with customers fueled balance sheet growth, with deposits increasing by 2% compared with the end of 2021. This expansion of the deposits base will help strengthen our position for business growth amid rising interest rates. In preparation for increased activity with the re-opening of the Hong Kong-mainland boundary, we opened our first cross-boundary Wealth Management Centre in Sheung Shui in May 2022. We plan to open more Centres next year.

Wealth management income was down year-on-year, reflecting unfavourable macro-economic and investment conditions. Nevertheless, we made good progress on a number of fronts. In insurance, we maintained our market position for annualised new premiums in the first quarter. Supported by a 241% year-on-year increase in digital insurance policies sales, we achieved the leading market position for digital insurance. Our Olive Wellness App registered a 127% increase in active users year-on-year. With investors becoming more cautious amid the market downturn, our investment services income dropped year-on-year. However, more activities were recorded in basic investment products such as bonds and FX-linked investments, with turnover growing by 40% and 24% respectively year-on-year.

Our wholly owned subsidiary, Hang Seng Investment Management Limited ('HSVM'), was selected to manage The Tracker Fund of Hong Kong. This appointment further strengthens our leadership in the local asset management market.

Digital transformation remains a core part of our strategy. In 1H 2022, we successfully delivered over 230 new digital innovations and enhancements. These include Hong Kong's first mobile cheque deposit service and, riding on our Green Moments campaign, our first non-fungible token ('NFT'), which we developed in partnership with local artists. On the wealth management front, we were the first bank in Hong Kong to introduce US equity-linked investments on both mobile and online banking platforms. Other new and enhanced mobile-based services include a securities profit and loss tracking service and an enhanced fund search function that allows customers to search by themes such as ESG. We also equipped all our Prestige Relation Managers with 'Prestige RM Connect', which enables them to engage customers through Zoom, WhatsApp and WeChat, and introduced a new Relationship Management platform that uses Microsoft-Dynamics technology. Supported by all these innovations and enhancements, we recorded an 11% year-on-year increase in the monthly average number of mobile banking users and our digital transaction count for deposits and loans rose by 83%.

In January 2022, we introduced Hazel, Hong Kong's first digital Key Opinion Leader ('KOL') in the banking sector. In addition to launching our NFTs, we also entered into partnership with Regal Hotels Group in Sandbox to develop a new form of engagement with our customers in the Metaverse.

In February this year, HSVM launched the first ESG exchange-traded fund listed on Hong Kong Exchanges and Clearing Limited. In June this year, we launched our first 'Green Moments' campaign to promote a range of new and existing products, including green mortgages, electric car loans, ESG-themed investment products and special credit card offers. This ongoing initiative is strengthening our efforts to support customers in the transition to the low-carbon economy.

Commercial Banking ('CMB') recorded a 4% year-on-year decrease in net operating income before change in ECL and other credit impairment charges to HK$4,440m. Operating profit and profit before tax both dropped by 54% to HK$1,281m.

The operating environment remained challenging, with business activities hindered by lockdown measures imposed locally and in major mainland cities under new waves of the Covid-19 pandemic. Net interest income rose by 2%, supported mainly by strong growth of 27% in the average trade loan balance and 4% growth in the average deposits balance.

We achieved good growth in insurance sales, as well as in foreign exchange-related and remittance income, through the launch of new products and marketing campaigns. However, this growth was offset by the drop in investment services income due to the unfavourable equity market conditions. Developments in the mainland commercial real estate market adversely affected syndicated loan fee income, while trade fee income was dragged down by cross-boundary logistics disruptions. Overall, non-interest income was down by 23%.

In response to developments in the mainland commercial real estate market, adjustments were made to our ECL and other credit provisions. We remain vigilant and will continue to actively manage our credit risk to keep our asset quality healthy.

We are committed to providing customer-centric and innovative digital services to enhance customer experiences. Our ground-breaking new mobile cheque deposit service enables customers to deposit cheques via their mobile phone anytime, anywhere. We uplifted the online application process for business loans to offer customers an approval-in-principal in just three minutes and introduced an e-Sign function for loan documents. We upgraded our trade finance platform to enable greater digitalisation of our trade services, including the introduction of digital receivables finance to simplify applications.

We stepped up actions to help customers to capture good business opportunities. To assist our customers in embracing the opportunities presented by the Government's Consumption Voucher Scheme, we enhanced our SME Easy Collection Solution to allow for payment collection through online payment links and online shops, on top of using QR codes. The rollout of our Virtual Card service allows customers to conduct each payment transaction with a unique card number for easier reconciliation and safer online transactions.

We continue to expand our ESG-related services franchise. Our newly launched Green Deposits, which offers a fixed interest rate to customers, also acts as a funding source to support green and sustainability-linked lending by the Bank. Our green and sustainability-linked loan approvals in Hong Kong increased by 75% year-on-year.

Driven by our best-in-class on-boarding journey, the acquisition of quality customers increased by 72% in June 2022 compared with the average monthly in-take in the previous year, which has helped to expand our foundation for long-term sustainable deposits growth.

To meet the increasing demand for credit facilities in the GBA, we launched Credit Link to enable swift and flexible cross-boundary credit limit reallocation within a customer group. Our efforts to make it easier for customers to act quickly on good cross-boundary opportunities were recognised with a 'China Greater Bay Area Banking – Commercial Banking' award in *Bloomberg Businessweek's* Financial Institution Awards.

Our dedication to providing innovative digital solutions for customers won us 'Best Payment and Collection Solution' and 'Best in Treasury and Working Capital for SMEs' awards from *The Asset* during 1H 2022.

Global Banking and Markets ('GBM') recorded a 5% year-on-year increase in net operating income before change in ECL and other credit impairment charges to HK$2,836m and a 17% decrease in both operating profit and profit before tax to HK$1,815m.

Global Banking ('GB') reported a 1% year-on-year growth in net operating income before change in ECL and other credit impairment charges to HK$1,381m. In line with our prudent and proactive risk management strategy, we increased ECL provisions on a few currently unimpaired credit exposures to clients in the mainland commercial real estate market. As a result, operating profit and profit before tax both dropped by 41% to HK$675m. However, operating profit and profit before tax both grew by 455% when compared with 2H 2021.

Net interest income grew by 2% year-on-year to HK$1,177m. Despite the challenging operating environment in 1H 2022, we were able to diversify our lending portfolio through successful efforts to build relationships in the non-commercial real estate sector and certain 'new economy' sectors, resulting in robust growth of 7% in the average loan balance. This helped drive an 8% rise in loan interest income to HK$1,033m. Reflecting our commitment to supporting customers in their transition to the low-carbon economy, we continued to make good strides in growing our sustainability-linked loans and enhanced finance products with green features. In 1H 2022, GB's newly approved green and sustainability-linked loans recorded a four-fold year-on-year increment to HK$10.7bn in Hong Kong. In addition to sustainability-linked loans, we successfully launched a Green Deposit service as a new initiative for clients interested in increasing their use of sustainability-linked banking services.

Our success in delivering innovative, digital and automated industry-specific cash management solutions to clients across a wide range of industries drove year-on-year growth of 9% in total deposits. As customers benefited from the speed and convenience of the Bank's award-winning cash management solutions, more clients used our digital channels to manage their banking transactions, particularly our API solutions which are tailored to the specific industry needs of our customers. One notable example was GB winning a virtual account mandate from a non-bank financial institution client, through which the Bank can better serve the securities industry. Our work with customers to provide best-in-class payment and collection solutions won us a 'Best Payment and Collection Solution' award from *The Asset* during 1H 2022.

Leveraging our strong customer relationships, we further developed and diversified our non-fund income sources of revenue, in particular through our Debt Capital Markets origination team, which completed the origination of several deals in 1H 2022. We also offered another new lending instrument for customers by managing and holding bonds issued by customers. Our newly established Bond Management team completed its first breakthrough deal in May. Non-interest income dropped by 3% to HK$204m, reflecting the effects of the economic slowdown.

Global Markets ('GM') reported an 8% year-on-year increase in net operating income before change in ECL and other credit impairment charges to HK$1,455m. Operating profit and profit before tax both increased by 11% to HK$1,140m.

Net interest income increased by 12% to HK$981m. The Markets Treasury team managed to defend the interest margin and investment yield by exploring market opportunities, and actively managing and diversifying our portfolio, while upholding prudent risk management standards.

Non-interest income increased by 2% to HK$474m.

Net operating income before change in ECL and other credit impairment charges of Markets (Sales and Trading) achieved strong year-on-year growth of 30%. We recorded a 6% year-on-year increase in customers' foreign exchange revenue, due partly to strengthened cross-business collaboration. GM continued with initiatives to deepen the penetration of its products among Bank customers through close collaboration with the WPB, CMB and GB teams. In Trading, we captured good opportunities under the volatile foreign exchange markets, and revenue from foreign exchange and option trading recorded significant growth as compared with last year.

We supported the development of the green and social bond secondary market by accepting ESG bonds as collateral for securities financing. We continued to expand our Repo business, and actively participated in the People's Bank of China Bills Repo market in Hong Kong to support the further development of the offshore RMB market and the internationalisation of the RMB.

We also enriched the product suite by extending US equity-linked investments to more structured products and enhanced our service capabilities by implementing new fintech and digital solutions to support business growth.

Balance sheet Analysis

Assets

Total assets increased by HK$27bn, or 1%, to HK$1,847bn 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 decreased by HK$6bn, or 36%, to HK$11bn. Trading assets dropped by HK$2bn, or 3%, to HK$46bn, notably in debt securities.

Customer loans and advances (net of allowances for ECL) decreased by HK$14bn, or 1%, to HK$983bn, compared with the end of 2021 in the wake of subdued credit demand. Loans for use in Hong Kong fell by 1%. Lending to industrial, commercial and financial sectors decreased by 2%. Lending for property development and property investment decreased by 5%. There was decreased lending to transport and transport equipment, wholesale and retail trade and working capital financing for certain large corporate customers under 'other' sectors. However, there were solid increases in financial concerns and information technology sectors. Lending to individuals was broadly in line with 2021 year-end. Residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending grew by 1%. Credit card advances decreased by 7%. Trade finance lending regained momentum and grew by 11%. Loans for use outside Hong Kong were down by 4%, mainly reflecting decreased lending granted by the Hong Kong office.

Financial investments increased by HK$51bn, or 10%, to HK$551bn, mainly reflecting the redeployment of the commercial surplus and the funds from the issuance of non-capital loss-absorbing capacity debt instruments to meet regulatory requirements and further optimise the Bank's capital and funding structure. There was also an increase in the life insurance funds investment portfolio.

Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK$19bn, or 1%, to HK$1,358bn against the end of 2021. Growth in time deposits in response to rising market interest rates was partly offset by the decrease in current and savings account deposits. To diversify the Group's sources of funding, it issued more certificates of deposit in 1H 2022. At 30 June 2022, the advances-to-deposits ratio was 72.4%, compared with 74.5% at 31 December 2021.

Figures in HK$m	***At 30 June 2022***	*At 31 December 2021*
Customer loans and advances (net of allowances for ECL)	**983,218**	997,397
Customer deposits, including certificates of deposit and other debt securities in issue	**1,358,017**	1,338,800
Advances-to-deposits ratio	**72.4%**	74.5%

At 30 June 2022, shareholders' equity was down by HK$2bn, or 1%, at HK$182bn compared with 2021 year-end. Retained profits were maintained at broadly the same level as the end of 2021, reflecting profit accumulation after the appropriation of dividends paid during the period. Financial assets at fair value through other comprehensive income reserve decreased by HK$0.3bn, or 11%, 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$0.7bn, or 39%, mainly reflecting the decrease in the foreign currency exchange reserve as a result of the depreciation of the RMB. Cash-flow hedge reserve recorded a negative reserve of HK$0.5bn, compared with a positive reserve of HK$46m at the end of 2021, mainly reflecting the interest rate movements of hedging derivatives during the period.

Risk

Principal risks and uncertainties

The Group continuously monitors and identifies risks. Our principal risks are credit risk, treasury risk, market risk, resilience risk, regulatory compliance risk, financial crime risk, model risk and insurance risk. The description of principal risks and a summary of our current policies and practices regarding the management of risk is set out in the 'Risk' section of the Annual Report 2021.

We have maintained a consistent approach to risk management throughout our history, helping to ensure we protect customers' funds, lend responsibly and support economies.

Despite the successful roll-out of Coronavirus Disease ('Covid-19') vaccines around the world, the pandemic continued to cause varying degrees of uncertainty throughout the first half of 2022.

Throughout the pandemic, we have continued to support our customers and adapted our operational processes accordingly. We have maintained high levels of services as our people, processes and systems responded to the required changes.

Tensions between China and the US have continued during 2022. In addition, the tension between Russia and Ukraine further complicates the geopolitical landscape. The macroeconomic, trade and regulatory environments have become increasingly fragmented through disruptions to supply chains, increasing inflationary pressures, and market concerns regarding potential impacts following instability in China's commercial real estate sector. We continue to monitor the situation closely.

We remain committed to investing in the reliability and resilience of our IT systems and critical services that support all parts of our business. We do so to protect our customers, affiliates and counterparties, and to help ensure that we minimise any disruption to services that could result in reputational and regulatory consequences. We continue to operate in a challenging environment in which cyber threats are prevalent and invest in business and technical controls to defend against these threats.

Key developments in the first half of 2022

There were no material changes to the policies and practices for the management of risk, as described in the Annual Report 2021.

We continued to actively manage the risks resulting from the Covid-19 pandemic and instability in China's commercial real estate sector during the first half of 2022 as well as other key risks described in this section.

In the first half of 2022, we enhanced our risk management in the following areas:

- We have continued to enhance decision making to ensure senior executives have appropriate oversight.
- We continued to simplify our approach to non-financial risk management, with the implementation of more effective oversight tools and techniques to improve end-to-end identification and management of non-financial risks.
- We continued to improve the effectiveness of our financial crime controls, deploying advanced analytics capabilities. We are refreshing our financial crime policies, ensuring they remain up-to-date and address changing and emerging risks, and we continue to monitor regulatory changes.
- We are progressing with a comprehensive regulatory reporting programme to strengthen our processes, improve consistency, and enhance controls.
- We continued to embed the enhanced governance and oversight around model adjustments and related processes for HKFRS 9 models and Sarbanes-Oxley controls.
- We have implemented second line of defence for capital risk management in the first half of 2022.

Areas of Special Interest

During the first half of 2022, a number of areas were identified and considered as part of our top and emerging risks because of the effect they may have on the Group. We place particular focus in this section on geopolitical and macroeconomic risk, risks related to Covid-19, climate risk, and Interbank Offered Rate ('IBOR') transition.

Geopolitical and macroeconomic risk

Our operations and portfolios are exposed to risks associated with political instability, Covid-19, which could lead to disruption of our operations, physical risk to our staff and/or physical damage to our assets.

The Covid-19 pandemic and Russia-Ukraine conflict have brought supply chain issues into focus, with product shortages appearing across several regions, and increased prices for both energy and non-energy commodities (such as food). We do not expect these to ease significantly in the second half of 2022. In turn, this may have a significant impact on global inflation. We continue to respond to new sanctions and trade restrictions that have been imposed, noting the challenges that arise in implementing the complex, novel and ambiguous aspects of certain of these sanctions.

The impact of the pandemic and the second order impacts from the geopolitical and macroeconomic events remain uncertain and may lead to significant credit losses on specific exposures, which may not be fully captured in expected credit losses ('ECL') estimates. To help mitigate this risk, model outputs and management adjustments are closely monitored and reviewed for reliability and appropriateness.

The US-China relation remains complex, with tensions over a number of critical issues. The US government has recently articulated its approach to perceived strategic competition with China based on an intent to 'invest, align and compete'. The US, the UK, the EU, Canada and other governments have imposed various sanctions and trade restrictions on Chinese individuals and companies, including freezing assets of government officials, and investment and import/export restrictions targeting certain Chinese companies.

There is a continued risk of increased sanctions being imposed by the US and other governments in relation to human rights and other issues with China, and this could create a more complex operating environment for the Group and its customers.

China has in turn announced a number of its own sanctions and trade restrictions that target, or provide authority to target, foreign individuals or companies. It has also promulgated new laws that provide a legal framework for imposing further sanctions and export restrictions. These and any future measures and countermeasures that may be taken by the US, China and other countries may affect the Group, its customers, and the markets in which we operate.

As the geopolitical landscape evolves, compliance by multinational corporations with their legal or regulatory obligations in one jurisdiction may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional compliance, reputational and political risks for the Group. We maintain dialogue with our regulators in various jurisdictions on the impact of legal and regulatory obligations on our business and customers. The Group will continue to consider potential regulatory, reputational and market risks arising from the evolving geopolitical landscape.

China's expanding data privacy and cybersecurity laws could pose potential challenges to intra-Group data sharing. These developments could increase financial institutions' compliance burdens in respect of cross-border transfers of personal information. In Hong Kong, there is also an increasing focus by regulators on the use of big data and artificial intelligence.

Market participants remain concerned about the repercussions for the Chinese domestic economy from instability in its commercial real estate sector, including deteriorating operating performance and challenging liquidity conditions, and more recently China's government-imposed lockdown restrictions in major Chinese cities to respond to elevated Covid-19 infections. Despite a recent improvement in economic indicators as lockdown measures are lifted, we continue to monitor the situation closely, including potential indirect impacts, and take mitigating actions as required.

We closely monitor the economic developments in key markets and sectors and actively manage our credit portfolio through enhanced monitoring, thematic reviews, internal stress tests, etc. We will continue to support our customers and manage risk and exposures as appropriate.

Areas of Special Interest *(continued)*

Risks related to Covid-19

Despite the successful roll-out of vaccines around the world, the Covid-19 pandemic and its effect on the global economy have continued to impact us and our customers. The emergence of new variants and sub-variants poses a continuing risk. The global vaccination roll-out has helped reduce the social and economic impact of the Covid-19 pandemic. Countries continue to differ in their approach to restrictions on activity and travel, and if these differences persist, this could prolong or worsen supply chain and international travel disruptions. Lockdown restrictions could also adversely impact the economy, tourism and supply chains.

Hong Kong Government has deployed extensive measures to support local populations. Measures implemented by Government included but not limited to consumption voucher scheme and funding support to businesses.

We continue to support our personal and business customers through market-specific measures initiated during the Covid-19 pandemic, and by supporting Hong Kong Government schemes that focus on the parts of the economy most impacted by the pandemic. These measures have been well received and we remain responsive to our customers' changing needs.

The rapid introduction and varying nature of the Government support schemes introduced throughout the Covid-19 pandemic has led to increased operational risks, including complex conduct considerations, increased reputational risk and increased risk of fraud. These risks are likely to be heightened further as and when those Government support schemes are unwound.

As a result of Covid-19 pandemic, business continuity plans have been successfully implemented and the majority of service level agreements have been maintained. Exceptional handling to ensure the continuity of critical customer services are being documented through governance.

Despite the ongoing economic recovery, uncertainties remain in assessing the duration and impact of the Covid-19 pandemic, including whether any subsequent outbreaks result in a reimposition of government restrictions. We continue to monitor the situation closely, and take mitigating actions as required.

Climate Risk

The need to address risks and opportunities brought by climate change, has been gaining attentions of financial regulators in recent years. Growing number of policies and regulations specializing on climate risk management, stress testing and scenario analysis, and disclosures have been published. In December 2021, HKMA also released new guideline on climate risk management. The guideline focuses its requirements on Governance, Strategy, Risk Management and Disclosure. In the first half of 2022, HASE reviewed these new requirements and conducted gap analysis. Based on the observations, we are formulating action plans to strengthen our organization structure, data and systems capabilities, business and risk management policies as well as processes to ensure HASE would meet these regulatory expectations.

Since the second half of 2021, we have established dedicated Climate Risk Working Group in our Risk function to support the implementation of HASE's climate change strategy. Workgroup members meet regularly to provide management oversight on the resolution of climate risk related agendas.

During annual credit review of corporate customers that engage in climate sensitive sectors, we continued use of Transition and Physical Risk Questionnaire to determine the potential transition risk and physical risk customers faced.

