23 February 2021

HANG SENG BANK LIMITED
2020 ANNUAL RESULTS - HIGHLIGHTS

- Net operating income before change in expected credit losses and other credit impairment charges down by 17% to HK$36,068m (HK$43,514m in 2019).
- Operating profit down 30% to HK$20,125m (HK$28,610m in 2019).
- Profit before tax down by 33% to HK$19,414m (HK$28,813m in 2019).
- Profit attributable to shareholders down by 33% to HK$16,687m (HK$24,840m in 2019).
- Return on average ordinary shareholders' equity of 9.6% (15.2% in 2019).
- Earnings per share down 35% to HK$8.36 per share (HK$12.77 per share in 2019).
- Fourth interim dividend of HK$2.80 per share; total dividends of HK$5.50 per share for 2020 (HK$8.20 per share in 2019).
- Common equity tier 1 ('CET1') capital ratio of 16.8%, tier 1 ('T1') capital ratio of 18.5% and total capital ratio of 20.0% at 31 December 2020 (CET1 capital ratio of 16.9%, T1 capital ratio of 18.7% and total capital ratio of 20.8% at 31 December 2019).
- Cost efficiency ratio of 36.6% (30.0% in 2019).

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

The financial information in this press release is based on the audited consolidated financial statements of Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') for the year ended 31 December 2020.

Comment by Raymond Ch'ien, Chairman

The Covid-19 pandemic has had far-reaching economic and social consequences around the world. Challenges to the movement of goods and people have severely disrupted industrial and commercial activity and led to major shifts in patterns of consumer demand.

In terms of our business, non-interest income and net interest income were adversely affected by lower transaction volumes as commercial and personal banking customers stepped back from investment plans and spending activity. Low interest rates exerted growing pressure on the net interest margin. The weakened credit environment resulted in an overall increase in expected credit losses for the year and we recorded a net deficit on property revaluation, compared with a net surplus in 2019.

The combined impact of these factors affected our bottom line. Profit attributable to shareholders declined by 33% to HK$16,687m. Earnings per share were HK$8.36 per share. Return on average ordinary shareholders' equity was 9.6%. Return on average total assets was 1.0%.

While the difficult operating conditions in 2020 made it a challenging year for financial performance, there is positive progress in terms of our long-term strategy.

Our proactive steps to continuously improve agility and resilience enabled us to smoothly engineer our operations to ensure customers enjoyed uninterrupted access to convenient, reliable and safe banking services amid the pandemic environment. In traditional Hang Seng fashion, our dynamic approach also made it possible for us to go the extra mile and continue to roll out new service innovations, develop new markets and offer support to those in need. These achievements, which were accomplished while maintaining strong cost control and effective risk management, have further enhanced Hang Seng's institutional sustainability.

The Directors have declared a fourth interim dividend of HK$2.80 per share, bringing the total distribution for 2020 to HK$5.50 per share.

Economic Outlook

The near-term outlook for the global economy is closely tied to the world's ability to bring Covid-19 under control. While the development of vaccines, along with continuing policy support from major central banks, offer some hope for general global economic recovery in the second half of 2021, it is likely that the impacts of the pandemic will continue to reverberate beyond the end of the acute phase of this worldwide crisis. While financial markets have shown some vibrancy since the second half of last year, many real-economy uncertainties remain.

Although Hong Kong recorded an economic contraction for the whole of 2020, there was a return to the path of expansion in the second half. Further growth is potentially within view with the continuation of supportive government policy initiatives and the improvement in financial markets resulting from monetary easing by the US Federal Reserve. The situation remains fragile, however, with much depending on external variables and it may be some time before economic activity returns to its pre-recession level.

Comment by Raymond Ch'ien, Chairman *(continued)*

Mainland China has had a head-start on recovery from the global health crisis. After seeing its GDP fall by an annual rate of 6.8% in the first quarter of 2020, the economy picked up to register modest growth for the full year. Thus far, industrial production and property investment have been the major drivers of growth. Consumers have been slower to return to 'business as usual', prompting the government to focus on boosting domestic demand in its recent economic strategy. We anticipate the Mainland economy will deliver growth in the range of 6% to 8% in 2021.

A Progressive Approach, A Sustainable Strategy

Following our AGM in May, I shall retire from my position as Chairman of Hang Seng's Board of Directors after 13 years of service. I would like to express my gratitude to my fellow Board members for their support and wise counsel over the years, and to congratulate my successor, Ms Irene Lee. She knows the Bank's business well, having been an Independent Non-executive Director of the Board since May 2014. I have no doubt that Irene's deep experience and far-sighted vision will help lead Hang Seng to even greater success.

I also wish to express sincere thanks and profound appreciation to Hang Seng's professional colleagues, past and present, for their unwavering determination, dedication and drive in executing our vision to provide innovative, best-in-class services to customers. I am extremely proud of what the Bank has achieved during my tenure as Chairman. We have strengthened our position as a market leader through a strategy of customer-centric innovation that combines the power of technology with the expertise and personal touch of our people.

This past year has been a strong test of the actions we have taken to build a business that is fit for the future and able to handle the challenges that lie ahead. We have shown ourselves to be responsive, adaptable and resilient, with the right infrastructure and culture to overcome difficulties and take advantage of new opportunities.

The pandemic has also reminded people around the world of the importance of community and of working together to overcome major societal challenges. Our deep roots in Hong Kong include a long history of initiatives to enhance local development and well-being. On this front too we are stepping up our actions, with the establishment last year of an ESG Steering Committee that reports to the Executive Committee and the Board, and a renewed commitment to helping to tackle issues that are specific to our community, as well as those that affect the entire planet, such as climate change.

For 88 years, the trusted Hang Seng brand has been built on the strengths and talent of its people, sound financial fundamentals and close community ties. The Bank will continue to grow with its progressive strategy, leveraging the best of technology and its more dynamic corporate culture to further encourage innovation and creativity, supporting customers and the community while providing long-term value for shareholders. It is a privilege to serve as Hang Seng's Chairman and, from another vantage point, I look forward to being a lay cheerleader of Hang Seng Bank in the years to come.

Review by Louisa Cheang, Vice-Chairman and Chief Executive

Covid-19 has affected economies around the world in ways that were hard to imagine a year ago. Industry, commerce and the way we live were all seriously disrupted in 2020. Our priority last year was to support our customers through difficult times while ensuring we had robust measures in place to protect the health and safety of our community and our employees.