We adopted our parent HSBC Group's Thermal Coal Phase Out Policy. Through progressively phase-down financing of coal-fired power and thermal coal mining, HASE targets to support reduction in coal emission and to provide finance for our customers on their transition to a low-carbon economy.

For governance, we have embedded climate risk into retail credit risk management processes and implemented various metrics for monitoring of climate-related physical risk of retail mortgage portfolio. At the same time, we are in progress of developing metric for monitoring and management of climate-related transition risk associated to our wholesale lending portfolio.

Areas of Special Interest *(continued)*

Climate Risk *(continued)*

Along with arranging climate risk training for HASE EXCO and Board members, we have provided climate risk trainings for our First and Second Line of Defense staff members to strengthen their ability to factor in climate considerations during daily work.

IBOR transition

The publication of sterling, Swiss franc, Euro and Japanese yen LIBOR interest rate benchmarks, as well as Euro Overnight Index Average ('EONIA') ceased from the end of 2021. Our interbank offered rate ('IBOR') transition programme – which is tasked with the development of new near risk-free rate ('RFR') products and the transition of legacy IBOR products – has continued to support transition of a limited number of remaining contracts in these benchmarks to RFRs, or alternative reference rates.

During the first half of 2022, we continued to develop process, technology and RFR product capabilities that have a requirement for US dollar LIBOR, which are expected to demise from June 2023. We have also implemented controls to ensure we do not undertake any new US dollar LIBOR contracts outside of agreed exemptions to control the related risks. We carried out relevant communication to our clients to support them through transition of their products, and began the transition of trade, hedging and uncommitted lending facilities. As of end June 2022, we have transitioned all of our contracts in 2021 demised IBORs.

For US dollar LIBOR and other demising IBORs, we are exposed to regulatory compliance, resilience, legal, model and market risks.

- Regulatory compliance: if we neglect to act appropriately in the transition of legacy contracts, we may observe an increase in client complaints resulting from a breach of duty to our clients;

- Resilience: we may be exposed to increased operational risks due to changes in manual and automated processes, and the transition of large volumes of contracts;

- Legal: we may be exposed to an increased risk of litigation as a result of IBOR transition, which may give rise to contractual, sales or other claims;

- Model: as a result of required changes to our models there is a risk that model output is adversely affected leading to increased regulatory notifications or incorrect model outputs;

- Market: as a result of differences in LIBOR against RFRs interest rates, we are exposed to basis risk resulting from the asymmetric adoption of rates across assets, liabilities and products.

Based on our experience in transitioning contracts referencing IBORs that demised from the end of 2021, and an assessment of to the risks that relate to the transition of US dollar LIBOR, we do not believe that our risk position has materially changed during the first half of 2022. Increased market and industry use of alternative rates, including the Secured Overnight Funding Rate ('SOFR'), have further reduced potential risks related to transition away from US dollar LIBOR. We will continue to monitor market initiatives and have developed controls and plans to mitigate these risks. We will monitor these risks through the development of our product capabilities and the transition of legacy contracts, with a focus on fair client outcomes.

Throughout the remainder of 2022, and into 2023, we are committed to engaging with our clients and investors to complete an orderly transition from the remaining demising IBORs. Additionally, following the recent announcement relating to the cessation of Canadian dollar offered rate ('CDOR') after June 2024, we are assessing the impacts and will take appropriate action.

Areas of Special Interest *(continued)*

IBOR transition *(continued)*

Financial instruments impacted by IBOR reform

	Financial instruments yet to transition to alternative benchmarks, by main benchmark			
	USD LIBOR	*CDOR*	*GBP LIBOR*	*JPY LIBOR*
At 30 June 2022	*(HK$m)*	*(HK$m)*	*(HK$m)*	*(HK$m)*
Non-derivative financial assets[1]	**34,380**	**1,519**	**–**	**–**
Non-derivative financial liabilities	**–**	**–**	**–**	**–**
Derivative notional contract amount	**76,729**	**–**	**–**	**–**
At 31 December 2021				
Non-derivative financial assets[1]	33,372	–	6,422	380
Non-derivative financial liabilities	3,119	–	–	–
Derivative notional contract amount	81,944	–	–	–

1 *Gross carrying amount excluding allowances for expected credit losses.*

The amounts in the above table relate to the Group's main operating entities where the Group has material exposures impacted by IBOR reform. The amounts provide an indication of the extent of the Group's exposure to the IBOR benchmarks that are due to be replaced. Amounts are in respect of financial instruments that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date beyond the date by which the reference interest rate benchmark is expected to cease; and
- are recognised on the Group's consolidated balance sheet.

(a) Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products, such as guarantees and derivatives.

There were no material changes to the policies and practices for the management of credit risk in the first half of 2022.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on pages 60 to 63 of the Annual Report 2021.

Maximum exposure to credit risk before collateral held or other credit enhancements

Our credit exposure is spread across a broad range of asset classes, including but not limited to derivatives, trading assets, loans and advances and financial investments. The following table presents the maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements (unless such credit enhancements meet accounting offsetting requirements). For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

	At 30 June 2022	*At 31 December 2021 (restated)*
Cash and balances at central banks	**10,878**	16,896
Trading assets	**45,837**	47,392
Derivative financial instruments	**19,697**	13,224
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**923**	1,041
Reverse repurchase agreements – non-trading	**21,906**	18,821
Placings with and advances to banks	**69,983**	72,493
Loans and advances to customers	**983,218**	997,397
Financial investments	**545,880**	495,119
Other assets	**31,063**	37,533
Financial guarantees and other credit related contingent liabilities[1]	**26,315**	28,870
Loan commitments and other credit related commitments[2]	**508,409**	514,920
	2,264,109	2,243,706

1 *Performance and other guarantees were included.*

2 *Comparative figures for Loan commitments and other credit related commitments have been restated to exclude pre-approval loan programmes.*

(a) ***Credit Risk*** *(continued)*

Summary of credit risk

The following tables analyse the financial instruments to which the impairment requirements of HKFRS 9 are applied and the related allowances for expected credit losses ('ECL').

Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied

	At 30 June 2022		*At 31 December 2021*	
	Gross carrying/ nominal amount	***Allowances for ECL[1]***	*Gross carrying/ nominal amount*	*Allowances for ECL[1]*
Loans and advances to customers at amortised cost	**991,896**	**(8,678)**	1,004,325	(6,928)
Placings with and advances to banks at amortised cost	**69,985**	**(2)**	72,494	(1)
Other financial assets measured at amortised costs:	**278,280**	**(169)**	214,623	(167)
– cash and balances at central banks	**10,878**	**–**	16,896	–
– reverse repurchase agreements – non-trading	**21,906**	**–**	18,821	–
– financial investments	**214,410**	**(146)**	141,380	(153)
– other assets[2]	**31,086**	**(23)**	37,526	(14)
Total gross carrying amount on balance sheet	**1,340,161**	**(8,849)**	1,291,442	(7,096)
Loans and other credit related commitments[3]	**360,856**	**(99)**	365,054	(162)
Financial guarantee and similar contracts	**2,466**	**(2)**	2,431	(3)
Total nominal amount off balance sheet[4]	**363,322**	**(101)**	367,485	(165)
Total	**1,703,483**	**(8,950)**	1,658,927	(7,261)

	Fair value	***Memorandum Allowances for ECL***	*Fair value*	*Memorandum Allowances for ECL*
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')[5]	**331,616**	**(8)**	353,892	(9)

1 *For retail unsecured revolving facilities, e.g. overdrafts and credit cards, the total ECL is recognised against the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised against the loan commitments.*

2 *Includes only those financial instruments which are subject to the impairment requirements of HKFRS 9. 'Other assets' as presented within the Condensed Consolidated Balance Sheet includes both financial and non-financial assets.*

3 *Included forward forward deposit placed of HK$483m (2021: nil).*

4 *The figure does not include some loans commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amount does not agree with the figure shown in note 35 (a) of the Condensed Consolidated Financial Statements which represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

5 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowances for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in Condensed Consolidated Income Statement.*

(a) Credit Risk *(continued)*

The following table provides an overview of the Group's credit risk by stage and industry, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

Stage 1: These financial assets are unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.

Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition for which a lifetime ECL is recognised.

Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

POCI: Financial assets that are purchased or originated at a deep discount are seen to reflect the incurred credit losses on which a lifetime ECL is recognised.

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage

	Gross carrying/nominal amount[1]					*Allowances for ECL*					*ECL coverage %*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI[2]*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans and advances to customers at amortised cost	838,118	134,754	18,904	120	991,896	(715)	(2,777)	(5,186)	–	(8,678)	0.09%	2.06%	27.43%	0.00%	0.87%
– personal	356,410	17,964	935	–	375,309	(268)	(907)	(169)	–	(1,344)	0.08%	5.05%	18.07%	N/A	0.36%
– corporate and commercial	456,932	114,323	17,969	120	589,344	(305)	(1,851)	(5,017)	–	(7,173)	0.07%	1.62%	27.92%	0.00%	1.22%
– non-bank financial institutions	24,776	2,467	–	–	27,243	(142)	(19)	–	–	(161)	0.57%	0.77%	N/A	N/A	0.59%
Placings with and advances to banks at amortised cost	69,826	159	–	–	69,985	(2)	–	–	–	(2)	0.00%	0.00%	N/A	N/A	0.00%
Other financial assets measured at amortised cost	273,723	4,557	–	–	278,280	(98)	(71)	–	–	(169)	0.04%	1.56%	N/A	N/A	0.06%
Loans and other credit-related commitments	353,466	6,424	966	–	360,856	(60)	(39)	–	–	(99)	0.02%	0.61%	0.00%	N/A	0.03%
– personal	250,066	1	–	–	250,067	–	–	–	–	–	0.00%	0.00%	N/A	N/A	0.00%
– corporate and commercial	92,099	5,970	966	–	99,035	(56)	(39)	–	–	(95)	0.06%	0.65%	0.00%	N/A	0.10%
– non-bank financial institutions	11,301	453	–	–	11,754	(4)	–	–	–	(4)	0.04%	0.00%	N/A	N/A	0.03%
Financial guarantee and similar contracts	2,230	236	–	–	2,466	(1)	(1)	–	–	(2)	0.04%	0.42%	N/A	N/A	0.08%
– personal	8	–	–	–	8	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
– corporate and commercial	1,827	236	–	–	2,063	(1)	(1)	–	–	(2)	0.05%	0.42%	N/A	N/A	0.10%
– non-bank financial institutions	395	–	–	–	395	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
At 30 June 2022	1,537,363	146,130	19,870	120	1,703,483	(876)	(2,888)	(5,186)	–	(8,950)	0.06%	1.98%	26.10%	0.00%	0.53%

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

2 *Purchased or originated credit-impaired ('POCI').*

(a) ***Credit Risk*** *(continued)*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage *(continued)*

	Gross carrying/nominal amount[1]					*Allowances for ECL*					*ECL coverage %*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*[2]	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans and advances to customers at amortised cost	852,149	141,747	9,457	972	1,004,325	(762)	(3,466)	(2,700)	–	(6,928)	0.09%	2.45%	28.55%	0.00%	0.69%
– personal	358,508	15,358	858	–	374,724	(291)	(833)	(157)	–	(1,281)	0.08%	5.42%	18.30%	N/A	0.34%
– corporate and commercial	469,431	124,606	8,495	972	603,504	(350)	(2,621)	(2,515)	–	(5,486)	0.07%	2.10%	29.61%	0.00%	0.91%
– non-bank financial institutions	24,210	1,783	104	–	26,097	(121)	(12)	(28)	–	(161)	0.50%	0.67%	26.92%	N/A	0.62%
Placings with and advances to banks at amortised cost	72,311	183	–	–	72,494	(1)	–	–	–	(1)	0.00%	0.00%	N/A	N/A	0.00%
Other financial assets measured at amortised cost	210,364	4,259	–	–	214,623	(99)	(68)	–	–	(167)	0.05%	1.60%	N/A	N/A	0.08%
Loans and other credit-related commitments	357,016	8,038	–	–	365,054	(57)	(105)	–	–	(162)	0.02%	1.31%	N/A	N/A	0.04%
– personal	243,639	–	–	–	243,639	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
– corporate and commercial	98,530	7,035	–	–	105,565	(53)	(105)	–	–	(158)	0.05%	1.49%	N/A	N/A	0.15%
– non-bank financial institutions	14,847	1,003	–	–	15,850	(4)	–	–	–	(4)	0.03%	0.00%	N/A	N/A	0.03%
Financial guarantee and similar contracts	2,283	148	–	–	2,431	(2)	(1)	–	–	(3)	0.09%	0.68%	N/A	N/A	0.12%
– personal	8	–	–	–	8	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
– corporate and commercial	1,885	148	–	–	2,033	(2)	(1)	–	–	(3)	0.11%	0.68%	N/A	N/A	0.15%
– non-bank financial institutions	390	–	–	–	390	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
At 31 December 2021	1,494,123	154,375	9,457	972	1,658,927	(921)	(3,640)	(2,700)	–	(7,261)	0.06%	2.36%	28.55%	0.00%	0.44%

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

2 *Purchased or originated credit-impaired ('POCI').*

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates

There continues to be a high degree of uncertainty in relation to economic scenarios. Heightened geopolitical risks, ongoing risks relating to new Covid-19 variants and public health policy responses, and the effects of supply chain disruption are contributing to an environment of increasing interest rates and inflation, and higher risks of global stagflation. As a result, the level and speed of recovery from the global pandemic remains volatile.

As a result of this uncertainty, management judgements and estimates continue to reflect a degree of caution in both the selection of economic scenarios and their weightings, and in the use of management judgmental adjustments, which reflect how economic conditions interact with modelled outcomes, and are described in more detail below.

The recognition and measurement of ECL involves the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

Methodology

Five economic scenarios have been used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to the Group's top and emerging risks.

Of the four standard scenarios, three are drawn from consensus forecasts and distributional estimates. The fourth scenario, Additional Downside 2, represents management's view of severe downside risks. In the second quarter of 2022, management has chosen to use an additional fifth scenario, known as Stagflation, to ensure that current supply side risks are sufficiently reflected in forward economic guidance. The scenario is designed to capture the implications of a sustained global supply shock that keeps inflation elevated for a long period, raises unemployment and depresses GDP growth.

The use of an additional scenario is in line with the Group's forward economic guidance methodology. Management may include additional scenarios when consensus scenarios are determined to inadequately capture the economic risks faced by the Group. Unlike the consensus scenarios, these additional scenarios are driven by narrative assumptions aligned to an identified risk and may incorporate shocks that drive economic activity permanently away from long-term trend.

Description of consensus economic scenarios

The economic assumptions presented in this section have been formed internally with reference to external forecasts specifically for the purpose of calculating ECL.

Economic forecasts are subject to a high degree of uncertainty in the current environment. Risks to the outlook are dominated by the actions of Central Banks as they raise interest rates to bring inflation back to target and curtail a rise in inflation expectations. The implications of the conflict in Ukraine and the progression and management of the pandemic in Asia also remain key sources of uncertainty. Other geopolitical risks such as the evolution of the differences between the US and China over a range of critical issues also present downside risks.

The five scenarios have been used for the purpose of calculating ECL at 30 June 2022. These are the consensus Central scenario, the consensus Upside scenario, the consensus Downside scenario, Stagflation scenario and an Additional Downside 2 scenario.

The scenarios used to calculate ECL in the Interim Report 2022 are described below.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

The consensus Central scenario

The Group's Central scenario features a gradual slowdown in GDP growth through 2022 and 2023, following a strong recovery in 2021. Unemployment is expected to remain low through this period.

GDP forecasts have been lowered in recent quarters. In Asia, the downward revisions follow from the stringent public health policy response to the pandemic in some markets. Elsewhere, the sharp rise in inflation, related to supply shortages and rising commodity prices, has started to weigh on growth as costs rise and real income growth stalls.

The Central scenario assumes that inflation peaks in 2022 and, supported by tighter monetary policy, reverts back towards Central Bank target by the end of 2023.

Across the key markets, the Central scenario assumes the following:

- Economic growth is expected to slow in the near term as supply chain disruption and price inflation diminish purchasing power. Growth returns to trend in later years as supply chain issues are assumed to ease and inflation returns towards target.

- Unemployment remains close to pre-pandemic levels and the labour market remains tight across our key markets.

- Inflation is expected to remain elevated in 2022 as commodity, food and goods prices remain high.

- Policy interest rates in key markets rise over the first 18 months of the projection period as central banks tighten policy to bring inflation back towards target. Thereafter they settle at a higher level than existed pre-pandemic.

The Central scenario was created with forecasts available in May, and subsequently updated in June. Dispersion between the constituent forecasts of the consensus remains unusually high, suggesting an elevated level of uncertainty. Probability weights assigned to the Central scenario are 55% and reflect the level of uncertainty seen in economic forecast across Hong Kong and mainland China.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

The consensus Central scenario *(continued)*

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Central scenario.

Central scenario (3Q 2022 – 2Q 2027)

	Hong Kong %	*Mainland China* %
GDP growth		
Annual average growth rate: 2022	1.1	4.5
Annual average growth rate: 2023	3.8	5.1
Annual average growth rate: 2024	2.5	5.0
5-year average	2.9	4.9
Unemployment rate		
Annual average: 2022	4.4	3.8
Annual average: 2023	3.6	3.7
Annual average: 2024	3.5	3.7
5-year average	3.5	3.7
House Price Growth		
Annual average growth rate: 2022	-1.2	-0.5
Annual average growth rate: 2023	1.2	1.3
Annual average growth rate: 2024	2.5	3.5
5-year average	1.9	3.2
Inflation rate		
Annual average growth rate: 2022	2.3	2.2
Annual average growth rate: 2023	2.2	2.3
Annual average growth rate: 2024	2.2	2.3
5-year average	2.2	2.4
Probability	55	55

Note: The annual average growth rate refers to full year average. The 5-year average is computed by using time period from 3Q 2022 to 2Q 2027.

The consensus Upside scenario

Compared with the consensus Central scenario, the consensus Upside scenario features a faster rate of GDP growth during the first two years, before converging to long-run trend. The scenario is consistent with a number of key upside risk themes. These include faster resolution of supply chain issues; a rapid and peaceful conclusion to the Russia-Ukraine conflict; and the de-escalation of tensions between US and China.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Upside scenario.

Consensus Upside scenario best outcome

	Hong Kong %	*Mainland China* %
GDP growth rate	12.4 (1Q23)	10.2 (2Q23)
Unemployment rate	2.8 (4Q23)	3.5 (1Q23)
House price growth	7.7 (2Q23)	6.2 (2Q23)
Inflation rate	4.1 (3Q23)	5.8 (1Q23)
Probability	5	5

Note: Extreme point in the consensus Upside is 'best outcome' in the scenario, for example the highest GDP growth and the lowest unemployment rate, in the first two years of the scenario. Inflation is positively correlated with GDP in the Upside scenario, and the 'best outcome' also refers to the cyclical high point.

(a) ***Credit Risk*** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Downside scenarios

Downside scenarios explore the intensification and crystallisation of a number of key economic and financial risks.

Inflation and the monetary policy response to it have become a key concern for global growth. Supply chain disruptions, caused by the pandemic and conflict between Russia and Ukraine, have led to sharp rises in commodity prices and headline price inflation across many markets. A key concern is that inflation expectations become unanchored from Central Bank targets, particularly as labour markets and labour supply shortages across some sectors are putting upward pressure on wages. The de-anchoring of inflation expectations would raise the risk that inflation remains elevated for longer, exacerbating cost pressures and the squeeze on household real incomes and corporate margins. In turn, it raises the risk of a more forceful policy response from Central Banks, a steeper trajectory for interest rates and ultimately, economic recession.

Covid-19-related risks also remain significant. Despite the easing of Covid-19-related restrictions across Europe and North America, the emergence of a new Covid-19 variant with greater vaccine-resistance that necessitates a stringent public health policy response remains a key risk to the global outlook. In Asia, adherence to a stringent public health policy response in response to the circulation of highly virulent Covid-19 strains, presents ongoing risks to growth and global supply chains.