Six months ago, we pointed to four key factors that adversely affected our 2020 first-half financial performance. These were:

1. Pressure on net interest margin (NIM) and net interest income due to low interest rates;
2. The impact of market volatility on our insurance business;
3. The impact of economic uncertainty on expected credit losses (ECLs); and
4. A net deficit on property revaluation.

Although the contribution to income from our life insurance business contracted year-on-year, we recorded a good recovery in the second half. We achieved a 61% increase in revenue compared with the first half by robustly managing our investment portfolio and captured the opportunities when the equity markets became more active.

The other three factors, however, continued to weigh on our full-year performance. In particular, there was even greater downward pressure on NIM and net interest income in the second half with the decline in HIBOR.

In credit risk management, our strategy continued to be prudent. On a year-on-year basis, our ECLs increased by 49% to HK$2,738m. However, the ECL charge in the second half was 44% lower than in the first half, reflecting the adequacy of our credit loss reserves as well as some signs of an improving economic outlook.

While investment property revaluation recorded a deficit in 2020 against a surplus in 2019, the decline in the second half was less severe than that in the first half.

As a result of these factors, attributable profit for 2020 was down by 33% year-on-year at HK$16,687m.

Our key financials show the impact of the market challenges, but they also reflect our prudent approach and robust control of the balance sheet. Our strategy to invest in digital capabilities, including our omni-channel services platform, facilitated continued business flows amid social distancing measures. Our enhanced agility will enable us to move quickly on new opportunities as economies recover.

The investments and actions we have taken to transform our business over the past several years supported our swift and seamless adaptation to the realities of the pandemic.

Leveraging our digital strength, we continued to provide convenient and easy remote access to banking and wealth management services, while also launching new initiatives to further benefit customers.

We rolled out about 475 digital innovations and enhancements in 2020, more than three times the number in 2019. Major new initiatives such as Savings Planner, SimplyFund and Invest Express have made money management and investment simpler and more accessible, especially for the younger segment. For commercial customers, new digital solutions have helped them to more efficiently track real-time transactions and manage their accounts and cash flows.

Review by Louisa Cheang, Vice-Chairman and Chief Executive *(continued)*

In November we unveiled our 'Branch of the Future' service concept at MOSTown in Ma On Shan. It combines innovative technology and service models with in-person expertise and tailor-made services from our team of wealth management professionals to deliver best-in-class, customer-centric banking experiences.

New and enhanced partnerships with market leaders in other sectors such as Dairy Farm and OpenRice have added further value for our customers through spending offers and lifestyle benefits and conveniences.

Our subsidiary Hang Seng Indexes Company continues to track the pulse of the Hong Kong market and support the development of new market segments. The July launch of the Hang Seng TECH Index to follow the performance of the 30 largest innovative technology companies listed in Hong Kong was very well received in both local and international markets.

While technology is central to our long-term strategy, our real competitive strength rests in our people. I am deeply proud of the way in which my colleagues have stepped up to the many challenges created by Covid-19 to ensure uninterrupted services for our customers, while showing care and compassion to the community and each other.

An important part of our business transformation strategy has been to create a new, highly collaborative culture that gives our people more agency to try new ideas, speak up and take decisions. Our people provide the creative energy that drives our business forward. Their professionalism and expertise are what make Hang Seng a highly trusted brand.

Our business is guided by four key brand values – customer-centricity, progressive technology, creativity and corporate social responsibility – which are derived from growing and evolving with the community. I am pleased to note our efforts are being recognised. In a banking service survey conducted in the third quarter of last year, we ranked first in Hong Kong for customer service, creativity and inclusion. We also achieved a notable strengthening of our brand appeal among young people, who play an important role in our future business growth.

Financial Overview

As outlined above, the difficult operating environment significantly affected our financial performance.

Net operating income fell by 20% to HK$33,330m.

Net interest income dropped by 17% to HK$26,906m. We recorded increased volumes from balance sheet growth and a 6% rise in average interest-earning assets. However, the persistent low interest rate environment and decline in HIBOR continued to tighten deposit spreads. Year-on-year, NIM fell by 47 basis points, or 21.4%, from 2.20% to 1.73%.

Review by Louisa Cheang, Vice-Chairman and Chief Executive *(continued)*

Financial Overview *(continued)*

Non-interest income dropped by 19% to HK$9,162m. Income from many of our fee-generating services was down due to the pandemic's disruptive impact on commercial activity and consumer spending. One highlight was fee income from stockbroking and related services, which rose by 58%, as we benefited from increased investor activity in the second half and the popularity of our securities trading mobile app, Invest Express.

Net trading income and net income from financial instruments designated at fair value through profit or loss together grew by 18%, due mainly to increased income from foreign exchange activities.

Net income from assets and liabilities of the insurance business measured at fair value fell by HK$766m to HK$823m, reflecting unfavourable market movements in the first half followed by some recovery in the second half.

Net insurance premium income was down by 2%, with lower income from new business sales largely offset by more renewals business.

Change in ECLs and other credit impairment charges increased by HK$901m to HK$2,738m.

During the year, we proactively supported clients through the difficulties of the pandemic by offering a number of financial relief measures and arrangements. As at the end of December, gross impaired loans and advances as a percentage of gross loans and advances to customers were 0.60%. However, much of the impacted loans and advances are secured by tangible collaterals. We believe our ratio is on the low side of the industry average.

Operating expenses were on par with 2019. Our cost efficiency ratio was 36.6%.

Operating profit fell by 30% to HK$20,125m. Operating profit excluding the change in ECLs and other credit impairment charges declined by 25% to HK$22,863m.

Investment property revaluation recorded a net deficit of HK$636m, compared with a net surplus of HK$35m in 2019, reflecting softer sentiment in the commercial property market.

Profit before tax was down by 33% at HK$19,414m. Attributable profit fell by 33% to HK$16,687m.

Our capital base remains strong. At 31 December 2020, our common equity tier 1 capital ratio was 16.8%, our tier 1 capital ratio was 18.5%, and our total capital ratio was 20.0%, compared with 16.9%, 18.7% and 20.8% respectively at 2019 year-end.

Our strong financial fundamentals will allow us to strategically deploy resources to maintain momentum in our core businesses when economic activity picks up again post-pandemic.

Review by Louisa Cheang, Vice-Chairman and Chief Executive *(continued)*

Moving Forward Together for Future Success

The consequences of Covid-19 are still playing out. Financial markets have shown some signs of improvement since the second half of 2020, but uncertainties continue to weigh on the real economy around the world. It could still be some time before we see economic recovery and a gradual return to pre-pandemic levels of business and consumer activities. The low interest rate environment will continue to put pressure on the net interest margin, which will also provide challenges for us.

This year, Hang Seng will proudly celebrate 88 years of service and connection to the Hong Kong community. Since our founding in 1933, we have established ourselves as a trusted brand and the leading local bank by standing with the people of Hong Kong in good times and in bad. We are transforming our business to enhance our long-term capacity to positively transform the lives of customers and the community.

With a more dynamic corporate culture and investing in people and technology, we are building a business that will grow together with our customers, offering innovative, best-in-class services to support them in achieving their financial goals. At the same time, we will continue to play an active role in social development and environmental programmes.

2020 will be a difficult year to forget. It reminded us of the vital importance of human connections. We have nurtured and grown these connections with our customers and the Hong Kong community over the past 88 years. This bond is firm and deep. From this, we have drawn strength to overcome many challenges in the past. We will do so again to move past Covid-19 and build an even better and more sustainable bank, and community, for our future generations.

Finally, on behalf of the management team and all Hang Seng staff members, I would like to wish our Chairman, Raymond Ch'ien, all the very best for after he retires later this year. Over the last 13 years, we have benefitted greatly from his wisdom and guidance. We could not have accomplished so much without his support. We are delighted that Independent Non-executive Director Irene Lee will be our new Chairman. With her rich experience and far-sighted vision, we look forward to working even more closely with her to take the Bank to its next level of success.

Results Summary

The impact of the Covid-19 pandemic on the global economy and peoples' lives made 2020 one of the most challenging years for business in recent decades. Under the shadow of Covid-19, many industries experienced extremely difficult operating conditions. The economic effects of the pandemic on the Bank's customers were the main driver of the change in the Group's 2020 financial performance, which compares unfavourably with that for 2019. The decline in the Group's income reflects stagnant lending and lower transaction volumes, as well as decreased insurance-related income given the volatile nature of international capital markets particular in the first half of the year. Although the economic outlook remains uncertain, the Group will continue to work closely with the Hong Kong government and regulators, and to use the strength of its balance sheet and business model to support customers, the community and the Hong Kong economy.

The Group delivered a resilient performance in 2020 given the very challenging economic environment created by the global pandemic. **Net operating income before change in expected credit losses and other credit impairment charges** was HK$36,068m, down 17%, due to lower net interest income and non-interest income. Net interest income was 17% lower, reflecting narrowing margins as global interest rates fell in response to the effects of Covid-19. Wealth management business income was down by 14%, due mainly to subdued levels of customer activity, a decrease in insurance business-related income due to lower investment returns and a decline in retail investment fund sales income, although these declines were partly offset by growth in income from securities broking-related services. Operating expenses went up by 1% when compared with 2019. Change in expected credit losses and other credit impairment charges ('ECLs') increased by 49% to HK$2,738m, reflecting higher charges related to stage 3 specific wholesale exposures and the impact from updates to the forward-looking economic outlook model. This had an adverse impact on **operating profit**, which dropped by 30% to HK$20,125m. Investment property revaluation recorded a deficit compared with a surplus for 2019, resulting in a 33% drop in **profit before tax** to HK$19,414m and in **profit attributable to shareholders** to HK$16,687m.

Net interest income decreased by HK$5,349m, or 17%, to HK$26,906m, with increased volumes from balance sheet growth more than offset by the narrowing net interest margin. The impact of the significant reduction in interest rates that occurred during the year was reflected in the full-year results, with net interest margin down by 47 basis points to 1.73%, due mainly to balance sheet repricing. Net interest spread declined by 40 basis points to 1.59% and contribution from net-free funds dropped by 7 basis points to 0.14% as a result of the decline in market interest rates.

Average interest-earning assets grew by HK$86bn, or 6%, to HK$1,553bn, driven by growth in average deposits. The Markets Treasury team managed the interest rate effectively to defend the interest margin and achieve yield enhancement while upholding prudent risk management standards. However, this was more than offset by the compressed deposit spread, despite the shift of funds from time deposits to low-cost savings and current deposits, driven by the progressive interest rate reductions during the year versus a higher market interest rate environment in 2019. The low interest rate environment also led to a reduction in contribution from net-free funds.

Net fee income decreased by HK$86m, or 1%, to HK$6,367m, reflecting lower levels of customer activity across the Group's fee-generating business activities, due largely by the effects of the pandemic. Income from retail investment funds was down by 14%. Card services income decreased by 22%, due mainly to lower card spending and merchant sales. Account services fees dropped by 17%, due partly to the removal of service fees on certain banking products. Fee income from insurance, trade finance and remittances fell by 7%, 18% and 42% respectively. Credit facilities fees were down by 11%, due to lower corporate lending activity. These declines were significantly offset by stockbroking and related services fee income, which grew by 58% from increased transaction volume, supported in part by the Group' standalone securities trading app.

Net income from financial instruments measured at fair value through profit or loss decreased by HK$382m, or 10%, to HK$3,320m.

Net trading income and net income from financial instruments designated at fair value through profit or loss together rose by HK$380m, or 18%, to HK$2,503m, driven by the increase in income from foreign exchange activities.

Net income from assets and liabilities of insurance businesses measured at fair value through profit or loss fell by HK$766m, or 48%, to HK$823m. Investment returns on financial assets supporting insurance liabilities contracts was substantially impacted, reflecting unfavourable movement in the first half of the year with the significant volatility in global equities prices and a partial recovery in the second half, compared with more favourable market movement trends in 2019. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement reported under '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.

Income from insurance business (included under 'net interest income', 'net fee income', 'net income from financial instruments measured at fair value through profit or loss', 'net insurance premium income', 'movement in present value of in-force long-term insurance business' and **'others'** within **'other operating income', 'share of profits/(losses) of associates'** and after deducting **'net insurance claims and benefits paid and movement in liabilities to policyholders'** and **'change in expected credit losses and other credit impairment charges')** decreased by HK$1,983m, or 32%, to HK$4,275m. Net interest income and fee income from life insurance business rose by 7%. Investment returns on the life insurance portfolio decreased by HK$980m, or 58%, to HK$724m, mainly driven by the unfavourable equity market performance in 2020 as compared with a favourable equity market performance in 2019. To the extent that these investment returns were attributable to policyholders, there was an offsetting movement in 'net insurance claims and benefits paid and movement in liabilities to policyholders' or 'movement in PVIF' under other operating income.