The geopolitical risk backdrop also presents a risk. These risks include:

- a prolonged Russia-Ukraine conflict with escalation beyond Ukraine's borders; and
- continued differences between the US and other countries with China, which could affect sentiment and restrict global economic activity.

The consensus Downside scenario

In the consensus Downside scenario, economic activity is considerably weaker compared with the Central scenario. In this scenario, GDP growths weakens, unemployment rates rise and asset prices fall. The scenario is structured as a demand shock where inflation and commodity prices fall, before gradually recovering towards their long-run trend.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Downside scenario.

Consensus Downside scenario worst outcome

	Hong Kong *%*	***Mainland China*** *%*
GDP growth rate	-2.9 (4Q23)	1.3 (1Q23)
Unemployment rate	5.4 (4Q22)	4.2 (1Q23)
House price growth	-8.3 (3Q23)	-4.3 (2Q23)
Inflation rate	-0.5 (3Q23)	-0.7 (3Q23)
Probability	20	30

Note: Extreme point in the consensus Downside is 'worst outcome' in the scenario, for example the lowest GDP growth and the highest unemployment rate, in the first two years of the scenario. Inflation is positively correlated with GDP in the Downside scenario, and the 'worst outcome' refers to the cyclical low point.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Stagflation scenario

Stagflation scenario has been created to explore the implications of a prolonged period of high price inflation, a more aggressive upward path for policy interest rates, higher unemployment and a global recession.

In this scenario the conflict in Ukraine leads to a sustained supply shock that keeps inflation elevated above the baseline for a longer period than in the other scenarios. The scenario assumes that major central banks are initially slow to respond, but as inflation expectations start to de-anchor from the inflation target, they resort to taking stronger action. The rise in interest rates is expected to cause a severe credit crunch that ultimately results in a global economic contraction later in the projection period.

The following table describes key macroeconomic variables and the probabilities assigned in the Stagflation scenario.

Stagflation scenario worst outcome

	Hong Kong *%*	***Mainland China*** *%*
GDP growth rate	-3.0 (4Q23)	-1.2 (1Q25)
Unemployment rate	6.5 (4Q24)	4.8 (1Q25)
House price growth	-7.6 (2Q25)	-9.8 (3Q23)
Inflation rate	4.2 (1Q23)	4.2 (1Q23)
Probability	15	5

Note: Extreme point in the Stagflation is 'worst outcome' in the scenario, for example the lowest GDP growth and the highest unemployment rate.

Additional Downside 2 scenario

An Additional Downside 2 scenario features a deep global recession and reflects management's view of the tail of economic risk distribution. It incorporates the crystallisation of a number of risks simultaneously, including; further escalation of the Russia-Ukraine conflict, worsening of supply chain disruptions and the emergence of a vaccine resistant Covid-19 variant that necessitates a stringent public health policy response.

This scenario features an initial supply side shock that pushes up inflation. This impulse is expected to prove short lived as a large downside demand shock causes commodity prices to correct sharply and global price inflation to slow as a severe and prolonged recession takes hold.

The following table describes key macroeconomic variables and the probabilities assigned in the Additional Downside 2 scenario.

Additional Downside 2 scenario worst outcome

	Hong Kong *%*	***Mainland China*** *%*
GDP growth rate	-9.3 (2Q23)	-5.0 (2Q23)
Unemployment rate	5.9 (2Q23)	5.4 (2Q24)
House price growth	-10.8 (3Q23)	-18.7 (2Q23)
Inflation rate	-0.5 (1Q24)	1.4 (2Q24)
Probability	5	5

Note: Extreme point in the Additional Downside 2 is 'worst outcome' in the scenario, for example the lowest GDP growth and the highest unemployment rate, in the first two years of the scenario. After a temporary increase, inflation remains positively correlated with GDP in the Additional Downside 2 scenario, and the 'worst outcome' refers to the scenario low point.

(a) ***Credit Risk*** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Scenario weightings

In reviewing the economic conjuncture, the level of uncertainty and risk, management has considered both global and market-specific factors. This has led management to assigning scenario probabilities that are tailored to its view of uncertainty in individual markets.

A key consideration in the first half of 2022 has been the high level of uncertainty attached to the Central scenario projections. These concerns focused on:

- The risks of higher inflation given the risks attached to gas supply security in Europe and global oil supply, which raises the possibility of a more significant impact on real incomes and GDP growth;

- market interest rate expectations that imply a rapid and significant change to the interest rate environment;

- The progression of the Covid-19 pandemic in Asian countries/territories and the impact of stringent public policy responses on growth in the region and global supply chains.

In mainland China and Hong Kong, increased weights have been assigned to Downside scenarios in light of the stringent public health response to the Covid-19 pandemic, the virulence of current strains, and the observed impact on economic activity of the recent restrictions. The consensus Upside and Central scenarios in both markets had a combined weighting of 60%.

Critical accounting estimates and judgements

The calculation of ECL under HKFRS 9 involves significant judgements, assumptions and estimates, as set out in the Annual Report 2021 under 'Critical accounting estimates and judgements'. The level of estimation uncertainty and judgement has remained high since 31 December 2021 and include significant judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions and a wide distribution of economic forecasts. There is judgement in making assumptions about the effects of inflation, supply chain disruption and length of time and severity of the continuing economic effects of the pandemic and health policy responses;

- estimating the economic effects of those scenarios on ECL, in particular as the historical relationship between macroeconomic variables and defaults might not reflect the dynamics of high inflation scenarios; and

- the identification of customers experiencing significant increases in credit risk and credit impairment, where judgements are made about the extent to which government support programmes have deferred or mitigated the risk of defaults, and the effects once support levels are reduced, particularly in relation to lending in high-risk and vulnerable sectors. Where customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues, or have extended those deferrals, judgements include the extent to which they are able to meet their financial obligations on returning to their original terms. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

How economic scenarios are reflected in ECL calculation

The methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail loans and portfolios is set out in pages 71 to 72 of the Annual Report 2021. Models are used to reflect economic scenarios on ECL estimates. These models are based largely on historical observations and correlations with default.

Economic forecasts and ECL model response to these forecasts are subject to a high degree of uncertainty in the current environment, and models continue to be supplemented by management judgemental adjustments where required.

(a) ***Credit Risk*** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Management judgmental adjustments

In the context of HKFRS 9, management judgmental adjustments are typically short-term increases or decreases to the ECL at either a customer or portfolio level to account for late breaking events, model deficiencies and other assessments applied following management review and challenge.

This includes refining model inputs and outputs and using post-model adjustments based on management judgement and higher level quantitative analysis for impacts that are difficult to model.

The wholesale and retail management judgemental adjustments are presented as part of the global business impairment committees with representation from Model Risk Management. This is in line with the governance process for HKFRS 9 as set out on page 61 of the Annual Report 2021.

The drivers of the management judgemental adjustments continue to evolve with the economic environment.

We have internal governance in place to monitor management judgemental adjustments regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate. Wider-ranging model changes will take time to develop and need observable loss data on which models can be developed. Models will be revisited over time once the longer-term impacts of the Covid-19 outbreak are observed. Therefore, we continue to anticipate significant management judgmental adjustments for the foreseeable future.

Management judgmental adjustments made in estimating the reported ECL at 30 June 2022 are set out in the following table.

Management judgmental adjustments to ECL:

	Retail	***Wholesale***	***Total***
		30 June 2022	
(HK$m)			
Low risk counterparties and economies	**–**	**57**	**57**
Corporate lending adjustments	**–**	**577**	**577**
Macroeconomic-related adjustments	**178**	**–**	**178**
Pandemic economic recovery adjustments	**228**	**–**	**228**
Other lending adjustments	**5**	**79**	**84**
Total	**411**	**713**	**1,124**

	Retail	*Wholesale*	*Total*
		31 December 2021	
(HK$m)			
Low risk counterparties and economies	–	85	85
Corporate lending adjustments	–	2,082	2,082
Macroeconomic-related adjustments	(259)	–	(259)
Pandemic economic recovery adjustments	193	–	193
Other lending adjustments	3	29	32
Total	(63)	2,196	2,133

Note: Management judgemental adjustments presented in the table reflect Increases or (Decreases) to ECL, respectively.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Management judgmental adjustments *(continued)*

The low credit-risk exposures of HK$57m (31 December 2021: HK$85m) included HK$81m (31 December 2021: HK$98m) made to corporate asset class to reflect adverse economic outlook due to Covid-19 pandemic situation, offset by the downward adjustment of HK$24m (31 December 2021: HK$13m) for highly rated bank asset class, where modelled credit factors did not fully reflect the underlying fundamentals of our insurance operation.

Adjustments to corporate exposures principally reflected the outcome of management judgements for high-risk and vulnerable sectors through corporate lending adjustment in our key markets, supported by credit experts' input, quantitative analyses and benchmarks. Considerations included potential default suppression in some sectors due to continued government intervention. The corporate lending adjustments were HK$577m at 30 June 2022 (31 December 2021: HK$2,082m). The adjustment is lower than 31 December 2021 and reflects the greater alignment of the modelled ECL with management's expectation reflecting the latest macro-economic variables forecast, the latest CRR downgrades, and deterioration of scenario weighting in China.

In the retail portfolio, management judgement adjustments mainly relate to macroeconomic conditions and customer support programmes.

In the retail portfolio, management judgmental adjustments were an ECL increase of HK$411m at 30 June 2022 (31 December 2021: HK$63m decrease).

- Macroeconomic-related adjustments increased ECL by HK$178m (31 December 2021: HK$259m decrease). These adjustments were primarily in relation to risks related to future macroeconomic conditions.

- Pandemic-related economic recovery adjustments increased ECL by HK$228m (31 December 2021: HK$193m increase) to adjust for the effects of the volatile pace of recovery from the pandemic where in management's judgement this leads to modelled outcomes that are overly sensitive given the limited observed deterioration in the underlying portfolio during the period. This adjustment was made only for markets where there are remaining concerns regarding Covid-19.

- Other retail lending adjustments increased ECL by HK$5m (31 December 2021: HK$3m increase) reflecting those who remain in or have recently exited customer support programmes.

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting ECL.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. The impact of defaults that might occur in future under different economic scenarios is captured by recalculating ECL for loans in stages 1 and 2 at the balance sheet date. The population of stage 3 loans (in default) at the balance sheet date is unchanged in these sensitivity calculations. Stage 3 ECL would only be sensitive to changes in forecasts of future economic conditions if the loss given default of a particular portfolio was sensitive to these changes.

There is a particularly high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100% weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios. Therefore, it is impracticable to separate the effect of macroeconomic factors in individual assessments.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Economic scenarios sensitivity analysis of ECL estimates *(continued)*

For retail credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the retail ECL for secured mortgage portfolios including loans in all stages is sensitive to macroeconomic variables.

Wholesale and Retail sensitivity

The wholesale and retail sensitivity analysis is stated inclusive of management judgmental adjustments, as appropriate to each scenario. The results tables exclude portfolios held by the insurance business and small portfolios, and as such cannot be directly compared to personal and wholesale lending presented in other credit risk tables. Additionally, in both the wholesale and retail analysis, the Stagflation scenario was only introduced during the first half of 2022 and therefore was not present at 31 December 2021.

Wholesale analysis

HKFRS 9 ECL sensitivity to future economic conditions[1,3]

ECL of financial instruments subject to significant measurement uncertainty[2]	***Hong Kong***	***Mainland China***
	30 June 2022	
Reported ECL	**1,899**	**542**
Consensus scenarios		
Central scenario	**1,445**	**369**
Upside scenario	**959**	**169**
Downside scenario	**2,526**	**736**
Stagflation scenario	**2,310**	**972**
Additional Downside 2 scenario	**4,790**	**1,982**

HKFRS 9 ECL sensitivity to future economic conditions[1,3]

ECL of financial instruments subject to significant measurement uncertainty[2]	*Hong Kong*	*Mainland China*
	31 December 2021	
Reported ECL	2,921	370
Consensus scenarios		
Central scenario	2,550	288
Upside scenario	1,769	96
Downside scenario	4,048	508
Additional Downside 2 scenario	7,947	2,234

1 *Excludes ECL and financial instruments on defaulted obligors because the measure of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios.*

2 *Includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*

3 *ECL sensitivity is calculated by applying a 100% weighting to each scenario described above, and then applying judgemental overlays where determined appropriate.*

At 30 June 2022, the Additional Downside 2 scenario reflects the most significant level of ECL sensitivity in Hong Kong and mainland China due to the combination of potential for deterioration of the credit quality on those markets and level of exposure.

The most significant level of ECL sensitivity related to the judgements over the mainland China real estate portfolio booked in Hong Kong.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates *(continued)*

Wholesale and Retail sensitivity *(continued)*

Retail analysis

HKFRS 9 ECL sensitivity to future economic conditions[1]

ECL of loans and advances to customers[2]	***Hong Kong***	***Mainland China***
	30 June 2022	
Reported ECL	**1,263**	**26**
Consensus scenarios		
Central scenario	**1,125**	**24**
Upside scenario	**959**	**22**
Downside scenario	**1,463**	**26**
Stagflation scenario	**1,717**	**27**
Additional Downside 2 scenario	**1,853**	**53**

HKFRS 9 ECL sensitivity to future economic conditions[1]

ECL of loans and advances to customers[2]	*Hong Kong*	*Mainland China*
	31 December 2021	
Reported ECL	1,219	24
Consensus scenarios		
Central scenario	1,138	23
Upside scenario	918	22
Downside scenario	1,352	24
Additional Downside 2 scenario	2,047	49

1 *ECL sensitivities exclude portfolios utilising less complex modelling approaches.*

2 *ECL sensitivity includes only on-balance sheet financial instruments to which HKFRS 9 impairment requirements are applied.*

At 30 June 2022, the most significant level of ECL sensitivity was observed in Hong Kong driven by the relative size of the portfolio.

(a) ***Credit Risk*** *(continued)*

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]			
	Gross carrying/ nominal amount	Allowances for ECL	Gross carrying/ nominal amount	Allowances for ECL	Gross carrying/ nominal amount	Allowances for ECL	Gross carrying/ nominal amount	Allowances for ECL	Gross carrying/ nominal amount	Allowances 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	(53,512)	115	53,512	(115)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	27,208	(233)	(27,208)	233	–	–	–	–	–	–
– transfers to Stage 3	(2,116)	7	(9,777)	1,130	11,893	(1,137)	–	–	–	–
– transfers from Stage 3	5	(1)	18	(1)	(23)	2	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	86	–	(203)	–	(17)	–	–	–	(134)
New financial assets originated and purchased[2]	180,759	(118)	6,421	(178)	34	(10)	–	–	187,214	(306)
Assets derecognised (including final repayments)	(135,478)	27	(29,245)	158	(373)	63	(764)	–	(165,860)	248
Changes to risk parameters – further lending/(repayments)	(30,887)	54	(1,482)	223	(744)	7	(88)	–	(33,201)	284
Changes in risk parameters – credit quality	–	102	–	(499)	–	(1,734)	–	–	–	(2,131)
Assets written off	–	–	–	–	(308)	308	–	–	(308)	308
Credit related modifications that resulted in derecognition	–	–	–	–	–	–	–	–	–	–
Foreign exchange and others	(6,581)	5	(782)	7	(66)	32	–	–	(7,429)	44
At 30 June 2022	**1,263,157**	**(778)**	**141,573**	**(2,817)**	**19,870**	**(5,186)**	**120**	**–**	**1,424,720**	**(8,781)**

	Total
Change in ECL in income statement (charge)/release for the period	(2,039)
Add: Recoveries	49
Add/(less): Others	(102)
Total ECL (charge)/release for the period	**(2,092)**

(a) ***Credit Risk*** *(continued)*

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 *(continued)*

	At 30 June 2022		*For the half-year ended 30 June 2022*
	Gross carrying/ nominal amount	*Allowances for ECL*	*ECL (charge)/ release*
Placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees	**1,424,720**	**(8,781)**	**(2,092)**
Other financial assets measured at amortised cost	**278,280**	**(169)**	**(5)**
Forward forward deposit placed	**483**	**–**	**–**
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied	**1,703,483**	**(8,950)**	**(2,097)**
Debt instruments measured at FVOCI[3]	**333,245**	**(8)**	**1**
Performance and other guarantees not considered for HKFRS 9	**23,849**	**(3)**	**–**
Total allowances for ECL/total consolidated income statement ECL charge for the period	**2,060,577**	**(8,961)**	**(2,096)**

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

2 *Includes the new financial assets originated and purchased during the period, but subsequently transferred from stage 1 to stage 2 or stage 3 at 30 June 2022.*

3 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the Condensed Consolidated Balance Sheet as it excludes fair value gains and losses.*

4 *The financial information included in this table forms part of the Condensed Consolidated Financial Statements which have been reviewed by PricewaterhouseCoopers.*

(a) ***Credit Risk*** *(continued)*

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 *(continued)*

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

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

(a) ***Credit Risk*** *(continued)*

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 *(continued)*

	At 31 December 2021		For the year ended 31 December 2021
	Gross carrying/ nominal amount	Allowances for ECL	ECL (charge)/ release
Placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees	1,444,304	(7,094)	(2,805)
Other financial assets measured at amortised cost	214,623	(167)	(6)
Forward forward deposit placed	–	–	–
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied	1,658,927	(7,261)	(2,811)
Debt instruments measured at FVOCI[3]	354,050	(9)	–
Performance and other guarantees not considered for HKFRS 9	26,439	(3)	4
Total allowances for ECL/total consolidated income statement ECL charge for the year	2,039,416	(7,273)	(2,807)

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 2021.*

3 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the Consolidated Balance Sheet as it excludes fair value gains and losses.*

(a) Credit Risk *(continued)*

Credit quality of financial instruments

The five credit quality classifications defined in the table below each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table below. Under HKFRS 9 retail lending credit quality is based on a 12-month point-in-time ('PIT') probability-weighted PD. The credit quality classifications for wholesale lending are unchanged and are based on internal credit risk ratings.