Net insurance premium income fell by 2%, reflecting lower new business sales due largely to the impact of the pandemic, partly offset by higher renewals business. In the challenging operating environment, the Group continued to enrich its comprehensive range of tax and retirement planning products as well as healthcare solutions to suit different customer needs, and extended distribution to a new non-face-to-face channel to facilitate sales amid social distancing measures. The Group also supported customers through concessionary measures that provide additional Covid-19-related coverage.

Net insurance claims and benefits paid and movement in liabilities to policyholders decreased by 8%. Despite a strengthening of policyholders' liabilities under the regular review of the discount rate to reflect the decrease in the prevailing interest rate for both 2020 and 2019, the impact was less significant for 2020 than in the previous year. The decrease in movement in liabilities to policyholders also reflects lower new business sales, though this was partly offset by the recapture of a portfolio of policyholders' liabilities that was under a tactical reinsurance arrangement.

The movement in PVIF decreased by 54%, due to lower new business sales and lower impact arising from the abovementioned revision of the discount rate on policyholders' liabilities in 2020 compared with 2019. The effects of these factors were partly offset by a positive adjustment to PVIF to account for the sharing of unfavourable investment returns attributable to policyholders.

General insurance income was down by 7% compared with 2019.

Change in expected credit losses and other credit impairment charges increased by HK$901m, or 49%, to HK$2,738m, reflecting the deterioration in the macro-economic environment as a result of the impact of Covid-19.

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 estimated impact of Covid-19 was incorporated in ECLs through additional scenario analysis, which considered different severity and duration assumptions. This included probability weighted shocks to annual GDP and consequential impacts on unemployment and other economic variables, with different economic recovery assumptions.

Change in ECLs reflected a significant increase in stage 1 and stage 2 (unimpaired credit exposures) in the first half of the year, which reflected the then potential future losses in light of the Group's revised economic outlook taking into account deterioration in the forward economic outlook globally as a result of Covid-19. The outlook and economic scenario were updated in 4Q 2020 to reflect the improving economic environment compared with the conditions that were anticipated at the end of the first half, as well as the relatively improved outlook for key economic variables such as GDP and house prices. As a result, change in ECLs for stages 1 and 2 registered a net decrease of HK$594m when compared with 2019, reflecting a more resilient economic performance in 2020. Wealth and Personal Banking ('WPB') accounted for HK$149m of the reduction, with the remaining HK$445m coming from Commercial Banking ('CMB') and Global Banking and Markets ('GBM'). The decrease in ECLs for stage 1 and 2 is also partly due to the downgrade of a handful of corporate customers from stage 2 to stage 3, which led to larger shift between stage 2 and stage 3 ECL charges.

Change in ECLs for stage 3 and purchased or originated credit-impaired exposures (impaired credit exposures) increased by HK$1,495m when compared with 2019, with the rise related largely to a small number of wholesale credit exposures. WPB accounted for HK$286m, due mainly to higher charges on credit card and personal loan portfolios. The remaining HK$1,209m was due to the downgrade of several CMB customers during the year.

Gross impaired loans and advances were up by HK$3,651m, or 176%, against 2019 year-end at HK$5,724m. Several impaired corporate loans through our Mainland banking subsidiary and Hong Kong office were downgraded during the year as a result of the Covid-19 pandemic. Taking into account the collaterals and the ECL allowances provided, 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 0.60% as at 31 December 2020, compared with 0.32% at 30 June 2020 and 0.22% at the end of December 2019. Overall credit quality remained robust.

The Group remains vigilant and will continue to closely monitor the market situation. Regular reviews on credit portfolios and sectors are carried out to help identify and mitigate any potential risks.

Operating expenses increased by HK$148m, or 1%, to HK$13,205m, reflecting an increase in investments, mainly IT-related costs to enhance our digital capabilities, depreciation and amortisation of intangible assets.

Staff costs were down by 2%, driven by lower performance-related pay and headcount, partly offset by the salary inflation.

Depreciation charges increased by 6%, due mainly to higher depreciation charges on equipment and increased depreciation of right-of-use assets. Amortisation of intangible assets increased by 81%, related mainly to capitalised IT system development costs.

General and administrative expenses were up by 1%. IT costs increased but these were partly offset by lower marketing and advertising expenses.

The cost efficiency ratio increased by 6.6 percentage points to 36.6%, due mainly to the impact of lower revenue resulting from decreased net interest income and wealth management business income amid the pandemic.

Reflecting the unfavourable property market as compared with 2019, **net surplus/(deficit) on property revaluation** recorded a net deficit of HK$636m in 2020, compared with a net surplus of HK$35m in the previous year. **Share of profits/(losses) of associates** recorded a loss of HK$75m, compared with a profit of HK$168m for 2019, largely reflecting the revaluation loss of a property investment company.

Second half of 2020 compared with first half of 2020

In this historically challenging year, the Group's first-half results reflect the business impact of the Covid-19 pandemic, the downward movement in interest rates, and geopolitical and macroeconomic risks around the world. The Group's relatively more robust second-half results reflect its actions to grow wealth management business income as financial markets began to recover and a reduction in ECL charges following an improvement in the economic outlook. However, the progressive impact of lower interest rates in the second half continued to have an adverse effect on net interest income, leading to an overall decline in second-half bottom-line performance. The Group will continue to monitor the effectiveness of its strategy and to drive business momentum to ensure it remains well-positioned to capture business growth opportunities as markets and economies recover.

Net operating income before change in expected credit losses and other credit impairment charges was HK$16,881m, down by HK$2,306m, or 12%. The impact of the 18% fall in net interest income due to lower interest rates was partly offset by the 8% increase in non-interest income as economic activity began to pick up. Operating profit decreased by HK$2,143m, or 19%, due mainly to higher operating expenses, partly offset by lower ECL charges. The reduction in net deficit on investment property revaluation compared to the first half, together with a share of profits from associates versus a share of losses from associates resulted in a HK$1,599m, or 17%, decrease in profit attributable to shareholders.

Net interest income decreased by HK$2,678m, or 18%, with the increase in average balance sheet growth more than offset by the narrowed net interest margin in the declining low interest rate environment. Average interest-earning assets grew by 5%, driven by the increase in average deposits. Net interest margin was under increased pressure, falling by 44 basis points to 1.52%, reflecting the flow-through of falling interest rates and compressed deposit spreads. Contribution from net-free funds was also adversely affected by the low interest rate environment and the significant drop in HIBOR during the last quarter of the year.

Non-interest income was up by HK$372m, or 8%, due largely to a 32% growth in wealth management business income. Investment services income rose by 11%, driven mainly by increased income from stockbroking and related services, facilitated in part by the Group's standalone securities trading app. Insurance businesses income also grew strongly, rising by 56%, attributable to the success of our active portfolio management following the partial rebound of financial markets in the second half.