	Sovereign debt securities and bills	*Other debt securities and bills*	*Wholesale lending*		*Retail lending*	
Credit Quality classification[1,2]	*External credit rating*	*External credit rating*	*Internal credit rating*	*12-month Basel probability of default %*	*Internal credit rating*	*12-month probability-weighted PD %*
Strong	BBB and above	A- and above	CRR1 to CRR2	0–0.169	Band 1 and 2	0–0.500
Good	BBB- to BB	BBB+ to BBB-	CRR3	0.170–0.740	Band 3	0.501–1.500
Satisfactory	BB- to B and unrated	BB+ to B and unrated	CRR4 to CRR5	0.741–4.914	Band 4 and 5	1.501–20.000
Sub-standard	B- to C	B- to C	CRR6 to CRR8	4.915–99.999	Band 6	20.001–99.999
Credit-impaired	Default	Default	CRR9 to CRR10	100	Band 7	100

1 *Customer risk rating ('CRR').*

2 *12-month point-in-time ('PIT') probability-weighted probability of default ('PD').*

Quality classification definitions

- *Strong exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.*
- *Good exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.*
- *Satisfactory exposures require closer monitoring and demonstrate an average-to-fair capacity to meet financial commitments, with moderate default risk.*
- *Sub-standard exposures require varying degrees of special attention and default risk is of greater concern.*
- *Credit-impaired exposures have been assessed as described on note 2 (j) on the Consolidated Financial Statements in Annual Report 2021.*

(a) ***Credit Risk*** *(continued)*

Credit quality of financial instruments *(continued)*

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution

	Gross carrying/notional amount							
	Strong	*Good*	*Satisfactory*	*Sub-standard*	*Credit-impaired*	*Total*	*Allowances for ECL*	*Net*
Loans and advances to customers at amortised cost	454,318	214,547	285,975	18,032	19,024	991,896	(8,678)	983,218
– stage 1	451,046	185,687	201,002	383	–	838,118	(715)	837,403
– stage 2	3,272	28,860	84,973	17,649	–	134,754	(2,777)	131,977
– stage 3	–	–	–	–	18,904	18,904	(5,186)	13,718
– POCI	–	–	–	–	120	120	–	120
Placings with and advances to banks at amortised cost	69,717	246	22	–	–	69,985	(2)	69,983
– stage 1	69,700	104	22	–	–	69,826	(2)	69,824
– stage 2	17	142	–	–	–	159	–	159
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	225,453	42,634	10,178	15	–	278,280	(169)	278,111
– stage 1	224,320	40,617	8,786	–	–	273,723	(98)	273,625
– stage 2	1,133	2,017	1,392	15	–	4,557	(71)	4,486
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Loan and other credit-related commitments[2]	274,676	44,721	39,749	744	966	360,856	(99)	360,757
– stage 1	274,672	42,932	35,595	267	–	353,466	(60)	353,406
– stage 2	4	1,789	4,154	477	–	6,424	(39)	6,385
– stage 3	–	–	–	–	966	966	–	966
– POCI	–	–	–	–	–	–	–	–
Financial guarantees and similar contracts[2]	436	920	1,104	6	–	2,466	(2)	2,464
– stage 1	436	916	876	2	–	2,230	(1)	2,229
– stage 2	–	4	228	4	–	236	(1)	235
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 30 June 2022	**1,024,600**	**303,068**	**337,028**	**18,797**	**19,990**	**1,703,483**	**(8,950)**	**1,694,533**
Debt instruments at FVOCI[1]								
– stage 1	333,010	235	–	–	–	333,245	(8)	333,237
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 30 June 2022	**333,010**	**235**	**–**	**–**	**–**	**333,245**	**(8)**	**333,237**

1 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the figure shown in Condensed Consolidated Financial Statements as it excludes fair value gains and losses.*

2 *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 35 (a) of the Condensed Consolidated Financial Statements.*

3 *The financial information included in this table forms part of the Condensed Consolidated Financial Statements which have been reviewed by PricewaterhouseCoopers.*

(a) ***Credit Risk*** *(continued)*

Credit quality of financial instruments *(continued)*

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution *(continued)*

	Gross carrying/notional amount							
	Strong	*Good*	*Satisfactory*	*Sub-standard*	*Credit-impaired*	*Total*	*Allowances for ECL*	*Net*
Loans and advances to customers at amortised cost	473,995	216,803	287,835	15,263	10,429	1,004,325	(6,928)	997,397
– stage 1	460,810	186,463	204,354	522	–	852,149	(762)	851,387
– stage 2	13,185	30,340	83,481	14,741	–	141,747	(3,466)	138,281
– stage 3	–	–	–	–	9,457	9,457	(2,700)	6,757
– POCI	–	–	–	–	972	972	–	972
Placings with and advances to banks at amortised cost	72,243	238	13	–	–	72,494	(1)	72,493
– stage 1	72,204	94	13	–	–	72,311	(1)	72,310
– stage 2	39	144	–	–	–	183	–	183
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	165,154	39,779	9,680	10	–	214,623	(167)	214,456
– stage 1	164,041	38,481	7,842	–	–	210,364	(99)	210,265
– stage 2	1,113	1,298	1,838	10	–	4,259	(68)	4,191
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Loan and other credit-related commitments[2]	279,705	47,077	38,053	219	–	365,054	(162)	364,892
– stage 1	279,684	44,406	32,742	184	–	357,016	(57)	356,959
– stage 2	21	2,671	5,311	35	–	8,038	(105)	7,933
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Financial guarantees and similar contracts[2]	424	893	1,108	6	–	2,431	(3)	2,428
– stage 1	422	860	999	2	–	2,283	(2)	2,281
– stage 2	2	33	109	4	–	148	(1)	147
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 December 2021	991,521	304,790	336,689	15,498	10,429	1,658,927	(7,261)	1,651,666
Debt instruments at FVOCI[1]								
– stage 1	353,816	234	–	–	–	354,050	(9)	354,041
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 December 2021	353,816	234	–	–	–	354,050	(9)	354,041

1 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the figure shown in Consolidated Financial Statements as it excludes fair value gains and losses.*

2 *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 45 of the Consolidated Financial Statements in Annual Report 2021.*

(a) ***Credit Risk*** *(continued)*

Credit quality of financial instruments *(continued)*

Mainland China Commercial Real Estate

The following table presents the Group's total exposures to mainland China commercial real estate ('CRE') by market and credit quality.

	Hong Kong	***Mainland China***	***Total***
Loans and advances to customers[1]	**36,901**	**17,667**	**54,568**
Guarantees issued and others[2]	**9,712**	**1,750**	**11,462**
Total mainland China CRE exposure at 30 June 2022	**46,613**	**19,417**	**66,030**
Distribution of mainland China CRE exposure by credit quality			
– Strong	**4,074**	**3,063**	**7,137**
– Good	**10,807**	**7,922**	**18,729**
– Satisfactory	**10,935**	**7,053**	**17,988**
– Sub-standard	**8,884**	**491**	**9,375**
– Credit-impaired	**11,913**	**888**	**12,801**
At 30 June 2022	**46,613**	**19,417**	**66,030**
Allowance for ECL	**3,657**	**339**	**3,996**

1 *Amounts represent gross carrying amount.*

2 *Amounts represent nominal amount.*

(restated)[3]	*Hong Kong*	*Mainland China*	*Total*
Loans and advances to customers[1]	37,828	18,009	55,837
Guarantees issued and others[2]	9,123	5,297	14,420
Total mainland China CRE exposure at 31 December 2021	46,951	23,306	70,257
Distribution of mainland China CRE exposure by credit quality			
– Strong	11,461	5,763	17,224
– Good	11,762	8,658	20,420
– Satisfactory	12,069	7,997	20,066
– Sub-standard	8,607	94	8,701
– Credit-impaired	3,052	794	3,846
At 31 December 2021	46,951	23,306	70,257
Allowance for ECL	2,646	174	2,820

1 *Amounts represent gross carrying amount.*

2 *Amounts represent nominal amount.*

3 *Comparative figures for Guarantees issued & others for mainland China have been restated to consider the elimination impact of standby line of credit within the Group.*

(a) Credit Risk *(continued)*

Credit quality of financial instruments *(continued)*

Mainland China Commercial Real Estate *(continued)*

Risks associated with real estate developers in mainland China's real estate market have intensified in the first half of 2022 and at 30 June 2022, this portfolio had 66% of exposure booked with credit quality of 'satisfactory' or above. In addition, exposures booked in Hong Kong portfolio are typically higher risk. At 30 June 2022 the Group had allowances for ECL of HK$3,657m (31 December 2021: HK$2,646m) held against mainland China commercial real estate exposures booked in Hong Kong. We continue to monitor the prevailing situation closely.

(b) Treasury Risk

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural foreign exchange exposures and changes in market interest rates, together with pension and insurance risk.

There were no material changes to the policies and practices for the management of treasury risk in the first half of 2022.

A summary of our current policies and practices for the management of treasury risk is set out in 'Treasury risk management' on page 91 of the Annual Report 2021.

Capital Management

The following tables show the capital base, risk-weighted assets and capital ratios as contained in the 'Capital Adequacy Ratio' return required to be submitted to the Hong Kong Monetary Authority ('HKMA') by the Bank on a consolidated basis that is specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules. The basis is different from that for accounting purposes. Further information on the regulatory consolidation basis is set out in the 'Banking Disclosure Statement' that is available in the Regulatory Disclosures section of our website www.hangseng.com.

The Group uses the advanced internal ratings-based ('IRB') approach to calculate its credit risk for the majority of its non-securitisation exposures. For counterparty credit risk, the Group uses the standardised (counterparty credit risk) approach to calculate its default risk exposures for derivatives. 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.

Risk-weighted assets by risk type

	At 30 June 2022	*At 31 December 2021*
Credit risk	**703,993**	659,956
Market risk	**20,303**	13,248
Operational risk	**57,171**	60,924
Total	**781,467**	734,128

(b) ***Treasury Risk*** *(continued)*

Capital Management *(continued)*

Capital Base

The following table sets out the composition of the Group's capital base under Basel III at 30 June 2022 and 31 December 2021. A more detailed breakdown of the capital position and a full reconciliation between the Group's accounting and regulatory balance sheets can be viewed in the 'Banking Disclosure Statement' in the Regulatory Disclosures section of our website www.hangseng.com.

	At 30 June 2022	*At 31 December 2021*
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**142,625**	144,651
– Shareholders' equity per Condensed Consolidated Balance Sheet	**182,496**	184,332
– Additional Tier 1 ('AT1') perpetual capital instruments	**(11,744)**	(11,744)
– Unconsolidated subsidiaries	**(28,127)**	(27,937)
Non-controlling interests	**–**	–
– Non-controlling interests per Condensed Consolidated Balance Sheet	**74**	84
– Non-controlling interests in unconsolidated subsidiaries	**(74)**	(84)
Regulatory deductions to CET1 capital	**(28,508)**	(28,052)
– Cash flow hedging reserve	**214**	2
– Changes in own credit risk on fair valued liabilities	**(16)**	(6)
– Property revaluation reserves*	**(24,483)**	(24,617)
– Regulatory reserve	**(1,130)**	(441)
– Intangible assets	**(2,678)**	(2,359)
– Deferred tax assets net of deferred tax liabilities	**(260)**	(90)
– Valuation adjustments	**(155)**	(126)
– Excess of total expected loss amount over total eligible provisions under the IRB	**–**	(415)
Total CET1 Capital	**114,117**	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	**125,861**	128,343
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**11,491**	11,460
– Property revaluation reserves*	**11,017**	11,078
– Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**474**	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	**10,446**	10,415
Total Capital	**136,307**	138,758

* *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.*

(b) Treasury Risk *(continued)*

Capital Management *(continued)*

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 30 June 2022	*At 31 December 2021*
CET1 capital ratio	**14.6%**	15.9%
Tier 1 capital ratio	**16.1%**	17.5%
Total capital ratio	**17.4%**	18.9%

In addition, the capital ratios of all tiers as of 30 June 2022 would be reduced by approximately 0.2 percentage point after the prospective second 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 30 June 2022	*Pro-forma At 31 December 2021*
CET1 capital ratio	**14.4%**	15.4%
Tier 1 capital ratio	**15.9%**	17.0%
Total capital ratio	**17.3%**	18.4%

Dividend policy

Objective

The Bank's medium to long term dividend objective is to maintain steady dividends in light of profitability, regulatory requirements, growth opportunities and the operating environment. Its roadmap is designed to generate increasing shareholders' value through strategic business growth. The Bank would balance solid yields with the longer-term reward of sustained share price appreciation.

Considerations

The declaration of dividends is made at the discretion of the Board, which will take into account all relevant factors including the following:

- regulatory requirements;
- financial results;
- level of distributable reserves;
- general business conditions and strategies;
- strategic business plan and capital plan;
- statutory and regulatory restrictions on dividend payment;
- any other factors the Board may deem relevant.

(b)* *Treasury Risk *(continued)*

Capital Management *(continued)*

Dividend policy *(continued)*

Phasing and Timing

Under normal circumstances and if the Board determines to declare a dividend at its discretion, dividends would be declared on a quarterly basis. The phasing of dividends would be planned on a prudent basis to allow for any unforeseen events, which might arise towards the end of an accounting period. Phasing of dividends would also take account of the volatility of the Bank's profits.

Foreign exchange exposures

Structural foreign exchange exposures represent net assets or capital investments in subsidiaries, branches or the fair value of the Group's long-term foreign currency equity investments, the functional currencies of which are currencies other than the HK dollar. An entity's functional currency is normally that of the primary economic environment in which the entity operates. The Group's structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that the Group's consolidated capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates.

Exchange differences on structural exposures are recognised in 'Other comprehensive income'. The Group uses Hong Kong dollar as our presentation currency in our consolidated financial statements. Therefore, our consolidated balance sheet is affected by exchange differences between Hong Kong dollar and all the non-Hong Kong dollar functional currencies of underlying subsidiaries.

The Group's foreign exchange exposures are prepared in accordance with the HKMA 'Return of Foreign Currency Position -(MA(BS)6)'.

For details of the Group's structural and non-structural foreign currency positions, please refer to the 'Banking Disclosure Statement' that is available in the Regulatory Disclosures section of the Bank's website.

Liquidity and funding risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time.

The Group has an internal liquidity and funding risk management framework which aims to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations.

There is no material change to the policies and practices for the management of liquidity and funding risk in the first half of 2022.

A summary of the Group's current policies and practices for the management of liquidity and funding risk is set out in 'Liquidity and funding risk' section on pages 96 to 101 of the Annual Report 2021.

***(b) Treasury Risk** (continued)*

Liquidity and funding risk *(continued)*

Liquidity information

The Group is required to calculate its Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR') on a consolidated basis in accordance with rule 11 (1) of The Banking (Liquidity) Rules ('BLR') and to maintain both LCR and NSFR of not less than 100%.

The average LCRs for the reportable periods are as follows:

	Quarter ended 30 June 2022	***Quarter ended 31 March 2022***	*Quarter ended 30 June 2021*	*Quarter ended 31 March 2021*
Average LCR	**206.8%**	**188.9%**	214.4%	204.0%

The liquidity position of the Group remained strong for the first half of 2022. The average LCR were 206.8% and 188.9% for the quarters ended 30 June and 31 March 2022 respectively, compared with 214.4% and 204.0% for the quarters ended 30 June and 31 March 2021 respectively.

The composition of the Group's high quality liquid assets ('HQLA') as defined under Schedule 2 of the BLR is shown as below. The majority of the HQLA held by the Group are Level 1 assets which consist mainly of government debt securities.

	Weighted amount (average value) at quarter ended			
	30 June 2022	***31 March 2022***	*30 June 2021*	*31 March 2021*
Level 1 assets	**353,034**	**344,686**	355,092	377,648
Level 2A assets	**15,579**	**17,109**	15,464	14,301
Level 2B assets	**3,742**	**3,099**	3,073	2,169
Total weighted amount of HQLA	**372,355**	**364,894**	373,629	394,118

The NSFRs at the reportable quarter-end are as follows:

	Quarter ended 30 June 2022	***Quarter ended 31 March 2022***	*Quarter ended 30 June 2021*	*Quarter ended 31 March 2021*
NSFR	**155.0%**	**151.3%**	146.6%	150.5%

The funding position of the Group remained strong for the first half of 2022. The period end NSFR were 155.0% and 151.3% for the quarters ended 30 June and 31 March 2022 respectively, compared with 146.6% and 150.5% for the quarters ended 30 June and 31 March 2021 respectively.

Sources of funding

Our primary sources of funding are customer deposits. We issue wholesale securities to supplement our customer deposits and change the currency mix or maturity profile of our liabilities.

(b) Treasury Risk *(continued)*

Liquidity and funding risk *(continued)*

Additional collateral obligations

Most of the Group's derivative transactions are exchange rate contracts and interest rate contracts. Under the terms of our current collateral obligations under derivative contracts (which are ISDA compliant CSA contracts), in the event of one-notch and two-notch downgrade in credit ratings, the additional collateral required is nil.

To comply with the Banking (Disclosure) Rules, the details of liquidity information can be found in the Regulatory Disclosures section of our website www.hangseng.com.

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or held in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to the Markets Treasury business. Hedging is generally executed through interest rate derivatives or fixed-rate government bonds. Any interest rate risk that Markets Treasury cannot economically hedge is not transferred and will remain within the global business where the risks originate.

There were no material changes to the policies and practices for the management of interest rate risk in the banking book in the first half of 2022.

A summary of the Group's current policies and practices for the management of interest rate risk in the banking book is set out in 'Interest Rate Risk in the Banking Book' section on pages 101 to 103 of the Annual Report 2021.

(c) Market Risk

Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce our income or the value of our portfolios.

A summary of the Group's current policies and practices for the management of market risk is set out in 'Market Risk' section on pages 103 to 107 of the Annual Report 2021.

Market risk in the first half of 2022

There were no material changes to the Group's policies and practices for the management of market risk in the first half of 2022.

Rising recession risks and concerns over high inflation were the dominant macro market themes during 1H 2022. Heightened geopolitical risks from the conflict in Ukraine and continued Covid-19 pandemic restrictions in Asia led to supply chain disruptions resulting in higher energy, commodity and food prices. Majority of Asian central banks are stepping up in tightening monetary policies at a much faster pace than anticipated in order to counter rising inflation. Bond markets sold off sharply with rapid rise of yield curves to multi-year highs. Market sentiment in credit markets were much weaker from credit spread widening for both investment-grade and high-yield debts towards the widest level since the start of the Covid-19 pandemic. Particularly Chinese real estate sector remained weak amid increasing number of credit rating downgrades and defaults, fuelled further from China's growth concern. Recession risks and tightening liquidity conditions led to moderate selloffs in global equity markets. FX markets performance was dominated by the US Dollar strengthening due to global geopolitical instability and the US Federal Reserve monetary tightening pace.

The Group continued to manage market risk prudently in the first half of 2022. Sensitivity exposures and VaR mostly remained within risk appetite as the business pursue its core market-making activity in support of our customers. Market risk was managed using complementary set of risk measures and limits including stress test and scenario analysis.

(c) Market risk *(continued)*

Trading portfolios

VaR of the trading portfolios

Trading VaR predominantly resides within Global Markets. Interest rate risks were the main drivers of trading VaR. The VaR for trading activity on 30 June 2022 was steady comparing to that on 30 June 2021, mainly driven by interest rate trading portfolio.

The table below shows the Group's trading VaR for the following periods.

Trading

	At 30 June 2022	*Minimum during the first half of 2022*	*Maximum during the first half of 2022*	*Average for the first half of 2022*
VaR				
Trading	**34**	**23**	**42**	**32**
Foreign exchange trading	**3**	**1**	**13**	**3**
Interest rate trading	**35**	**26**	**42**	**33**
Portfolio diversification	**(4)**	**–**	**–**	**(4)**
Stressed VaR				
Trading	**265**	**153**	**376**	**274**
Foreign exchange trading	**16**	**14**	**47**	**27**
Interest rate trading	**254**	**164**	**369**	**268**
Portfolio diversification	**(5)**	**–**	**–**	**(21)**

	At 30 June 2021	*Minimum during the first half of 2021*	*Maximum during the first half of 2021*	*Average for the first half of 2021*
VaR				
Trading	33	33	55	44
Foreign exchange trading	19	17	25	22
Interest rate trading	32	27	50	36
Portfolio diversification	(18)	–	–	(14)
Stressed VaR				
Trading	247	176	372	248
Foreign exchange trading	57	57	135	87
Interest rate trading	280	144	430	252
Portfolio diversification	(90)	–	–	(91)

(c) ***Market risk*** *(continued)*

Equities exposures

The Group's equities exposures are reported as 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss', 'Financial investments' and 'Trading assets' in the condensed consolidated financial statements. These are subject to trading limit and risk management control procedures and other market risk regime.

(d) Insurance manufacturing operation risk

Overview

Insurance risk is the risk that, over time, the cost of insurance policies written, including claims and benefits, may exceed the total amount of premiums and investment income received. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapses and surrender rates.

The majority of the risk in our insurance business derives from manufacturing activities and can be categorised as financial risk and insurance risk. Financial risks include market risk, credit risk and liquidity risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to our insurance subsidiary, Hang Seng Insurance Company Limited ('HSIC').

A summary of our policies and practices regarding the risk management of insurance operation, our insurance model and the main contracts we manufacture is provided on pages 112 to 119 of the Annual Report 2021.

There have been no material changes to the policies and practices for the management of risks arising in our insurance operation described in the Annual Report 2021.

Insurance manufacturing operation risk profile in the first half of 2022

The risk profile of our insurance manufacturing businesses is measured using an economic capital ('EC') approach. Assets and liabilities are measured on a market value basis, and a capital requirement is defined to ensure that there is a less than one in 200 chance of insolvency over a one-year time horizon, given the risks to which the businesses are exposed to. The methodology for the economic capital calculation is largely aligned to the pan-European Solvency II insurance capital regulations. A key risk appetite metric is the economic coverage ratio, which is calculated by dividing the economic net asset value by the economic capital requirement.

Our insurance subsidiary, HSIC, manages the economic capital coverage ratio against its appetite and tolerance as approved by its Board.