Operating expenses increased by HK$619m, or 10%, driven mainly by higher general and administrative expenses with increases in marketing and advertising costs and data-processing fees. The increase in marketing and advertising costs was to support investment services and insurance business, which moved swiftly to capture returning business opportunities and achieved good growth in the second half. These increases in costs were partly offset by reduced staff costs, due mainly to lower headcount through natural attrition. We will continue to actively manage operating expenses to facilitate the continued direction of resources towards further optimising our digital capabilities.

ECL charges decreased by HK$782m, or 44%, largely due to reduced impairment charges under stage 1 and 2 unimpaired credit exposures, partly offset by higher impairment charges on stage 3 impaired credit exposures. Stage 1 and 2 ECL charges increased significantly to HK$904m in the first half, reflecting updates to certain key variables of our prudent model for the economic outlook to account for the challenges of the pandemic. Subsequent updates to these variables to reflect changes in the economic environment during the second half, together with the impact of government support measures, led to a HK$360m net release of stage 1 and 2 ECL charges in the second half. Stage 3 ECL charges increased by HK$482m when compared with first half to HK$1,338m, reflecting the downgrade of several Commercial Banking customers across multiple sectors, partly offset by lower ECL charges on credit cards and personal lending.

Net surplus/(deficit) on property revaluation recorded a lower revaluation deficit of HK$220m when compared with the first half. Share of profits/(losses) of associates recorded a profit of HK$12m, compared with a loss of HK$87m for the first half.

Consolidated Balance Sheet and Key Ratios

Assets

Total assets increased by HK$83bn, or 5%, to HK$1,760bn compared with 2019 year-end, with the Group maintaining good business momentum and advancing its strategy of enhancing profitability through sustainable growth.

Cash and balances at central banks decreased by HK$2bn, or 14%, to HK$11bn, due mainly to fund redeployment. Trading assets were down by HK$10bn, or 22%, to HK$37bn, mainly in Hong Kong Exchange Fund Bills.

Customer loans and advances (net of ECL allowances) were HK$945bn, broadly unchanged from the end of 2019. In response to the Covid-19 pandemic, the government introduced a number of measures to support businesses and the community. The Group actively supported these measures and launched additional initiatives to support retail and corporate customers. Loans for use in Hong Kong grew by 1%. Lending to industrial, commercial and financial sectors was broadly in line with 2019 year-end, with the growth in wholesale and retail trade and working capital financing for certain large corporate customers operating in industries that are classified under the 'Others' sector largely offset by the decrease in lending to property investment and financial concerns sectors. Lending to individuals grew by 4%, due primarily to a rise in residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending, which outweighed the decrease in credit card lending due to lower card spending. Trade finance lending decreased by 20%, due to the slowdown in global trade volumes. Loans for use outside Hong Kong were flat year-on-year, with increased lending by the Group's Mainland banking subsidiary offset by loans for use outside Hong Kong granted by the Hong Kong office.

Financial investments increased by HK$93bn, or 20%, to HK$555bn, reflecting the partial redeployment of the commercial surplus in debt securities for yield enhancement and liquidity management and the increase in insurance financial instrument portfolios.

Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK$54bn, or 4%, to HK$1,304bn against the end of 2019. Current and savings deposits increased, but there was a drop in time deposits. To diversify the funding source, the Group issued more certificates of deposit in the fourth quarter of 2020. At 31 December 2020, the advances-to-deposits ratio was 72.4%, compared with 75.4% at 31 December 2019.

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Customer loans and advances (net of ECL allowance)	**944,774**	942,930
Customer deposits, including certificates of deposit and other debt securities in issues	**1,304,083**	1,249,799
Advances-to-deposits ratio	**72.4%**	75.4%

Liabilities and equity *(continued)*

At 31 December 2020, shareholders' equity increased by HK$4bn, or 2%, to HK$183bn compared with 2019 year-end. Retained profits were up by HK$4bn, or 3%, reflecting profit accumulation after the appropriation of dividends paid during the year. The premises revaluation reserve decreased by HK$2bn, or 10%, reflecting the unfavourable movement in the commercial property market during the year. Financial assets at fair value through other comprehensive income reserve were up by HK$1bn, or 38%, mainly reflecting the fair value movement of the Group's investments in financial assets measured at fair value.

Key ratios

Return on average total assets was 1.0% (1.5% for 2019). **Return on average ordinary shareholders' equity** was 9.6% (15.2% for 2019).

At 31 December 2020, the **common equity tier 1 ('CET1') capital ratio, tier 1 ('T1') capital ratio** and **total capital ratio** were 16.8%, 18.5% and 20.0% respectively, compared with 16.9%, 18.7% and 20.8% respectively at 2019 year-end. CET1 and Tier 1 capital ratio decreased by 0.1 and 0.2 percentage points respectively against 2019 year-end. This reflects the net effect of an increase in CET1 and T1 capital base (mainly reflecting profit accumulation for the year and the lowering of the regulatory reserve target rate partly offset by payment of 4Q 2019 and 1Q-3Q 2020 interim dividends) and increase in total risk-weighted assets. Total capital ratio decreased by 0.8 percentage points, a larger decline compared with CET1 and T1 capital ratios, due to a drop in the property revaluation reserve eligible for inclusion in Tier 2 capital.

Under the Banking (Liquidity) Rules, the average **liquidity coverage ratio ('LCR')** ranged from 181.6% to 207.8% for the quarters ended 31 March, 30 June, 30 September and 31 December 2020. The average LCR ranged from 198.5% to 210.8% for the corresponding quarters in 2019. For both years, the Group maintained a healthy average LCR that was higher than the statutory requirement of 100%. The LCR at 31 December 2020 was 230.4% compared with 205.9% at 31 December 2019. The period-end **net stable funding ratio ('NSFR')** ranged from 146.0% to 152.9% for the quarters ended 31 March, 30 June, 30 September and 31 December 2020, well in excess of the regulatory requirement of 100%. The period-end NSFR ranged from 148.6% to 152.5% for the corresponding quarters in 2019.

Dividends

The Directors have declared a fourth interim dividend of HK$2.80 per share, which will be payable on 25 March 2021 to shareholders on the register as of 10 March 2021. Together with interim dividends for the first three quarters, the total distribution for 2020 will be HK$5.50 per share.