(d) Insurance manufacturing operation risk (continued)

Insurance manufacturing operation risk profile in the first half of 2022 *(continued)*

The following table shows the composition of assets and liabilities by type of contract:

Balance sheet of insurance manufacturing operation by type of contract

	Linked contracts[1]	*Non-linked contracts*[1]	*Other assets and liabilities*[2]	*Total*
30 June 2022				
Financial assets:				
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	144	27,732	–	27,876
– derivative financial instruments	–	350	–	350
– financial investments	–	133,689	3,874	137,563
– other financial assets	46	11,923	828	12,797
Total financial assets	190	173,694	4,702	178,586
Reinsurers' share of liabilities under insurance contracts	–	6,173	–	6,173
Present value of in-force long-term insurance contracts	–	–	23,698	23,698
Other assets	–	6,113	1,230	7,343
Total assets	190	185,980	29,630	215,800
Liabilities under investment contracts designated at fair value	93	257	–	350
Liabilities under insurance contracts	59	163,252	–	163,311
Deferred tax	–	9	3,775	3,784
Derivative financial instruments	–	430	3	433
Other liabilities	–	–	13,373	13,373
Total liabilities	152	163,948	17,151	181,251
Shareholders' equity	–	–	34,549	34,549
Total liabilities and shareholders' equity	152	163,948	51,700	215,800

1 *Comprises life insurance contracts and investment contracts*

2 *Comprises shareholders' assets and liabilities*

(d) Insurance manufacturing operation risk *(continued)*

Insurance manufacturing operation risk profile in the first half of 2022 *(continued)*

Balance sheet of insurance manufacturing operation by type of contract *(continued)*

	Linked contracts[1]	Non-linked contracts[1]	Other assets and liabilities[2]	Total
31 December 2021				
Financial assets:				
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	180	31,043	–	31,223
– derivative financial instruments	–	411	–	411
– financial investments	–	123,381	6,126	129,507
– other financial assets	46	9,786	571	10,403
Total financial assets	226	164,621	6,697	171,544
Reinsurers' share of liabilities under insurance contracts	–	5,848	–	5,848
Present value of in-force long-term insurance contracts	–	–	22,363	22,363
Other assets	–	6,291	1,298	7,589
Total assets	226	176,760	30,358	207,344
Liabilities under investment contracts designated at fair value	114	269	–	383
Liabilities under insurance contracts	71	154,480	–	154,551
Deferred tax	–	9	3,755	3,764
Derivative financial instruments	–	286	–	286
Other liabilities	–	–	13,960	13,960
Total liabilities	185	155,044	17,715	172,944
Shareholders' equity	–	–	34,400	34,400
Total liabilities and shareholders' equity	185	155,044	52,115	207,344

1 *Comprises life insurance contracts and investment contracts*

2 *Comprises shareholders' assets and liabilities*

Market risk (insurance)

Description and exposure

Market risk is the risk of changes in market factors affecting the Group's capital or profit. Market factors include interest rates, equity and growth assets, spread risk and foreign exchange rates.

Our exposure varies depending on the type of contract issued. Our most significant life insurance products are contracts with discretionary participating features ('DPF') issued in Hong Kong. These products typically include some form of capital guarantee or guaranteed return, on the sums invested by the policyholders, to which discretionary bonuses are added if allowed by the overall performance of the funds. These funds are primarily invested in bonds with a proportion allocated to other asset classes, to provide customers with the potential for enhanced returns.

DPF products expose the Group to the risk of variation in asset returns, which will impact our participation in the investment performance. In addition, in some scenarios the asset returns can become insufficient to cover the policyholders' financial guarantees, in which case the shortfall has to be met by the Group. Allowances are made against the cost of such guarantees, calculated by stochastic modelling.

(d) Insurance manufacturing operation risk *(continued)*

Market risk (insurance) *(continued)*

Description and exposure (continued)

For unit-linked contracts, market risk is substantially borne by the policyholders, but some market risk exposure typically remains as fees earned are related to the market value of the linked assets.

The following table illustrates the effects of selected interest rate, equity price and foreign exchange rate scenarios on our profit for the period and the total shareholders' equity of our insurance manufacturing operation.

	30 June 2022	*31 December 2021*
	Impact on profit after tax and shareholders' equity	*Impact on profit after tax and shareholders' equity*
+ 100 basis points shift in yield curves	**(625)**	(675)
– 100 basis points shift in yield curves	**666**	725
10% increase in equity prices	**506**	551
10% decrease in equity prices	**(494)**	(533)
10% increase in USD exchange rate compared to all currencies	**88**	76
10% decrease in USD exchange rate compared to all currencies	**(88)**	(76)

Where appropriate, the effects of the sensitivity tests on profit after tax and total equity incorporate the impact of the stress on the PVIF. The relationship between the profit and total equity and the risk factors is non-linear and nonsymmetrical, therefore the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. The sensitivities reflect the established risk sharing mechanism with policyholders for participating products, and are stated before allowance for management actions which may mitigate the effect of changes in the market environment. The sensitivities presented do not allow for adverse changes in policyholders' behaviour that may arise in response to changes in market rates.

(unaudited)
(Expressed in millions of Hong Kong dollars)

Condensed Consolidated Income Statement

	note	Half-year ended 30 June 2022	Half-year ended 30 June 2021
Interest income calculated using effective interest method		**15,039**	13,945
Interest income – others		**340**	229
Interest income	4	**15,379**	14,174
Interest expense	5	**(3,023)**	(2,291)
Net interest income		**12,356**	11,883
Fee income		**3,860**	4,893
Fee expense		**(1,237)**	(1,184)
Net fee income	6	**2,623**	3,709
Net income/(loss) from financial instruments measured at fair value through profit or loss	7	**(1,070)**	2,685
Gains less losses from financial investments	8	**34**	148
Dividend income	9	**25**	5
Net insurance premium income		**12,008**	6,798
Other operating income	10	**1,558**	405
Total operating income		**27,534**	25,633
Net insurance claims and benefits paid and movement in liabilities to policyholders		**(12,590)**	(8,307)
Net operating income before change in expected credit losses and other credit impairment charges		**14,944**	17,326
Change in expected credit losses and other credit impairment charges	11	**(2,096)**	(339)
Net operating income		**12,848**	16,987
Employee compensation and benefits		**(3,216)**	(3,165)
General and administrative expenses		**(2,766)**	(2,349)
Depreciation expenses		**(1,009)**	(1,030)
Amortisation of intangible assets		**(322)**	(210)
Operating expenses	12	**(7,313)**	(6,754)
Impairment loss on intangible assets		**(2)**	(10)
Operating profit		**5,533**	10,223
Net surplus/(deficit) on property revaluation		**(59)**	39
Share of profits/(losses) of associates		**(35)**	36
Profit before tax		**5,439**	10,298
Tax expense	13	**(743)**	(1,537)
Profit for the period		**4,696**	8,761
Profit attributable to:			
Shareholders of the Bank		**4,704**	8,767
Non-controlling interests		**(8)**	(6)
(Figures in HK$)			
Earnings per share – basic and diluted	14	**2.31**	4.44

Details of dividends payable to shareholders of the Bank attributable to the profit for the period are set out in note 15.

The notes on pages 64 to 95 form part of these Condensed Consolidated Financial Statements.

(Expressed in millions of Hong Kong dollars)

Condensed Consolidated Statement of Comprehensive Income

	Half-year ended 30 June 2022	*Half-year ended 30 June 2021*
Profit for the period	**4,696**	8,761
Other comprehensive income		
Items that will be reclassified subsequently to the Condensed Consolidated Income Statement when specific conditions are met:		
Debt instruments at fair value through other comprehensive income ('FVOCI'):		
– fair value losses taken to equity	**(1,595)**	(729)
– fair value losses/(gains) transferred to the Condensed Consolidated Income Statement:		
– on hedged items	**362**	491
– on disposal	**(42)**	(87)
– release of expected credit losses recognised in the Condensed Consolidated Income Statement	**(1)**	–
– deferred taxes	**178**	6
– exchange differences	**230**	254
Cash flow hedge reserve:		
– fair value gains taken to equity	**2,477**	1,519
– fair value gains transferred to the Condensed Consolidated Income Statement	**(3,188)**	(1,625)
– deferred taxes	**117**	18
Exchange differences on translation of:		
– financial statements of overseas branches, subsidiaries and associates	**(737)**	198
Items that will not be reclassified subsequently to the Condensed 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 taken to equity	**2**	–
Equity instruments designated at fair value through other comprehensive income:		
– fair value gains/(losses) taken to equity	**773**	(1,427)
– exchange differences	**(221)**	88
Premises:		
– unrealised surplus on revaluation of premises	**319**	648
– deferred taxes	**(54)**	(109)
– exchange differences	**(14)**	4
Defined benefit plans:		
– actuarial (losses)/gains on defined benefit plans	**(98)**	369
– deferred taxes	**16**	(61)
Exchange differences and others	**(4)**	(4)
Other comprehensive income for the period, net of tax	**(1,480)**	(447)
Total comprehensive income for the period	**3,216**	8,314
Total comprehensive income for the period attributable to:		
– shareholders of the Bank	**3,224**	8,320
– non-controlling interests	**(8)**	(6)
	3,216	8,314

The notes on pages 64 to 95 form part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Balance Sheet

	note	At 30 June 2022	At 31 December 2021
ASSETS			
Cash and balances at central banks	17	**10,878**	16,896
Trading assets	18	**45,880**	47,433
Derivative financial instruments	19	**19,697**	13,224
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	20	**28,009**	31,326
Reverse repurchase agreements – non-trading		**21,906**	18,821
Placings with and advances to banks	21	**69,983**	72,493
Loans and advances to customers	22	**983,218**	997,397
Financial investments	23	**551,478**	500,386
Interest in associates	24	**2,263**	2,341
Investment properties	25	**10,046**	9,545
Premises, plant and equipment	25	**30,002**	31,205
Intangible assets	26	**27,198**	25,486
Other assets	27	**46,356**	53,632
Total assets		**1,846,914**	1,820,185
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks		**4,395**	5,333
Current, savings and other deposit accounts	28	**1,228,848**	1,230,216
Repurchase agreements – non-trading		**8,758**	16,592
Trading liabilities	29	**40,094**	44,291
Derivative financial instruments	19	**15,889**	12,252
Financial liabilities designated at fair value	30	**33,731**	27,399
Certificates of deposit and other debt securities in issue	31	**95,788**	81,567
Other liabilities	32	**38,079**	31,179
Liabilities under insurance contracts		**163,311**	154,551
Current tax liabilities		**744**	603
Deferred tax liabilities		**7,211**	7,302
Subordinated liabilities	33	**27,496**	24,484
Total liabilities		**1,664,344**	1,635,769
Equity			
Share capital		**9,658**	9,658
Retained profits		**139,936**	140,100
Other equity instruments	34	**11,744**	11,744
Other reserves		**21,158**	22,830
Total shareholders' equity		**182,496**	184,332
Non-controlling interests		**74**	84
Total equity		**182,570**	184,416
Total equity and liabilities		**1,846,914**	1,820,185

The notes on pages 64 to 95 form part of these Condensed Consolidated Financial Statements.

(Expressed in millions of Hong Kong dollars)

Condensed Consolidated Statement of Changes in Equity

				Other reserves							
	Share capital	Other equity instruments	Retained profits[1]	Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	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 period	–	–	4,704	–	–	–	–	–	4,704	(8)	4,696
Other comprehensive income (net of tax)	–	–	(86)	251	(316)	(594)	(737)	2	(1,480)	–	(1,480)
Debt instruments at fair value through other comprehensive income	–	–	–	–	(868)	–	–	–	(868)	–	(868)
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	552	–	–	–	552	–	552
Cash flow hedges	–	–	–	–	–	(594)	–	–	(594)	–	(594)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	2	2	–	2
Property revaluation	–	–	–	251	–	–	–	–	251	–	251
Actuarial losses on defined benefit plans	–	–	(82)	–	–	–	–	–	(82)	–	(82)
Exchange differences and others	–	–	(4)	–	–	–	(737)	–	(741)	–	(741)
Total comprehensive income for the period	–	–	4,618	251	(316)	(594)	(737)	2	3,224	(8)	3,216
Dividends paid[3]	–	–	(4,779)	–	–	–	–	–	(4,779)	–	(4,779)
Coupons paid on AT1 capital instruments	–	–	(283)	–	–	–	–	–	(283)	–	(283)
Movement in respect of share-based payment arrangements	–	–	(1)	–	–	–	–	3	2	–	2
Others	–	–	–	–	–	–	–	–	–	(2)	(2)
Transfers[4]	–	–	281	(326)	45	–	–	–	–	–	–
At 30 June 2022	9,658	11,744	139,936	18,353	2,228	(548)	443	682	182,496	74	182,570

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 30 June 2022, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$1,130m (31 December 2021: HK$441m).*

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 interim dividend of 2022 amounted to HK$3,441m and HK$1,338m 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.*

The notes on pages 64 to 95 form part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Changes in Equity *(continued)*

	Share capital	Other equity instruments	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 period	–	–	8,767	–	–	–	–	–	8,767	(6)	8,761
Other comprehensive income (net of tax)	–	–	304	543	(1,404)	(88)	198	–	(447)	–	(447)
Debt instruments at fair value through other comprehensive income	–	–	–	–	(65)	–	–	–	(65)	–	(65)
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	(1,339)	–	–	–	(1,339)	–	(1,339)
Cash flow hedges	–	–	–	–	–	(88)	–	–	(88)	–	(88)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	–	–	–	–
Property revaluation	–	–	–	543	–	–	–	–	543	–	543
Actuarial gains on defined benefit plans	–	–	308	–	–	–	–	–	308	–	308
Exchange differences and others	–	–	(4)	–	–	–	198	–	194	–	194
Total comprehensive income for the period	–	–	9,071	543	(1,404)	(88)	198	–	8,320	(6)	8,314
Dividends paid	–	–	(7,456)	–	–	–	–	–	(7,456)	–	(7,456)
Coupons paid on AT1 capital instruments	–	–	(280)	–	–	–	–	–	(280)	–	(280)
Movement in respect of share-based payment arrangements	–	–	(3)	–	–	–	–	(4)	(7)	–	(7)
Others	–	–	–	–	–	–	–	–	–	1	1
Transfers	–	–	310	(310)	–	–	–	–	–	–	–
At 30 June 2021	9,658	11,744	139,222	18,193	3,153	172	856	679	183,677	90	183,767
At 1 July 2021	9,658	11,744	139,222	18,193	3,153	172	856	679	183,677	90	183,767
Profit for the period	–	–	5,193	–	–	–	–	–	5,193	(8)	5,185
Other comprehensive income (net of tax)	–	–	(13)	556	(654)	(126)	324	3	90	–	90
Debt instruments at fair value through other comprehensive income	–	–	–	–	(205)	–	–	–	(205)	–	(205)
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	(449)	–	–	–	(449)	–	(449)
Cash flow hedges	–	–	–	–	–	(126)	–	–	(126)	–	(126)
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	–	–	–	556	–	–	–	–	556	–	556
Actuarial losses on defined benefit plans	–	–	(14)	–	–	–	–	–	(14)	–	(14)
Exchange differences and others	–	–	1	–	–	–	324	–	325	–	325
Total comprehensive income for the period	–	–	5,180	556	(654)	(126)	324	3	5,283	(8)	5,275
Dividends paid	–	–	(4,206)	–	–	–	–	–	(4,206)	–	(4,206)
Coupons paid on AT1 capital instruments	–	–	(423)	–	–	–	–	–	(423)	–	(423)
Movement in respect of share-based payment arrangements	–	–	6	–	–	–	–	(5)	1	–	1
Others	–	–	–	–	–	–	–	–	–	2	2
Transfers	–	–	321	(321)	–	–	–	–	–	–	–
At 31 December 2021	9,658	11,744	140,100	18,428	2,499	46	1,180	677	184,332	84	184,416

The notes on pages 64 to 95 form part of these Condensed Consolidated Financial Statements.

(Expressed in millions of Hong Kong dollars)

Condensed Consolidated Cash Flow Statement

	Half-year ended 30 June 2022	*Half-year ended 30 June 2021*
Profit before tax	**5,439**	10,298
Adjustments for non-cash items:		
Depreciation and amortisation	**1,331**	1,240
Net interest income	**(12,356)**	(11,883)
Dividend income	**(25)**	(5)
Gains less losses from financial investments	**(34)**	(148)
Share of (profits)/losses in associates	**35**	(36)
Net (surplus)/deficit on property revaluation	**59**	(39)
Change in expected credit losses and other credit impairment charges	**2,096**	339
Impairment loss on intangible assets	**2**	10
Loans and advances written off net of recoveries	**(259)**	(341)
Movement in present value of in-force long-term insurance business ('PVIF')	**(1,335)**	(131)
Interest received	**15,187**	13,958
Interest paid	**(2,642)**	(2,241)
Elimination of exchange differences and other non-cash items	**8,641**	2,536
Changes in operating assets and liabilities		
Change in trading assets	**1,553**	4,818
Change in derivative financial instruments	**(2,836)**	(3,885)
Change in financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**3,317**	(5,088)
Change in reverse repurchase agreements – non-trading maturing after one month	**(3,632)**	2,917
Change in placings with and advances to banks maturing after one month	**2,638**	(21,759)
Change in loans and advances to customers	**11,829**	(70,447)
Change in other assets	**(1,561)**	4,560
Change in repurchase agreements – non-trading	**(7,834)**	14,135
Change in deposits from banks	**(938)**	9,253
Change in current, savings and other deposit accounts	**(1,368)**	(19,034)
Change in trading liabilities	**(4,197)**	(3,443)
Change in financial liabilities designated at fair value	**6,332**	3,279
Change in certificates of deposit and other debt securities in issue	**14,221**	16,918
Change in other liabilities	**5,586**	(620)
Change in liabilities under insurance contracts	**8,760**	5,795
Dividends received from financial investments	**21**	6
Tax paid	**(616)**	(806)
Net cash from operating activities	**47,414**	(49,844)
Purchase of financial investments	**(398,217)**	(361,479)
Proceeds from sale or redemption of financial investments	**336,640**	390,200
Purchase of property, plant and equipment and intangible assets (excluding PVIF)	**(848)**	(854)
Net cash inflow from the sales of loan portfolio	**601**	1,812
Net cash from investing activities	**(61,824)**	29,679
Interest paid for subordinated liabilities	**(216)**	(172)
Principal and interest elements of lease payments	**(284)**	(297)
Dividends paid	**(4,779)**	(7,456)
Coupons paid on AT1 capital instruments	**(283)**	(280)
Proceeds from issuance of subordinated liabilities	**3,000**	–
Net cash from financing activities	**(2,562)**	(8,205)
Net decrease in cash and cash equivalents	**(16,972)**	(28,370)
Cash and cash equivalents at 1 January	**111,134**	109,615
Exchange differences in respect of cash and cash equivalents	**(2,071)**	(365)
Cash and cash equivalents at 30 June	**92,091**	80,880

The notes on pages 64 to 95 form part of these Condensed Consolidated Financial Statements.

Condensed Consolidated Cash Flow Statement *(continued)*

	Half-year ended 30 June 2022	*Half-year ended 30 June 2021*
Cash and cash equivalents comprise[1]:		
– cash and balances at central banks	**10,878**	12,283
– balances with banks	**11,586**	6,376
– items in the course of collection from other banks	**4,246**	7,491
– placings with and advances to banks maturing within one month	**31,823**	25,833
– reverse repurchase agreements with banks maturing within one month	**10,127**	8,699
– treasury bills	**26,950**	31,143
– net settlement accounts with banks and cash collateral to banks within one month	**2,739**	15,521
– less: items in the course of transmission to other banks	**(6,258)**	(26,466)
	92,091	80,880

1 *At 30 June 2022, the amount of cash and cash equivalents that was not available for use by the Group was HK$10,135m (30 June 2021: HK$13,333m), of which HK$7,425m (30 June 2021: HK$10,009m) was related to mandatory deposits at central banks.*

The notes on pages 64 to 95 form part of these Condensed Consolidated Financial Statements.

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

1 Basis of preparation

The Condensed Consolidated Financial Statements of Hang Seng Bank Limited ('the Bank') and all its subsidiaries ('the Group') have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard ('HKAS') 34, *'Interim Financial Reporting'*, issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). The Condensed Consolidated Financial Statements were reviewed by the Audit Committee. The Board of Directors of the Bank has approved the Condensed Consolidated Financial Statements on 1 August 2022.

The Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standard ('HKFRS').

The preparation of the Condensed Consolidated Financial Statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing the Condensed Consolidated Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2021, except those mentioned in 'Use of estimates and judgments' in note 2.

The following disclosures in the Risk section form an integral part of the Condensed Consolidated Financial Statements:

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

– Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution.

In accordance with the Group's policy to provide disclosures that help stakeholders to understand the Group's performance, financial position and changes thereto, the information provided in the Notes on the Condensed Consolidated Financial Statements and the risk disclosures in the Risk section goes beyond the minimum levels required by accounting standards, statutory and regulatory requirements.

The Condensed Consolidated Financial Statements are unaudited, but has been reviewed by PricewaterhouseCoopers ('PwC') in accordance with Hong Kong Standard on Review Engagements 2410, *'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'*, issued by HKICPA. PwC's independent review report to the Board of Directors is included on page 96.

2 Accounting policies

Except as described below, the accounting policies applied in preparing this Condensed Consolidated Financial Statements are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2021, as disclosed in the Annual Report 2021.

Standards applied during the half-year ended 30 June 2022

There were no new standards or amendments to standards that had a material effect on these Condensed Consolidated Financial Statements.

Future accounting developments

HKFRS 17 *'Insurance Contracts'* was issued in January 2018 with amendments to the standard issued in October 2020 and February 2022. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, HKFRS 17 is effective from 1 January 2023. The Group is in the process of implementing HKFRS 17. Industry practice and interpretation of the standard is still developing. Therefore, the likely financial impact of its implementation remains uncertain. However, the estimated impact compared with the Group's current accounting policy for insurance contracts, which is set out below:

- Under HKFRS 17, there will be no present value of in-force business ('PVIF') asset recognised. Instead, the estimated future profit will be included in the measurement of the insurance contract liability as the contractual service margin ('CSM') and this will be gradually recognised in revenue as services are provided over the duration of the insurance contract. While the profit over the life of an individual contract will be unchanged, its emergence will be later under HKFRS 17. The removal of PVIF asset and the recognition of CSM will reduce equity. The PVIF asset will be eliminated to equity on transition, together with other adjustments to assets and liabilities to reflect HKFRS 17 measurement requirements and any consequential amendments to financial assets in the scope of HKFRS 9;

- HKFRS 17 requires increased use of current market values in the measurement of insurance liabilities. Changes in market conditions for certain products measured under the General Measurement Approach are immediately recognised in profit or loss, while changes in market conditions for other products measured under the Variable Fee Approach are included in the measurement of CSM;

- In accordance with HKFRS 17, directly attributable costs will be incorporated in the CSM and recognised in the results of insurance services as a reduction in reported revenue, as profit is recognised over the duration of insurance contracts. Costs that are not directly attributable will remain in operating expenses. This may result in a reduction in operating expenses compared to the current accounting policy;

- We will provide an update on the likely financial impacts on our insurance business in later 2022 Annual Report, when we expect that this will be reasonably estimable.

Use of estimates and judgements

Management believes that the Group's critical accounting estimates and judgements are those which related to impairment of amortised cost and fair value through other comprehensive income ('FVOCI') debt financial assets, the valuation of financial instruments, the provisions for liabilities, interest in associates and the PVIF. There was no major change in the current period to the critical accounting estimates and judgements applied in 2021, which are stated in note 1 of the Annual Report 2021.

3 Basis of consolidation

These Condensed Consolidated Financial Statements cover the consolidated position of the Group, unless otherwise stated, and include the attributable share of the results and reserves of its associates. For regulatory reporting, the basis of consolidation is different from the basis of consolidation for accounting purposes. They are disclosed under the 'Risk' section.

4 Interest income

	Half-year ended 30 June 2022	*Half-year ended 30 June 2021*
Interest income arising from:		
– financial assets that are not at fair value through profit or loss	**15,039**	13,945
– trading assets	**340**	213
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**–**	16
	15,379	14,174
of which:		
– interest income from impaired financial assets	**127**	18

5 Interest expense

	Half-year ended 30 June 2022	*Half-year ended 30 June 2021*
Interest expense arising from:		
– financial liabilities that are not at fair value through profit or loss	**2,216**	1,602
– trading liabilities	**275**	156
– financial liabilities designated at fair value	**532**	533
	3,023	2,291
of which:		
– interest expense from subordinated liabilities	**231**	169

6 Net fee income

	Half-year ended 30 June 2022	Half-year ended 30 June 2021
– securities broking and related services	**758**	1,225
– retail investment funds	**537**	903
– insurance	**251**	264
– account services	**194**	185
– remittances	**135**	128
– cards	**1,181**	1,250
– credit facilities	**289**	429
– imports/exports	**196**	183
– other	**319**	326
Fee income	**3,860**	4,893
Fee expense	**(1,237)**	(1,184)
	2,623	3,709
of which:		
Net fee income on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	**799**	988
– fee income	**1,884**	2,044
– fee expense	**(1,085)**	(1,056)
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**339**	528
– fee income	**407**	580
– fee expense	**(68)**	(52)

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

	Half-year ended 30 June 2022	Half-year ended 30 June 2021
Net trading income	**1,124**	914
– trading income	**1,136**	919
– other trading expense from ineffective fair value hedges	**(12)**	(5)
Net income/(expense) from financial instruments designated at fair value through profit or loss	**(298)**	(50)
Net income/(expense) from assets and liabilities of insurance businesses measured at fair value through profit or loss	**(1,909)**	1,821
– financial assets held to meet liabilities under insurance and investment contracts	**(1,916)**	1,834
– liabilities to customers under investment contracts	**7**	(13)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**13**	–
	(1,070)	2,685

8 Gains less losses from financial investments

	Half-year ended 30 June 2022	*Half-year ended 30 June 2021*
Net gains/(losses) from disposal of debt securities measured at amortised cost	**(8)**	61
Net gains/(losses) from disposal of debt securities measured at fair value through other comprehensive income	**42**	87
	34	148

9 Dividend income

	Half-year ended 30 June 2022	*Half-year ended 30 June 2021*
Dividend income:		
– listed investments	**–**	–
– unlisted investments	**25**	5
	25	5

10 Other operating income

	Half-year ended 30 June 2022	*Half-year ended 30 June 2021*
Rental income from investment properties	**132**	132
Movement in present value of in-force long-term insurance business	**1,335**	131
Net gains/(losses) from disposal of fixed assets	**(3)**	(10)
Net gains/(losses) from the derecognition of loans and advances to customers measured at amortised cost	**1**	6
Others	**93**	146
	1,558	405

11 Change in expected credit losses and other credit impairment charges

	Half-year ended 30 June 2022	*Half-year ended 30 June 2021*
Loans and advances to banks and customers	**2,170**	319
– new allowances net of allowance releases	**2,059**	372
– recoveries of amounts previously written off	**(49)**	(78)
– other movements	**160**	25
Loan commitments and guarantees	**(78)**	(84)
Other financial assets	**4**	104
	2,096	339

12 Operating expenses

	Half-year ended 30 June 2022	*Half-year ended 30 June 2021*
Employee compensation and benefits:		
– salaries and other costs	**2,964**	2,917
– retirement benefit costs		
– defined benefit scheme	**74**	84
– defined contribution scheme	**178**	164
	3,216	3,165
General and administrative expenses:		
– rental expenses	**12**	6
– other premises and equipment	**964**	856
– marketing and advertising expenses	**195**	131
– other operating expenses	**1,595**	1,356
	2,766	2,349
Depreciation of premises, plant and equipment (note 25)	**745**	744
Depreciation of right-of-use assets	**264**	286
Amortisation of intangible assets	**322**	210
	7,313	6,754

13 Tax expense

Taxation in the Condensed Consolidated Income Statement represents:

	Half-year ended 30 June 2022	*Half-year ended 30 June 2021*
Current tax – provision for Hong Kong profits tax		
– Tax for the period	**651**	1,406
– Adjustment in respect of prior periods	**–**	2
Current tax – taxation outside Hong Kong		
– Tax for the period	**118**	45
– Adjustment in respect of prior periods	**–**	(7)
Deferred tax		
– Origination and reversal of temporary differences	**(26)**	91
Total tax expense	**743**	1,537

The current tax provision is based on the estimated assessable profit for the first half of 2022, and is determined for the Bank and its subsidiaries operating in the Hong Kong SAR by using the Hong Kong profits tax rate of 16.5 per cent (2021: 16.5 per cent). 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.

14 Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share for the first half of 2022 is based on earnings of HK$4,421m (HK$8,487m for the first half of 2021), 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).

15 Dividends/Distributions

(a) Dividends to ordinary shareholders

	Half-year ended 30 June 2022		*Half-year ended 30 June 2021*	
	per share HK$	***HK$m***	*per share HK$*	*HK$m*
First interim	**0.70**	**1,338**	1.10	2,103
Second interim	**0.70**	**1,338**	1.10	2,103
	1.40	**2,676**	2.20	4,206

On 1 August 2022, the Directors of the Bank declared a second interim dividend in respect of the year ending 31 December 2022 of HK$0.70 per ordinary share (HK$1,338m). This distribution will be paid on 1 September 2022. No liability is recognised in the Condensed Consolidated Financial Statements in respect of this dividend.

(b) Distributions to holders of AT1 capital instruments classified as equity

	Half-year ended 30 June 2022	*Half-year ended 30 June 2021*
US$600 million fixed to floating rate perpetual capital instrument (coupon rate at 6.0 per cent and then three-month US dollar LIBOR plus 4.06 per cent from the first call date)	**283**	280
	283	280

16 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 four reportable segments.

– **Wealth and Personal Banking** offers a broad range of products and services to meet the personal banking, consumer lending and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, time deposits, mortgages and personal loans, credit cards, insurance, investment and other wealth management services;

– **Commercial Banking** offers a comprehensive suite of products and services to corporate, commercial and small and medium-sized enterprises ('SME') customers – including corporate lending, trade and receivable finance, payments and cash management, treasury and foreign exchange, general insurance, key-person insurance, investment services and corporate wealth management;

– **Global Banking and Markets** provides tailored financial solutions to major corporate and institutional clients. Undertaking a long-term relationships management approach, its services include general banking, corporate lending, interest rates, foreign exchange, money markets, structured products and derivatives, etc. Global Banking and Markets also manages the funding and liquidity positions of the Bank and other market risk positions arising from banking activities;

– **Other** mainly represents the Bank's holdings of premises, investment properties, equity shares and subordinated debt funding as well as central support and functional costs with associated recoveries.

(a) Segmental result

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

16 Segmental analysis *(continued)*

(a) *Segmental result* *(continued)*

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Other[1, 3]	Total
Half-year ended 30 June 2022					
Net interest income/(expense)	6,777	3,579	2,158	(158)	12,356
Net fee income	1,606	693	162	162	2,623
Net income/(loss) from financial instruments measured at fair value through profit or loss	(1,776)	92	472	142	(1,070)
Gains less losses from financial investments	(8)	–	42	–	34
Dividend income	–	–	–	25	25
Net insurance premium income	10,687	1,321	–	–	12,008
Other operating income/(loss)	1,299	138	2	119	1,558
Total operating income	18,585	5,823	2,836	290	27,534
Net insurance claims and benefits paid and movement in liabilities to policyholders	(11,207)	(1,383)	–	–	(12,590)
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	7,378	4,440	2,836	290	14,944
– of which: – external	*6,226*	*4,623*	*3,994*	*101*	*14,944*
– inter-segment	*1,152*	*(183)*	*(1,158)*	*189*	*–*
Change in expected credit losses and other credit impairment charges	(298)	(1,440)	(358)	–	(2,096)
Net operating income/(loss)	7,080	3,000	2,478	290	12,848
Operating expenses*	(4,524)	(1,719)	(663)	(407)	(7,313)
Impairment loss on intangible assets	–	–	–	(2)	(2)
Operating profit/(loss)	2,556	1,281	1,815	(119)	5,533
Net surplus/(deficit) on property revaluation	–	–	–	(59)	(59)
Share of profits/(losses) of associates	(35)	–	–	–	(35)
Profit/(loss) before tax	2,521	1,281	1,815	(178)	5,439
Share of profit/(loss) before tax	46.3%	23.6%	33.4%	(3.3)%	100.0%
** Depreciation/amortisation included in operating expenses*	(400)	(5)	(2)	(924)	(1,331)
At 30 June 2022					
Total assets	601,890	406,274	835,307	3,443	1,846,914
of which: Gross loans and advances to customers	375,771	389,461	226,664	–	991,896
Total liabilities	1,063,103	349,268	246,488	5,485	1,664,344
of which: Customer deposits[2]	895,195	326,955	144,019	(8,152)	1,358,017
Interest in associates	2,263	–	–	–	2,263

16 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Other[1, 3]	Total
Half-year ended 30 June 2022					
– securities broking and related services	695	59	4	–	758
– retail investment funds	528	9	–	–	537
– insurance	168	42	41	–	251
– account services	124	66	4	–	194
– remittances	22	96	17	–	135
– cards	1,168	13	–	–	1,181
– credit facilities	8	191	90	–	289
– imports/exports	–	173	23	–	196
– other	61	63	33	162	319
Fee income	2,774	712	212	162	3,860
Fee expense	(1,168)	(19)	(50)	–	(1,237)
Net fee income	1,606	693	162	162	2,623

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

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

3 *Including inter-segment elimination, of which total assets amounted to HK$63.4bn (31 December 2021: HK$79.4bn) and total liabilities amounted to HK$53.0bn (31 December 2021: HK$68.7bn).*

16 Segmental analysis *(continued)*

(a) Segmental result *(continued)*

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Other[2, 4]	Total
Half-year ended 30 June 2021 (Re-presented)[1]					
Net interest income/(expense)	6,531	3,495	2,029	(172)	11,883
Net fee income	2,545	859	175	130	3,709
Net income/(loss) from financial instruments measured at fair value through profit or loss	2,051	188	414	32	2,685
Gains less losses from financial investments	57	4	87	–	148
Dividend income	–	–	–	5	5
Net insurance premium income	5,994	804	–	–	6,798
Other operating income/(loss)	274	12	–	119	405
Total operating income/(loss)	17,452	5,362	2,705	114	25,633
Net insurance claims and benefits paid and movement in liabilities to policyholders	(7,557)	(750)	–	–	(8,307)
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	9,895	4,612	2,705	114	17,326
– of which: – external	*9,062*	*4,784*	*3,411*	*69*	*17,326*
– inter-segment	*833*	*(172)*	*(706)*	*45*	*–*
Change in expected credit losses and other credit impairment charges	(226)	(188)	75	–	(339)
Net operating income/(loss)	9,669	4,424	2,780	114	16,987
Operating expenses *	(4,128)	(1,644)	(603)	(379)	(6,754)
Impairment loss on intangible assets	–	–	–	(10)	(10)
Operating profit/(loss)	5,541	2,780	2,177	(275)	10,223
Net surplus/(deficit) on property revaluation	–	–	–	39	39
Share of profits/(losses) of associates	36	–	–	–	36
Profit/(loss) before tax	5,577	2,780	2,177	(236)	10,298
Share of profit/(loss) before tax	54.2%	27.0%	21.1%	(2.3)%	100.0%
** Depreciation/amortisation included in operating expenses*	(410)	(6)	(2)	(822)	(1,240)
At 31 December 2021					
Total assets	593,093	416,717	821,465	(11,090)	1,820,185
of which: Gross loans and advances to customers	375,095	402,067	227,163	–	1,004,325
Total liabilities	1,036,077	352,129	256,574	(9,011)	1,635,769
of which: Customer deposits[3]	874,709	334,003	143,964	(13,876)	1,338,800
Interest in associates	2,341	–	–	–	2,341

16 Segmental analysis *(continued)*

(a) ***Segmental result*** *(continued)*

	Wealth and Personal Banking	*Commercial Banking*	*Global Banking and Markets*	*Other[2, 4]*	*Total*
Half-year ended 30 June 2021					
– securities broking and related services	1,110	99	16	–	1,225
– retail investment funds	885	18	–	–	903
– insurance	176	49	39	–	264
– account services	119	62	4	–	185
– remittances	28	83	17	–	128
– cards	1,239	11	–	–	1,250
– credit facilities	9	313	107	–	429
– imports/exports	–	170	13	–	183
– other	107	66	27	126	326
Fee income	3,673	871	223	126	4,893
Fee expense	(1,128)	(12)	(48)	4	(1,184)
Net fee income	2,545	859	175	130	3,709

1 *Additional information on external/inter-segment of net operating income before change in expected credit losses and other credit impairment charges has been included. Comparative figures have been re-presented to conform with current period's presentation.*

2 *Deposits balances under 'Other' segment mainly related to consolidated elimination of 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.*

4 *Including inter-segment elimination, of which total assets amounted to HK$79.4bn and total liabilities amounted to HK$68.7bn.*

16 Segmental analysis *(continued)*

(b) Information by geographical region

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

	Hong Kong	Mainland China	Others	Inter-region elimination	Total
Half-year ended 30 June 2022					
Total operating income/(loss)	**25,814**	**1,612**	**134**	**(26)**	**27,534**
Profit before tax	**5,287**	**61**	**91**	**–**	**5,439**
At 30 June 2022					
Total assets	**1,726,935**	**160,044**	**24,133**	**(64,198)**	**1,846,914**
Total liabilities	**1,552,528**	**143,663**	**22,581**	**(54,428)**	**1,664,344**
Equity	**174,407**	**16,381**	**1,552**	**(9,770)**	**182,570**
Share capital	**9,658**	**10,501**	**–**	**(10,501)**	**9,658**
Interest in associates	**2,263**	**–**	**–**	**–**	**2,263**
Non-current assets*	**65,654**	**1,550**	**42**	**–**	**67,246**
Half-year ended 30 June 2021					
Total operating income/(loss)	24,007	1,503	139	(16)	25,633
Profit before tax	9,420	786	92	–	10,298
At 31 December 2021					
Total assets	1,697,609	179,392	22,820	(79,636)	1,820,185
Total liabilities	1,521,858	162,429	21,348	(69,866)	1,635,769
Equity	175,751	16,963	1,472	(9,770)	184,416
Share capital	9,658	10,990	–	(10,990)	9,658
Interest in associates	2,341	–	–	–	2,341
Non-current assets*	64,535	1,652	49	–	66,236

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

17 Cash and balances at central banks

	At 30 June 2022	At 31 December 2021
Cash in hand	7,322	7,230
Balances at central banks	3,556	9,666
	10,878	16,896

18 Trading assets

	At 30 June 2022	At 31 December 2021
Treasury bills	17,172	26,004
Other debt securities	28,665	21,388
Debt securities	45,837	47,392
Investment funds/equity shares	43	41
	45,880	47,433

19 Derivative financial instruments

Use of derivatives

The Group transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risk arising from client business, and to manage and hedge the Group's own risks. Derivatives (except for derivatives which are designated as effective hedging instruments) are held for trading. Within the held for trading classification are two types of derivative instruments: those used in sales and trading activities, and those used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. The second category includes derivatives managed in conjunction with financial instruments designated at fair value.

The Group's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels. When entering into derivative transactions, the Group employs the same credit risk management framework to assess and approve potential credit exposures that it uses for traditional lending.

19 Derivative financial instruments *(continued)*

Use of derivatives *(continued)*

The following table shows the notional contract amounts and fair value of assets and liabilities by each class of derivatives.