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Year ended 31 December 2020					
Net interest income/(expense)	**14,733**	**8,307**	**4,418**	**(552)**	**26,906**
Net fee income	**4,214**	**1,596**	**301**	**256**	**6,367**
Net income/(loss) from financial instruments measured at fair value through profit or loss	**1,724**	**317**	**1,417**	**(138)**	**3,320**
Gains less losses from financial investments	**(15)**	**1**	**4**	**–**	**(10)**
Dividend income	**–**	**–**	**–**	**157**	**157**
Net insurance premium income	**14,219**	**1,082**	**–**	**–**	**15,301**
Other operating income/(loss)	**2,076**	**(37)**	**6**	**236**	**2,281**
Total operating income/(loss)	**36,951**	**11,266**	**6,146**	**(41)**	**54,322**
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(17,288)**	**(966)**	**–**	**–**	**(18,254)**
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	**19,663**	**10,300**	**6,146**	**(41)**	**36,068**
Change in expected credit losses and other credit impairment charges	**(973)**	**(1,771)**	**6**	**–**	**(2,738)**
Net operating income/(loss)	**18,690**	**8,529**	**6,152**	**(41)**	**33,330**
Operating expenses[1]	**(8,144)**	**(3,428)**	**(1,173)**	**(460)**	**(13,205)**
Operating profit/(loss)	**10,546**	**5,101**	**4,979**	**(501)**	**20,125**
Net deficit on property revaluation	**–**	**–**	**–**	**(636)**	**(636)**
Share of profits/(losses) of associates	**(76)**	**–**	**–**	**1**	**(75)**
Profit/(loss) before tax	**10,470**	**5,101**	**4,979**	**(1,136)**	**19,414**
Share of profit/(loss) before tax	**53.9%**	**26.3%**	**25.7%**	**(5.9)%**	**100.0%**
Operating profit/(loss) excluding change in expected credit losses and other credit impairment charges	**11,519**	**6,872**	**4,973**	**(501)**	**22,863**
[1] Depreciation/amortisation included in operating expenses	**(23)**	**(8)**	**(3)**	**(2,349)**	**(2,383)**
At 31 December 2020					
Total assets	**545,383**	**404,157**	**785,858**	**24,389**	**1,759,787**
Total liabilities	**1,035,454**	**323,783**	**217,188**	**167**	**1,576,592**
Interest in associates	**2,358**	**–**	**–**	**–**	**2,358**
Non-current assets acquired during the year	**162**	**52**	**3**	**1,893**	**2,110**

Year ended 31 December 2020					
Net fee income by segment					
- securities broking and related services	**1,933**	**205**	**17**	**–**	**2,155**
- retail investment funds	**1,291**	**22**	**–**	**–**	**1,313**
- insurance	**446**	**75**	**70**	**–**	**591**
- account services	**251**	**133**	**7**	**–**	**391**
- remittances	**65**	**187**	**36**	**–**	**288**
- cards	**1,175**	**1,142**	**48**	**–**	**2,365**
- credit facilities	**22**	**433**	**143**	**–**	**598**
- trade services	**–**	**334**	**31**	**–**	**365**
- other	**131**	**110**	**39**	**242**	**522**
Fee income	**5,314**	**2,641**	**391**	**242**	**8,588**
Fee expense	**(1,100)**	**(1,045)**	**(90)**	**14**	**(2,221)**
Net fee income	**4,214**	**1,596**	**301**	**256**	**6,367**

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking and Markets*	*Other*	*Total*
Year ended 31 December 2019					
Net interest income/(expense)	17,717	10,439	4,527	(428)	32,255
Net fee income	3,928	1,945	321	259	6,453
Net income/(loss) from financial instruments measured at fair value through profit or loss	1,977	396	1,366	(37)	3,702
Gains less losses from financial Investments	(3)	(1)	26	–	22
Dividend income	–	–	–	143	143
Net insurance premium income	13,930	1,722	–	–	15,652
Other operating income	4,807	42	–	265	5,114
Total operating income	42,356	14,543	6,240	202	63,341
Net insurance claims and benefits paid and movement in liabilities to policyholders	(18,297)	(1,530)	–	–	(19,827)
Net operating income before change in expected credit losses and other credit impairment charges	24,059	13,013	6,240	202	43,514
Change in expected credit losses and other credit impairment charges	(836)	(857)	(144)	–	(1,837)
Net operating income	23,223	12,156	6,096	202	41,677
Operating expenses[1]	(8,024)	(3,361)	(1,136)	(536)	(13,057)
Impairment loss on intangible assets	–	–	–	(10)	(10)
Operating profit/(loss)	15,199	8,795	4,960	(344)	28,610
Net surplus on property revaluation	–	–	–	35	35
Share of profits/(losses) of associates	172	–	–	(4)	168
Profit/(loss) before tax	15,371	8,795	4,960	(313)	28,813
Share of profit/(loss) before tax	53.4%	30.5%	17.2%	(1.1)%	100.0%
Operating profit/(loss) excluding change in expected credit losses and other credit impairment charges	16,035	9,652	5,104	(344)	30,447
[1] Depreciation/amortisation included in operating expenses	(25)	(4)	(2)	(2,105)	(2,136)
At 31 December 2019					
Total assets	522,253	405,779	712,927	36,032	1,676,991
Total liabilities	971,389	303,606	201,948	21,131	1,498,074
Interest in associates	2,522	–	–	(2)	2,520
Non-current assets acquired during the year	152	25	9	1,548	1,734

Year ended 31 December 2019					
Net fee income by segment					
- securities broking and related services	1,167	171	27	–	1,365
- retail investment funds	1,511	23	–	–	1,534
- insurance	491	80	66	–	637
- account services	294	168	7	–	469
- remittances	70	382	41	–	493
- cards	1,433	1,548	32	–	3,013
- credit facilities	25	489	158	–	672
- trade services	–	409	37	–	446
- other	84	84	26	249	443
Fee income	5,075	3,354	394	249	9,072
Fee expense	(1,147)	(1,409)	(73)	10	(2,619)
Net fee income	3,928	1,945	321	259	6,453

Wealth and Personal Banking ('WPB') recorded an 18% year-on-year decrease in net operating income before change in expected credit losses and other credit impairment charges to HK$19,663m compared with 2019. Operating profit dropped by 31% to HK$10,546m and profit before tax decreased by 32% to HK$10,470m.

We leveraged advanced data analytics and our digital platform to deepen customer relationships, strengthen engagement and grow our portfolio. Deposit balances grew by 7% and loans balances increased by 3% compared with 2019 year-end. The significant decline in market interest rates during the year, resulted in a 17% drop in net interest income to HK$14,733m.