	Notional contract amount			*Fair value – Assets*			*Fair value – Liabilities*		
	Trading	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*
Foreign exchange	**1,281,310**	**24,048**	**1,305,358**	**9,547**	**2,708**	**12,255**	**8,813**	**77**	**8,890**
Interest rate	**627,703**	**57,006**	**684,709**	**6,630**	**351**	**6,981**	**6,327**	**303**	**6,630**
Equity and other	**21,031**	**–**	**21,031**	**461**	**–**	**461**	**369**	**–**	**369**
At 30 June 2022	**1,930,044**	**81,054**	**2,011,098**	**16,638**	**3,059**	**19,697**	**15,509**	**380**	**15,889**

	Notional contract amount			*Fair value – Assets*			*Fair value – Liabilities*		
	Trading	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*
Foreign exchange	1,108,621	21,949	1,130,570	8,099	1,068	9,167	7,822	148	7,970
Interest rate	609,565	38,128	647,693	3,345	229	3,574	3,293	316	3,609
Equity and other	23,480	–	23,480	483	–	483	673	–	673
At 31 December 2021	1,741,666	60,077	1,801,743	11,927	1,297	13,224	11,788	464	12,252

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

	At 30 June 2022	*At 31 December 2021*
Debt securities	**10**	18
Equity shares	**5,527**	7,422
Investment funds	**21,559**	22,863
Other	**913**	1,023
	28,009	31,326

21 Placings with and advances to banks

	At 30 June 2022	*At 31 December 2021*
Balances with banks	**11,586**	10,078
Placings with and advances to banks maturing within one month	**31,823**	33,202
Placings with and advances to banks maturing after one month but less than one year	**24,017**	26,673
Placings with and advances to banks maturing after one year	**2,559**	2,541
Less: Allowances for expected credit losses	**(2)**	(1)
	69,983	72,493
of which:		
Placings with and advances to central banks	**6,669**	7,554

22 Loans and advances to customers

	At 30 June 2022	At 31 December 2021
Gross loans and advances to customers	**991,896**	1,004,325
Less: Allowances for expected credit losses	**(8,678)**	(6,928)
	983,218	997,397
	%	%
Expected credit losses as a percentage of gross loans and advances to customers	**0.87**	0.69
Gross impaired loans and advances	**19,024**	10,429
	%	%
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**1.92**	1.04

23 Financial investments

	At 30 June 2022	At 31 December 2021
Financial investments measured at fair value through other comprehensive income		
– treasury bills	**215,812**	225,910
– debt securities	**115,804**	127,982
– equity shares	**5,598**	5,267
	337,214	359,159
Debt instruments measured at amortised cost		
– treasury bills	**62,430**	2,300
– debt securities	**151,980**	139,080
Less: Allowances for expected credit losses	**(146)**	(153)
	214,264	141,227
	551,478	500,386

There were no overdue financial investments at 30 June 2022 and 31 December 2021 for the Group. The Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations.

24 Interest in associates

	At 30 June 2022	At 31 December 2021
Share of net assets	**2,263**	2,341

25 Property, plant and equipment

	At 30 June 2022	At 31 December 2021
Premises	**26,481**	27,281
Plant and equipment[1]	**1,915**	2,090
Other right of use assets	**1,606**	1,834
Premises, plant and equipment	**30,002**	31,205
Investment properties	**10,046**	9,545
	40,048	40,750

1 *Includes leasehold land and building assets for which the rights of use are considered sufficient to constitute control and for which there are insignificant lease liabilities. They are therefore presented as owned assets.*

Movement in owned property, plant and equipment

	Premises	Investment properties	Plant and equipment	Total
Cost or valuation:				
At 1 January 2022	**27,281**	**9,545**	**4,465**	**41,291**
Additions	**23**	**3**	**114**	**140**
Disposals and write-offs	**–**	**–**	**(54)**	**(54)**
Elimination of accumulated depreciation on revalued premises	**(512)**	**–**	**–**	**(512)**
Surplus/(Deficit) on revaluation:				
– credited to premises revaluation reserve	**319**	**–**	**–**	**319**
– debited to income statement	**–**	**(78)**	**–**	**(78)**
Transfer	**(585)**	**581**	**–**	**(4)**
Exchange adjustments and other	**(45)**	**(5)**	**(101)**	**(151)**
At 30 June 2022	**26,481**	**10,046**	**4,424**	**40,951**
Accumulated depreciation:				
At 1 January 2022	**–**	**–**	**(2,375)**	**(2,375)**
Charge for the period (note 12)	**(516)**	**–**	**(229)**	**(745)**
Attributable to assets sold or written off	**–**	**–**	**49**	**49**
Elimination of accumulated depreciation on revalued premises	**512**	**–**	**–**	**512**
Exchange adjustments and other	**4**	**–**	**46**	**50**
At 30 June 2022	**–**	**–**	**(2,509)**	**(2,509)**
Net book value at 30 June 2022	**26,481**	**10,046**	**1,915**	**38,442**
Representing:				
– measure at cost	**–**	**–**	**1,915**	**1,915**
– measure at valuation	**26,481**	**10,046**	**–**	**36,527**
	26,481	**10,046**	**1,915**	**38,442**

25 Property, plant and equipment *(continued)*

Movement in owned property, plant and equipment *(continued)*

	Premises	*Investment properties*	*Plant and equipment*	*Total*
Cost or valuation:				
At 1 January 2021	26,898	9,415	3,982	40,295
Additions	23	2	287	312
Disposals and write-offs	–	–	(81)	(81)
Elimination of accumulated depreciation on revalued premises	(492)	–	–	(492)
Surplus on revaluation:				
– credited to premises revaluation reserve	648	–	–	648
– credited to income statement	–	65	–	65
Transfer	(326)	326	–	–
Exchange adjustments and other	12	–	5	17
At 30 June 2021	26,763	9,808	4,193	40,764
Accumulated depreciation:				
At 1 January 2021	–	–	(2,038)	(2,038)
Charge for the period (note 12)	(492)	–	(252)	(744)
Attributable to assets sold or written off	–	–	71	71
Elimination of accumulated depreciation on revalued premises	492	–	–	492
Exchange adjustments and other	–	–	(3)	(3)
At 30 June 2021	–	–	(2,222)	(2,222)
Net book value at 30 June 2021	26,763	9,808	1,971	38,542
Representing:				
– measure at cost	–	–	1,971	1,971
– measure at valuation	26,763	9,808	–	36,571
	26,763	9,808	1,971	38,542

25 Property, plant and equipment *(continued)*

Movement in owned property, plant and equipment *(continued)*

	Premises	*Investment properties*	*Plant and equipment*	*Total*
Cost or valuation:				
At 1 July 2021	26,763	9,808	4,193	40,764
Additions	23	–	394	417
Disposals and write-offs	–	–	(131)	(131)
Elimination of accumulated depreciation on revalued premises	(509)	–	–	(509)
Surplus on revaluation:				
– credited to premises revaluation reserve	662	–	–	662
– credited to income statement	–	60	–	60
Transfer	323	(323)	–	–
Exchange adjustments and other	19	–	9	28
At 31 December 2021	27,281	9,545	4,465	41,291
Accumulated depreciation:				
At 1 July 2021	–	–	(2,222)	(2,222)
Charge for the period	(509)	–	(239)	(748)
Attributable to assets sold or written off	–	–	93	93
Elimination of accumulated depreciation on revalued premises	509	–	–	509
Exchange adjustments and other	–	–	(7)	(7)
At 31 December 2021	–	–	(2,375)	(2,375)
Net book value at 31 December 2021	27,281	9,545	2,090	38,916
Representing:				
– measure at cost	–	–	2,090	2,090
– measure at valuation	27,281	9,545	–	36,826
	27,281	9,545	2,090	38,916

26 Intangible assets

	At 30 June 2022	*At 31 December 2021*
Present value of in-force long-term insurance business	**23,698**	22,363
Internally developed software	**3,090**	2,704
Acquired software	**81**	90
Goodwill	**329**	329
	27,198	25,486

27 Other assets

	At 30 June 2022	At 31 December 2021
Items in the course of collection from other banks	**4,246**	3,744
Bullion	**7,503**	8,470
Prepayments and accrued income	**4,895**	4,732
Acceptances and endorsements	**12,848**	11,121
Less: Allowances for expected credit losses	**(18)**	(12)
Reinsurers' share of liabilities under insurance contracts	**6,173**	5,848
Settlement accounts	**5,529**	13,711
Cash collateral	**1,973**	2,343
Other accounts	**3,207**	3,675
	46,356	53,632

Other accounts included 'Assets held for sale' of HK$87m (31 December 2021: HK$35m).

28 Current, savings and other deposit accounts

	At 30 June 2022	At 31 December 2021
Current, savings and other deposit accounts:		
– as stated in Condensed Consolidated Balance Sheet	**1,228,848**	1,230,216
– structured deposits reported as financial liabilities designated as fair value (note 30)	**30,826**	24,012
	1,259,674	1,254,228
By type:		
– demand and current accounts	**140,795**	150,127
– savings accounts	**828,818**	871,281
– time and other deposits	**290,061**	232,820
	1,259,674	1,254,228

29 Trading liabilities

	At 30 June 2022	At 31 December 2021
Short positions in securities	**40,094**	44,291

30 Financial liabilities designated at fair value

	At 30 June 2022	At 31 December 2021
Certificates of deposit in issue (note 31)	237	–
Structured deposits (note 28)	30,826	24,012
Other structured debt securities in issue (note 31)	2,318	3,005
Liabilities to customers under investment contracts	350	382
	33,731	27,399

At 30 June 2022, the accumulated loss in fair value attributable to changes in own credit risk for financial liabilities designated at fair value was nil (31 December 2021: accumulated loss of HK$2m).

31 Certificates of deposit and other debt securities in issue

	At 30 June 2022	At 31 December 2021
Certificates of deposit and other debt securities in issue:		
– as stated in Condensed Consolidated Balance Sheet	95,788	81,567
– certificates of deposit in issue designated at fair value (note 30)	237	–
– other structured debt securities in issue reported as financial liabilities designated at fair value (note 30)	2,318	3,005
	98,343	84,572
By type:		
– certificates of deposit in issue	96,025	81,567
– other debt securities in issue	2,318	3,005
	98,343	84,572

32 Other liabilities

	At 30 June 2022	At 31 December 2021
Items in the course of transmission to other banks	6,258	6,102
Accruals	3,322	3,762
Acceptances and endorsements	12,848	11,121
Retirement benefit liabilities	464	339
Settlement accounts	4,178	1,874
Cash collateral	5,091	2,232
Lease liabilities	1,648	1,880
Other	4,270	3,869
	38,079	31,179

33 Subordinated liabilities

Nominal value	Description	At 30 June 2022	At 31 December 2021
HK$5,460 million	Floating rate subordinated loan due May 2028, callable from 2027[1]	**5,460**	5,460
HK$4,680 million	Floating rate subordinated loan due June 2029, callable from 2028[2]	**4,680**	4,680
HK$6,240 million	Floating rate subordinated loan due June 2026, callable from 2025[3]	**6,240**	6,240
US$400 million	Floating rate subordinated loan due June 2030, callable from 2029[4]	**3,138**	3,119
HK$5,000 million	Floating rate subordinated loan due November 2027, callable from 2026[5]	**4,987**	4,985
HK$3,000 million	Floating rate subordinated loan due June 2028, callable from 2027[6]	**2,991**	–
		27,496	24,484
Representing:			
– measured at amortised cost		**27,496**	24,484

1 *Interest rate at three-month HK dollar HIBOR plus 1.425 per cent per annum, payable quarterly, to the maturity date.*

2 *Interest rate at three-month HK dollar HIBOR plus 1.564 per cent per annum, payable quarterly, to the maturity date.*

3 *Interest rate at three-month HK dollar HIBOR plus 1.342 per cent per annum, payable quarterly, to the maturity date.*

4 *During the period, the interest rate is transited to compounded SOFR plus 2.0478 per cent per annum from previous three-month US dollar LIBOR plus 1.789 per cent per annum upon the interest rate benchmark migration, payable quarterly, to the maturity date.*

5 *Interest rate at three-month HK dollar HIBOR plus 1.000 per cent per annum, payable quarterly, to the maturity date.*

6 *Interest rate at three-month HK dollar HIBOR plus 1.68 per cent per annum, payable quarterly, to the maturity date.*

During the period, the Bank has issued non-capital loss-absorbing capacity debt instrument totalling HK$3bn which rank higher than additional tier 1 capital instruments in the event of a winding-up.

The Bank has not had any defaults of principal, interest or other breaches with respect to its debt instruments during the first half of 2022 (2021: Nil).

34 Other equity instruments

Nominal value	Description	At 30 June 2022	At 31 December 2021
US$900 million	Fixed to floating rate perpetual capital instrument callable from September 2024[1]	**7,044**	7,044
US$600 million	Fixed to floating rate perpetual capital instrument callable from June 2024[2]	**4,700**	4,700
		11,744	11,744

1 *Coupon rate is 6.03% and then three-month US dollar LIBOR plus 4.02 per cent from the first call date.*

2 *Coupon rate is 6% and then three-month US dollar LIBOR plus 4.06 per cent from the first call date.*

The additional tier 1 capital instruments, which are qualified as loss-absorbing capacity, are perpetual and subordinated. The coupon payments of these capital instruments may be cancelled at the sole discretion of the Bank. The capital instruments will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules. They rank higher than ordinary shares in the event of a winding-up.

35 Contingent liabilities, contractual commitments and guarantees

(a) Off-balance sheet contingent liabilities and commitments

	At 30 June 2022	At 31 December 2021
Contingent liabilities and financial guarantee contracts		
Financial guarantees[1]	**2,466**	2,431
Performance and other guarantees[2]	**23,849**	26,439
Other contingent liabilities	**82**	80
	26,397	28,950
Commitments[3]		
Documentary credits and short-term trade-related transactions	**2,844**	3,233
Forward asset purchases and forward forward deposits placed	**12,380**	10,633
Undrawn formal standby facilities, credit lines and other commitments to lend	**493,185**	501,054
	508,409	514,920

35 Contingent liabilities, contractual commitments and guarantees *(continued)*

(a) Off-balance sheet contingent liabilities and commitments (continued)

1 *Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The amounts in the above table are nominal principal amounts.*

2 *Performance and other guarantees include re-insurance letters of credit related to particular transactions, trade-related letters of credit issued without provision for the issuing entity to retain title to the underlying shipment, performance bonds, bid bonds, standby letters of credit and other transaction-related guarantees.*

3 *Includes HK$360,856m of commitments at 30 June 2022 (31 December 2021: HK$365,054m) to which the impairment requirements in HKFRS 9 are applied where the Group has become party to an irrevocable commitment.*

The above table discloses the nominal principal amounts of commitments (excluding capital commitments), guarantees and other contingent liabilities, which represents the amounts at risk should contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not representative of future liquidity requirements.

(b) Contingencies

There is no material litigation expected to result in a significant adverse effect on the financial position of the Group, either collectively or individually. Management believes that adequate provisions have been made in respect of such litigation.

36 Other commitments

Capital commitments

At 30 June 2022, capital commitments, mainly related to the commitment for renovation of branches and offices, were HK$481m (31 December 2021: HK$868m).

37 Material related-party transactions

All related party transactions that took place in the half-year ended 30 June 2022 were similar in nature to those disclosed in the 2021 Annual Report. There were no changes in the related party transactions described in the 2021 Annual Report that have had a material effect on the financial position or performance of the Group in the half-year ended 30 June 2022.

38 Fair value of financial instruments

(a) Fair value of financial instruments carried at fair value

The accounting policies, control framework and hierarchy used to determine fair values at 30 June 2022 are consistent with those applied for the Annual Report 2021. The following table provides an analysis of financial instruments carried at fair value and bases of valuation:

	Fair value hierarchy					
	Quoted market price Level 1	*Using observable inputs Level 2*	*With significant unobservable inputs Level 3*	*Third party total*	*Amounts with HSBC entities**	*Total*
Recurring fair value measurements						
At 30 June 2022						
Assets						
Trading assets	**40,717**	**5,163**	**–**	**45,880**	**–**	**45,880**
Derivative financial instruments	**295**	**13,303**	**8**	**13,606**	**6,091**	**19,697**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**8,441**	**2,505**	**17,063**	**28,009**	**–**	**28,009**
Financial investments	**272,032**	**63,484**	**1,698**	**337,214**	**–**	**337,214**
Liabilities						
Trading liabilities	**40,094**	**–**	**–**	**40,094**	**–**	**40,094**
Derivative financial instruments	**25**	**10,730**	**2**	**10,757**	**5,132**	**15,889**
Financial liabilities designated at fair value	**–**	**25,428**	**8,303**	**33,731**	**–**	**33,731**
At 31 December 2021						
Assets						
Trading assets	43,574	3,859	–	47,433	–	47,433
Derivative financial instruments	244	10,039	17	10,300	2,924	13,224
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	10,481	5,774	15,071	31,326	–	31,326
Financial investments	287,573	70,217	1,369	359,159	–	359,159
Liabilities						
Trading liabilities	44,291	–	–	44,291	–	44,291
Derivative financial instruments	17	8,936	–	8,953	3,299	12,252
Financial liabilities designated at fair value	–	21,376	6,023	27,399	–	27,399

* *Included derivative contracts transacted with HSBC entities which are mainly classified within Level 2 of the valuation hierarchy.*

38 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value (continued)

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial Investments	Trading Assets	Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Financial liabilities designated at fair value	Derivatives
At 30 June 2022							
Transfer from Level 1 to Level 2	**4,002**	**162**	**–**	**–**	**–**	**–**	**–**
Transfer from Level 2 to Level 1	**8,984**	**505**	**–**	**–**	**–**	**–**	**–**
At 31 December 2021							
Transfer from Level 1 to Level 2	17,130	1,207	–	–	–	–	–
Transfer from Level 2 to Level 1	6,011	481	–	–	–	–	–

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to changes in observability of valuation inputs and price transparency.

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets				Liabilities		
	Financial Investments	Trading Assets	Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Financial liabilities designated at fair value	Derivatives
At 30 June 2022							
Investment funds and equity shares	**1,698**	**–**	**17,063**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**–**	**8,303**	**–**
Derivatives	**–**	**–**	**–**	**8**	**–**	**–**	**2**
	1,698	**–**	**17,063**	**8**	**–**	**8,303**	**2**
At 31 December 2021							
Investment funds and equity shares	1,369	–	15,071	–	–	–	–
Structured notes	–	–	–	–	–	6,023	–
Derivatives	–	–	–	17	–	–	–
	1,369	–	15,071	17	–	6,023	–

38 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value *(continued)*

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	*Trading Assets*	*Financial assets designated and otherwise mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading Liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 1 January 2022	**1,369**	**–**	**15,071**	**17**	**–**	**6,023**	**–**
Total gains or losses recognised in profit or loss							
– net income/(loss) from financial instruments measured at fair value through profit or loss	**–**	**–**	**595**	**(10)**	**–**	**21**	**2**
Total gains or losses recognised in other comprehensive income							
– fair value gains	**329**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**–**	**–**	**–**	**–**	**–**	**(122)**	**–**
Purchases	**–**	**–**	**1,672**	**–**	**–**	**–**	**–**
Issues/deposit taking	**–**	**–**	**–**	**–**	**–**	**10,773**	**–**
Settlements	**–**	**–**	**(274)**	**–**	**–**	**(8,367)**	**–**
Transfers out	**–**	**–**	**(1)**	**–**	**–**	**(27)**	**–**
Transfers in	**–**	**–**	**–**	**1**	**–**	**2**	**–**
At 30 June 2022	**1,698**	**–**	**17,063**	**8**	**–**	**8,303**	**2**
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income/(loss) from financial instruments measured at fair value through profit or loss	**–**	**–**	**595**	**(8)**	**–**	**(26)**	**(2)**

38 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value (continued)

Movement in Level 3 financial instruments (continued)

	Assets				*Liabilities*		
	Financial Investments	*Trading Assets*	*Financial assets designated and otherwise mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading Liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 1 January 2021	2,907	–	8,933	3	–	5,702	–
Total gains or losses recognised in profit or loss							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	1,171	2	–	17	5
Total gains or losses recognised in other comprehensive income							
– fair value losses	(1,327)	–	–	–	–	(1)	–
– exchange differences	–	–	–	–	–	38	–
Purchases	–	–	1,976	–	–	–	–
Issues/deposit taking	–	–	–	–	–	5,772	–
Settlements	–	–	(592)	–	–	(5,434)	–
Transfers out	–	–	–	–	–	(22)	(3)
Transfers in	–	–	–	3	–	427	–
At 30 June 2021	1,580	–	11,488	8	–	6,499	2
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	1,171	8	–	(37)	(2)

38 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value (continued)

Movement in Level 3 financial instruments (continued)

	Assets				*Liabilities*		
	Financial Investments	*Trading Assets*	*Financial assets designated and otherwise mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading Liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 1 July 2021	1,580	–	11,488	8	–	6,499	2
Total gains or losses recognised in profit or loss							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	1,752	(3)	–	(19)	(2)
Total gains or losses recognised in other comprehensive income							
– fair value losses	(211)	–	–	–	–	(1)	–
– exchange differences	–	–	–	–	–	55	–
Purchases	–	–	2,946	–	–	–	–
Issues/deposit taking	–	–	–	–	–	6,383	–
Settlements	–	–	(1,115)	–	–	(6,764)	–
Transfers out	–	–	–	–	–	(130)	–
Transfers in	–	–	–	12	–	–	–
At 31 December 2021	1,369	–	15,071	17	–	6,023	–
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	1,752	(9)	–	25	1

For the first half of 2022, the transfer in/out of Level 3 derivative assets was predominantly resulted from change in observability of equity volatilities and stock correlation. The transfer in/out of Level 3 financial liabilities designated at fair value reflected the change in observability of FX and equity volatilities for pricing the instrument.

38 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value *(continued)*

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The key unobservable inputs to Level 3 financial instruments include volatility and correlation for structured notes and deposits valued using option models, bid quotes for corporate bonds valued using approaches that take into account of market comparables, and multiple items for investment funds and equity shares and strategic investments. In the absence of an active market, the fair value of investment funds and equity shares and strategic investments is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors, as well as by reference to market valuations for similar entities quoted in an active market, or the price at which similar companies have changed ownership. The change in fair values due to changes in reasonably possible alternative assumptions for these unobservable inputs is not significant.

Favourable and unfavourable changes are determined on the basis of sensitivity analysis. The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, the availability and reliability of observable proxies and historical data. When the available data is not amenable to statistical analysis, the quantification of uncertainty is judgemental, but remains guided by the 95% confidence interval. The sensitivity of Level 3 fair values to reasonably possible alternative assumptions is not significant.

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type

	Reflected in profit or loss		*Reflected in other comprehensive income*	
	Favourable changes	*Unfavourable changes*	*Favourable changes*	*Unfavourable changes*
At 30 June 2022				
Investment funds and equity shares	**853**	**(853)**	**85**	**(85)**
Derivatives	**–**	**–**	**–**	**–**
	853	**(853)**	**85**	**(85)**
At 31 December 2021				
Investment funds and equity shares	754	(754)	68	(68)
Derivatives	–	–	–	–
	754	(754)	68	(68)

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

38 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value (continued)

Effect of changes in significant unobservable assumptions to reasonably possible alternatives *(continued)*

Quantitative information about significant unobservable inputs in Level 3 valuations

	Valuation technique(s)	*Unobservable input(s)*	*Range*
Assets			
Investment funds and equity shares	Net asset value	N/A	**N/A**
	Market-comparable approach	Earnings Multiple	**33 – 35** (31 Dec 2021: 42 – 47)
		P/B ratios	**0.27 – 1.52** (31 Dec 2021: 0.29 – 1.91)
		Liquidity Discount	**10% – 60%** (31 Dec 2021: 10% – 60%)
Derivatives	Option model	Equity Volatility	**26.77% – 39.38%** (31 Dec 2021: 22.89% – 56.99%)
Liabilities			
Structured notes	Option model	Equity Volatility	**25.45% – 89.33%** (31 Dec 2021: 7.08% – 32.46%)
		FX Volatility	**6.80% – 21.04%** (31 Dec 2021: 2.72% – 19.69%)
Derivatives	Option model	Equity Volatility	**19.60% – 30.06%** (31 Dec 2021: 26.43% – 31.74%)

The table above lists the key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2022. Detailed description of the categories of key unobservable inputs are set out in note 51 (a) of the Group's Annual Report 2021.

38 Fair value of financial instruments *(continued)*

(b) Fair value of financial instruments not carried at fair value

The following table provides an analysis of the fair value of financial instruments not measured at fair value on the Condensed Consolidated Balance Sheet. For all other instruments, the fair value is equal to the carrying value.

	At 30 June 2022		At 31 December 2021	
	Carrying Amounts	**Fair Value**	Carrying Amounts	Fair Value
Financial Assets				
Reverse repurchase agreements – non-trading	**21,906**	**21,916**	18,821	18,820
Placings with and advances to banks	**69,983**	**69,987**	72,493	72,505
Loans and advances to customers	**983,218**	**980,432**	997,397	994,164
Financial investments – at amortised cost	**214,264**	**201,198**	141,227	148,020
Financial Liabilities				
Deposits from banks	**4,395**	**4,395**	5,333	5,333
Current, savings and other deposit accounts	**1,228,848**	**1,228,831**	1,230,216	1,230,279
Repurchase agreements – non-trading	**8,758**	**8,758**	16,592	16,591
Certificates of deposit and other debt securities in issue	**95,788**	**95,786**	81,567	81,588
Subordinated liabilities	**27,496**	**27,092**	24,484	25,148

Other financial instruments not carried at fair value are typically short-term in nature or reprice to current market rates frequently. Accordingly, their carrying amounts are reasonable approximations of their fair values.

Details of how the fair values of financial instruments that are not carried at fair value on the balance sheet are calculated are set out in note 51 (b) of the Group's Annual Report 2021.

39 Condensed Consolidated Financial Statements and statutory financial statements

The financial information relating to the year ended 31 December 2021 that is included in these Condensed Consolidated Financial Statements does not constitute the Bank's statutory financial statements for that year but is extracted from those financial statements which have been delivered to the Registrar of Companies as required by section 662 (3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and to the Hong Kong Monetary Authority.

The auditor has reported on those statutory financial statements for the year ended 31 December 2021. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406 (2), 407 (2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

The Annual Report for the year ended 31 December 2021, which includes the statutory financial statements, can be obtained from the Bank's website (www.hangseng.com) and the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

The Banking Disclosure Statement, together with the disclosures in the Group's Interim Report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA. The disclosures as required under the Banking (Disclosure) Rules can be viewed in the 'Banking Disclosure Statement' that is available in the Regulatory Disclosures section of the Bank's website (www.hangseng.com).

40 Immediate and ultimate holding companies

The immediate and ultimate holding companies of the Bank are The Hongkong and Shanghai Banking Corporation Limited (incorporated in Hong Kong) and HSBC Holdings plc (incorporated in England) respectively.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF HANG SENG BANK LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements set out on pages 57 to 95, which comprises the condensed consolidated balance sheet of Hang Seng Bank Limited (the 'Bank') and its subsidiaries (together, the 'Group') as at 30 June 2022 and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information[1]. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *'Interim Financial Reporting'* issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Bank are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34 *'Interim Financial Reporting'*. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

1 *As described in Note 1 on the condensed consolidated financial statements, certain other disclosures have been presented elsewhere in the Interim Report 2022, rather than in the notes on the condensed consolidated financial statements. These are cross-referenced from the condensed consolidated financial statements and are identified as reviewed.*

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'* issued by the Hong Kong Institute of Certified Public Accountants. A review of condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements of the Group are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 *'Interim Financial Reporting'*.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 1 August 2022

The Code for Securities Transactions by Directors

The Bank has adopted a Code for Securities Transactions by Directors on terms no less exacting than the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ('Listing Rules')). Specific enquiries have been made with all Directors who have confirmed that they have complied with the Bank's Code for Securities Transactions by Directors throughout the six months ended 30 June 2022.

Changes in Directors' Details

Changes in Directors' details since the date of the Annual Report 2021 of the Bank or (as the case may be) the date of announcement for the appointment of Director issued by the Bank subsequent to the date of the Annual Report 2021, and up to the date of release of the interim results of the Bank which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules, are set out below.

Irene LEE Yun Lien

Cessation of appointments

- HSBC Holdings plc (1) (Independent Non-executive Director; Member of Chairman's Committee; Member of Nomination & Corporate Governance Committee)

Diana Ferreira CESAR JP

New appointments

- Justice of the Peace
- The Community Chest of Hong Kong (Campaign Committee Co-Chairman; Member of Executive Committee)

Cordelia CHUNG (3)

New appointments

- Hang Seng Bank Limited (1) (Member of Remuneration Committee)

Kathleen GAN Chieh Huey

Cessation of appointments

- HSBC Bank (China) Company Limited (Supervisor)
- HSBC Global Services Limited (Director)

Patricia LAM Sze Wan (4)

New appointments

- Hang Seng Bank Limited (1) (Member of Nomination Committee)

Kenneth NG Sing Yip

Re-designation

- Hang Seng Bank Limited (1) (re-designated from Non-executive Director to Independent Non-executive Director)

New appointments

- Hang Seng Bank Limited (1) (Member of Nomination Committee)

WANG Xiao Bin [6]

New appointments
• Hang Seng Bank Limited [1] (Member of Audit Committee)

Michael WU Wei Kuo

New appointments
• Hang Seng Bank Limited [1] (Chairman of Remuneration Committee)

Notes:

(1) *The securities of these companies are listed on a securities market in Hong Kong or overseas.*

(2) *Updated biographical details of the Bank's Directors are also available on the website of the Bank.*

(3) *Cordelia CHUNG was appointed as an Independent Non-executive Director of the Bank with effect from 23 February 2022.*

(4) *Patricia LAM Sze Wan was appointed as an Independent Non-executive Director of the Bank with effect from 1 July 2022.*

(5) *LIN Huey Ru was appointed as an Independent Non-executive Director of the Bank with effect from 1 July 2022.*

(6) *WANG Xiao Bin was appointed as an Independent Non-executive Director of the Bank with effect from 23 February 2022.*

(7) *John CHAN Cho Chak retired as an Independent Non-executive Director of the Bank, and ceased to be the Chairman of the Remuneration Committee and a member of the Nomination Committee of the Bank, all with effect from 5 May 2022.*

(8) *Vincent LO Hong Sui stepped down as a Non-executive Director of the Bank with effect from 5 May 2022.*

Other than those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Directors' and Alternate Chief Executives' Interests

As at 30 June 2022, the interests of the Directors and Alternate Chief Executives in the shares, underlying shares of equity derivatives and debentures of the Bank and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance ('SFO')) disclosed in accordance with the Listing Rules were detailed below.

Interests in shares

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests	Total Interests as % of the relevant shares in issue/issued share capital
Number of ordinary shares in the Bank						
Director:						
Kathleen C H Gan	2,500	–	–	–	2,500	0.00
Number of ordinary shares of US$0.50 each in HSBC Holdings plc						
Directors:						
Diana Cesar	377,025	–	–	111,835[1]	488,860	0.00
Kathleen C H Gan	459,203	–	–	122,320[1]	581,523	0.00
Irene Y L Lee	15,000	–	–	–	15,000	0.00
David Y C Liao	508,281	–	–	343,819[1]	852,100	0.00
Kenneth S Y Ng	440,723	–	–	–	440,723	0.00
Alternate Chief Executives:						
Kathy K W Cheung	85,934	–	–	17,211[1]	103,145	0.00
Vivien W M Chiu	28,080[2]	79,570[3]	–	5,311[1]	112,961	0.00
Donald Y S Lam	236,151	–	–	28,002[1]	264,153	0.00
Rannie W L Lee	5,436	–	–	8,696[1]	14,132	0.00
Andrew W L Leung	12,866	–	–	19,919[1]	32,785	0.00

Interests in debentures of associated corporation of the Bank

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests
Perpetual subordinated contingent convertible securities issued by HSBC Holdings plc					
Alternate Chief Executive:					
Vivien W M Chiu	–	US$300,000[3]	–	–	US$300,000

Notes:

(1) *These included interests in conditional awards of ordinary shares of US$0.50 each in HSBC Holdings plc under the HSBC Share Plans made in favour of Directors and Alternate Chief Executives.*

(2) *These included 1,933 shares in HSBC Holdings plc jointly held by Vivien W M Chiu and her family member.*

(3) *Vivien W M Chiu's spouse had interests in the total amount of US$300,000 of perpetual subordinated contingent convertible securities issued by HSBC Holdings plc. These perpetual subordinated contingent convertible securities would be converted into 79,570 ordinary shares in HSBC Holdings plc upon the occurrence of capital adequacy trigger event. Ms Chiu's family interests set out in the table under 'Interests in shares' and the table under 'Interests in debentures of associated corporation of the Bank' represented the same interests.*

Conditional Awards of Shares

As at 30 June 2022, the interests of the Directors and Alternate Chief Executives in the conditional awards of ordinary shares of US$0.50 each in HSBC Holdings plc made in favour of them under various HSBC Share Plans were as follows:

	Awards held as at 1 January 2022	Awards made during the Director's/ Alternate Chief Executive's term of office in the first half of the year	Awards released during the Director's/ Alternate Chief Executive's term of office in the first half of the year	Awards held as at 30 June 2022[1]
Directors:				
Diana Cesar	104,941	94,153	87,345	111,835
Kathleen C H Gan	103,421	90,721	71,822	122,320
David Y C Liao	93,765	348,175	98,121	343,819
Alternate Chief Executives:				
Kathy K W Cheung	17,211[2]	–	–	17,211
Vivien W M Chiu	4,645[2]	2,821	2,280	5,311
Donald Y S Lam	31,188	30,247	33,484	28,002
Rannie W L Lee	8,696[2]	–	–	8,696
Andrew W L Leung	21,367	9,666	11,690	19,919

Notes:

(1) *This included additional shares arising from scrip dividends, if any.*

(2) *These represented the awards held by the Alternate Chief Executives when they were appointed as Alternate Chief Executives of the Bank.*

The interests of Kathy K W Cheung, Vivien W M Chiu, Kathleen C H Gan and Donald Y S Lam in ordinary shares of HSBC Holdings plc under the HSBC International Employee Share Purchase have been included in their 'Personal Interests' disclosed in the table under 'Interests in shares'.

All the interests stated above represented long positions. As at 30 June 2022, no short positions were recorded in the Register of Directors' and Alternate Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

No right to subscribe for equity or debt securities of the Bank has been granted by the Bank to, nor have any such rights been exercised by, any person during the six months ended 30 June 2022.

Substantial Interests in Share Capital

The register maintained by the Bank pursuant to the SFO recorded that, as at 30 June 2022, the following corporations had interests or short positions in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

Name of Corporation	Number of Ordinary Shares in the Bank (Percentage of total)
The Hongkong and Shanghai Banking Corporation Limited	1,188,057,371 (62.14%)
HSBC Asia Holdings Limited	1,188,057,371 (62.14%)
HSBC Holdings plc	1,188,057,371 (62.14%)

The Hongkong and Shanghai Banking Corporation Limited is a wholly-owned subsidiary of HSBC Asia Holdings Limited, which in turn is a wholly-owned subsidiary of HSBC Holdings plc. Accordingly, the interests of The Hongkong and Shanghai Banking Corporation Limited are recorded as the interests of HSBC Asia Holdings Limited and HSBC Holdings plc.

The Directors regard HSBC Holdings plc to be the beneficial owner of 1,188,057,371 ordinary shares in the Bank (62.14%).

All the interests stated above represented long positions. As at 30 June 2022, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

Purchase, Sale or Redemption of the Bank's Listed Securities

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

Remuneration and Staff Development

There have been no material changes to the information disclosed in the Annual Report 2021 in respect of the remuneration of employees, remuneration policies and staff development.

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 Hong Kong Monetary Authority. 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 Listing Rules throughout the six months ended 30 June 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 the first six months of 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 six months ended 30 June 2022.

2022 Second Interim Dividend

Announcement date	1 August 2022
Ex-dividend date	12 August 2022
Book close and record date	16 August 2022
Payment date	1 September 2022

Register of Shareholders

The Register of Shareholders of the Bank will be closed on Tuesday, 16 August 2022, during which no transfer of shares can be registered. To qualify for the second 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 Monday, 15 August 2022.

Board and Committees

Board

Independent Non-executive Chairman
Irene LEE Yun Lien

Executive Director
Diana Ferreira CESAR (Chief Executive)

Non-executive Directors
Kathleen GAN Chieh Huey
David LIAO Yi Chien

Independent Non-executive Directors
CHIANG Lai Yuen
Cordelia CHUNG
Clement KWOK King Man
Patricia LAM Sze Wan
LIN Huey Ru
Kenneth NG Sing Yip
WANG Xiao Bin
Michael WU Wei Kuo

Committees

Executive Committee
Diana Ferreira CESAR (Chairman)
Kathy CHEUNG Ka Wai
Vivien CHIU Wai Man
Rose CHO Mui
Liz CHOW Tan Ling
Gloria HO Lok Sze
Donald LAM Yin Shing
Gilbert LEE Man Lung
Rannie LEE Wah Lun
Andrew LEUNG Wing Lok
Godwin LI Chi Chung
Angela SHING Ching Man
Ryan SONG Yue Sheng
Christopher TSANG Hing Keung
WONG May Kay

Audit Committee
Clement KWOK King Man (Chairman)
CHIANG Lai Yuen
Irene LEE Yun Lien
WANG Xiao Bin

Remuneration Committee
Michael WU Wei Kuo (Chairman)
CHIANG Lai Yuen
Cordelia CHUNG
Irene LEE Yun Lien

Risk Committee
Kenneth NG Sing Yip (Chairman)
Irene LEE Yun Lien
Michael WU Wei Kuo

Nomination Committee
Irene LEE Yun Lien (Chairman)
Diana Ferreira CESAR
Patricia LAM Sze Wan
David LIAO Yi Chien
Kenneth NG Sing Yip
Michael WU Wei Kuo

Notes:

(1) *Terms of Reference of the Bank's Audit Committee, Remuneration Committee, Risk Committee and Nomination Committee are available on the websites of the Bank and Hong Kong Exchanges and Clearing Limited ('HKEx').*

(2) *List of Directors identifying their role and function is available on the websites of the Bank and HKEx.*

Registered Office
83 Des Voeux Road Central, Hong Kong
Website: www.hangseng.com
Email: hangseng@computershare.com.hk

Stock Code
The Stock Exchange of Hong Kong Limited: 11

Registrar
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

Depositary*
BNY Mellon Shareowner Services
PO Box 505000
Louisville, KY 40233-5000
USA
Website: www.mybnymdr.com
Email: shrrelations@cpushareownerservices.com

* *The Bank offers investors in the United States a Sponsored Level-1 American Depositary Receipts Programme through The Bank of New York Mellon Corporation.*

Interim Report 2022
This Interim Report 2022 in both English and Chinese is now available in printed form and on the Bank's website (www.hangseng.com) and the website of HKEx (www.hkexnews.hk).

Shareholders who:

A) browse this Interim Report 2022 on the Bank's website and wish to receive a printed copy; or
B) receive this Interim Report 2022 in either English or Chinese and wish to receive a printed copy in the other language version,

may send a request form, which can be obtained from the Bank's Registrar or downloaded from the Bank's website (www.hangseng.com) or HKEx's website (www.hkexnews.hk), to the Bank's Registrar:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
Facsimile: (852) 2529 6087
Email: hangseng@computershare.com.hk

If shareholders who have chosen (or are deemed to have chosen) to read this Interim Report 2022 on the Bank's website, have difficulty in reading or gaining access to this Interim Report 2022 via the Bank's website for any reason, the Bank will promptly send this Interim Report 2022 in printed form free of charge upon the shareholders' request.

Shareholders may change their choice of means of receipt or language of the Bank's future corporate communications at any time, free of charge, by giving the Bank c/o the Bank's Registrar reasonable notice in writing or by email to hangseng@computershare.com.hk.

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Photography: Ringo Tang

恒生銀行有限公司
HANG SENG BANK LIMITED
83 Des Voeux Road Central, Hong Kong

www.hangseng.com