The volatile global investment markets had an impact on investor activity, resulting in a 22% decrease in non-interest income to HK$4,930m. Wealth management business revenue fell by 15%.

We ramped up the development of our digital infrastructure to meet changes in banking behaviour among our customers. The number of Personal e-Banking new registrations increased by 40% in Hong Kong, mobile app log-ons rose by 73% and the total number of e-Banking and digital transactions grew by 124% year-on-year. We added new online products and services to expand and enrich our suite of customer-centric solutions. We delivered more than 350 new digital features and enhancements in 2020, including online authenticated chat with our customer contact centre, chat with our virtual assistant – HARO – via WhatsApp, our SimplyFund investment platform that offers young and novice investors the opportunity to begin investing with as little as HK$1, and new digital insurance products. We also collaborated with multiple business partners - including New World CLUB and SmarTone - on API initiatives to provide more convenient and value-added banking and lifestyle services.

Total investment services income recorded year-on-year growth of 19%. We achieved strong securities business growth, facilitated in part by the rolling out of new eIPO and financing features in our Invest Express Stock Trading app. We also leveraged strong digital and data analytics capabilities to enhance frontline productivity by facilitating our understanding and anticipation of customer needs in fluid market conditions. This made it easier for us to proactively offer the right products and services at the right time.

Insurance income fell by 32%, due mainly to a drop in new business amid the pandemic. Despite the challenges, we achieved strong digital business growth, recording a 89% increase in terms of policy count and a 59% rise in new premiums, and establishing a good foundation from which to further build our online insurance business. We also launched DigiLife, an online platform that aims to provide an enhanced experience for customers by making it easy for them to view their policy details anytime, anywhere and to purchase different insurance products online. Our active portfolio management improved investment returns from the life insurance portfolio in the second half.

We leveraged our extensive network to strengthen engagement with customers in both the primary and secondary property markets. This helped facilitate the 5% growth in our mortgage balances in Hong Kong. Our new mortgage business continued to rank among the top three in Hong Kong. Our collaborations with Midland Realty and mReferral enhanced opportunities to contact potential customers and offered customers a more convenient and streamlined mortgage application process.

Although card spending was adversely affected by reduced travel and consumer spending amid the pandemic, we launched a series of effective product and marketing initiatives that enabled us to maintain solid momentum and outpace the market average. Our strategy centred on adapting to the changing priorities of our customers, with a shift in focus towards everyday spending and e-commerce, as well as our relaunch of the enJoy Co-brand Card reward programme. We also solicited a new partnership to further expand our Cash Dollar ecosystem and deliver rewarding dining experiences – both in restaurants and when ordering deliveries online – for our cardholders. In 2020, our online food & beverage transactions grew by three times, while our e-commerce transactions, excluding travel, rose by 31% year-on-year.

We continued to build solid customer relationships. Our enhanced data analytics capabilities and more agile business structure enabled us to anticipate changing customer needs and act swiftly to offer suitable products and services. This brought us new business and we recorded a 15% year-on-year rise in the Prestige and Preferred Banking customer base in 2020. To further expand the high-net-worth customer base, we launched Signature, which offers personalised and exclusive banking services to top-tier customers.

Commercial Banking ('CMB') recorded a 21% year-on-year reduction in net operating income before change in expected credit losses and other credit impairment charges to HK$10,300m. Operating profit and profit before tax both decreased by 42% to HK$5,101m.

Net interest income was severely impacted by the low interest rate environment and dropped by 20% to HK$8,307m. With the significant decline in commercial and industrial business activities due to the impact and challenges of the pandemic, non-interest income declined by 23% to HK$1,993m. Our agile business structure enabled us to move quickly to capture opportunities from market trading activities, resulting in a 14% increase in investment services income. We were focused on structured finance and syndicated loans, which led to Hang Seng ranking second in the League Table for Hong Kong Mandated Arranger in terms of number of deals in 2020.

Our dedication to provide swift and safe online transactions ensured our customers experienced seamless banking services during the Covid-19 pandemic. With our new Business Banking Remote Account Opening Service, commercial customers can now open an account anytime, anywhere without the need to make an appointment or visit a Business Banking Centre in person. Customers are also able to apply for the loan guarantee products under Hong Kong Mortgage Corporation's SME Financing Guarantee Scheme ('SFGS') through a dedicated online application platform that includes a documents upload function.

We further enhanced our transactional banking capabilities to make it easier for customers to manage their operating cash flow. We introduced Corporate API, which enables customers to integrate their daily business operations with our core banking services in order to increase the visibility of account balances and transaction activities for greater operational efficiency. Our new payment and receivables tracker enables customers to enjoy real-time, end-to-end tracking of the status of their outward and inward payments. Our Flexi-Fixed Deposit product enables customers to enjoy preferential interest rates without needed to fix the tenor of their deposit.

Other initiatives to improve the service experience of customers include enhancements to our digital channels, including our desktop and mobile e-banking platforms, AI chatbot BERI, Live Chat and Customer Contact Centre. Supported by strong data analytics capabilities, customised services are provided to customers at the right time via their preferred channel.

We continued to support our customers during the pandemic by actively participating in the SFGS. Change in expected credit losses and other credit impairment charges increased due mainly to the downgrade of a few customers with the deterioration in the global economy. We continued to uphold vigilant credit risk management and the overall asset quality remained resilient.

Our commitment to digital innovation has been recognised with awards including 'API Project of the Year' in *Asian Banking & Finance*'s Wholesale Banking Awards 2020, and 'Best Payment Bank in Hong Kong' and 'Best Frictionless Transaction Award – One Collect Merchant Acquisition Solution' in *The Asian Banker* Transaction Banking Awards. We also received 'Best Payment and Collection Solution' and 'Best in Treasury and Working Capital – SME's Hong Kong' awards from *The Asset*.

Global Banking and Markets ('GBM') recorded a 2% year-on-year decrease in net operating income before change in expected credit losses and other credit impairment charges to HK$6,146m. Operating profit and profit before tax were both broadly on par with a year earlier at HK$4,979m.

Global Banking (**'GB'**) recorded a 5% year-on-year drop in net operating income before change in expected credit losses and other credit impairment charges to HK$2,732m. After expected credit losses, operating profit and profit before tax both fell by 2% to HK$2,150m.

Net interest income decreased 6% to HK$2,372m as compared with 2019. With our lending portfolio optimisation strategy and the strong demand for stagging loans in the second half of the year, loan interest income grew by 7%. Our proactive approach in offering customers tailor-made cash management solutions helped to drive growth in the current and savings deposits balance, which increased by 46%. However, net interest income from deposits declined year-on-year, due mainly to the adverse impact of the low interest rate environment.

Despite challenging market conditions, non-interest income rose by 2% to HK$360m, due mainly to fee income from credit facilities on the back of the solid growth in lending.

Leveraging strong customer relationships, we continued to broaden the fee income stream, particularly through our Debt Capital Markets Origination team and effective cross-business collaboration. We also continued to help customers in need through the Principal Payment Holiday Scheme offered by HKMA amid the prolonged pandemic situation.

Global Markets ('GM') recorded a 2% year-on-year increase in net operating income before change in expected credit losses and other credit impairment charges to HK$3,414m. Operating profit and profit before tax both increased by 2% to HK$2,829m.

Net interest income increased by 2% to HK$2,046m. The Markets Treasury team managed interest rate risk effectively, taking steps to proactively defend the interest margin and achieve yield enhancement while upholding prudent risk management standards.

Non-interest income increased by 1% to HK$1,368m. The increase in volatility in foreign exchange markets, together with the changing interest rate environment, resulted in an increase in non-fund income from trading and client activities. Besides equities and structuring, trading departments responsible for repo, foreign exchange and option trading achieved strong revenue growth, which offset the revenue drop in rates trading. Sales revenue remained steady despite the negative impact of the Covid-19 pandemic. The increases in foreign exchange investment by WPB customers and use of interest rate hedging products by corporate customers largely offset the drop in corporate foreign exchange. GM continued with initiatives to deepen product penetration among Bank customers through close collaboration with the other business segments.

The new Repo Trading department has become a good source of revenue since its establishment in the second half of 2019, demonstrating our commitment to diversifying our sources of revenue for sustainable business growth.

Figures in HK$m	***Year ended 31 December*** ***2020***	*2019*
Interest income	**35,697**	44,190
Interest expense	**(8,791)**	(11,935)
Net interest income	**26,906**	32,255
Fee income	**8,588**	9,072
Fee expense	**(2,221)**	(2,619)
Net fee income	**6,367**	6,453
Net income from financial instruments measured at fair value through profit or loss	**3,320**	3,702
Gains less losses from financial investments	**(10)**	22
Dividend income	**157**	143
Net insurance premium income	**15,301**	15,652
Other operating income	**2,281**	5,114
Total operating income	**54,322**	63,341
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(18,254)**	(19,827)
Net operating income before change in expected credit losses and other credit impairment charges	**36,068**	43,514
Change in expected credit losses and other credit impairment charges	**(2,738)**	(1,837)
Net operating income	**33,330**	41,677
Employee compensation and benefits	**(6,102)**	(6,229)
General and administrative expenses	**(4,720)**	(4,692)
Depreciation expenses	**(2,086)**	(1,972)
Amortisation of intangible assets	**(297)**	(164)
Operating expenses	**(13,205)**	(13,057)
Impairment loss on intangible assets	–	(10)
Operating profit	**20,125**	28,610
Net surplus/(deficit) on property revaluation	**(636)**	35
Share of profits/(losses) of associates	**(75)**	168
Profit before tax	**19,414**	28,813
Tax expense	**(2,744)**	(3,991)
Profit for the year	**16,670**	24,822
Profit attributable to:		
Shareholders of the Bank	**16,687**	24,840
Non-controlling interests	**(17)**	(18)
Earnings per share – basic and diluted (in HK$)	**8.36**	12.77

Details of dividends payable to shareholders of the Bank attributable to the profit for the year are set out on page 32.

Figures in HK$m	*Year ended 31 December* ***2020***	*2019*
Profit for the year	**16,670**	24,822
Other comprehensive income		
Items that will be reclassified subsequently to the Consolidated Income Statement when specific conditions are met:		
Debt instruments at fair value through other comprehensive income (‘FVOCI’):		
- fair value changes taken to equity	**759**	771
- fair value changes transferred to income statement:		
-- on hedged items	**(663)**	(760)
-- on disposal	**(3)**	(26)
- expected credit losses recognised in the income statement	**(2)**	6
- deferred taxes	**(4)**	1
- exchange difference	**4**	(3)
Cash flow hedge reserve:		
- fair value changes taken to equity	**(823)**	344
- fair value changes transferred to income statement	**1,115**	(312)
- deferred taxes	**(48)**	(5)
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	**854**	(238)
Items that will not be reclassified subsequently to the Consolidated Income Statement:		
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:		
- before deferred taxes	**(1)**	(7)
- deferred taxes	**-**	2
Equity instrument designated at fair value through other comprehensive income:		
- fair value changes taken to equity	**920**	1,808
- exchange difference	**250**	(71)
Premises:		
- unrealised surplus/(deficit) on revaluation of premises	**(1,542)**	888
- deferred taxes	**252**	(150)
- exchange difference	**19**	(7)
Defined benefit plans:		
- actuarial gains/(losses) on defined benefit plans	**(10)**	252
- deferred taxes	**2**	(41)
Exchange difference and others[1]	**–**	(76)
Other comprehensive income for the year, net of tax	**1,079**	2,376
Total comprehensive income for the year	**17,749**	27,198
Total comprehensive income for the year attributable to:		
- shareholders of the Bank	**17,766**	27,216
- non-controlling interests	**(17)**	(18)
	17,749	27,198

[1] *Include mainly exchange difference arising from cancellation of additional tier 1 (‘AT1') capital instrument during 2019.*

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
ASSETS		
Cash and balances at central banks	**11,226**	13,038
Trading assets	**37,117**	47,357
Derivative financial instruments	**17,181**	7,338
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**20,695**	18,771
Reverse repurchase agreements – non-trading	**13,360**	6,659
Placings with and advances to banks	**44,357**	65,807
Loans and advances to customers	**944,774**	942,930
Financial investments	**554,720**	461,704
Interest in associates	**2,358**	2,520
Investment properties	**9,415**	10,121
Premises, plant and equipment	**30,925**	32,362
Intangible assets	**24,733**	21,954
Other assets	**48,926**	46,430
Total assets	**1,759,787**	1,676,991
LIABILITIES AND EQUITY		
Liabilities		
Deposits from banks	**12,943**	2,491
Current, savings and other deposit accounts	**1,209,472**	1,203,458
Repurchase agreements – non-trading	**6,270**	1,878
Trading liabilities	**30,937**	37,976
Derivative financial instruments	**20,861**	7,462
Financial liabilities designated at fair value	**32,530**	29,580
Certificates of deposit and other debt securities in issue	**62,500**	17,190
Other liabilities	**31,334**	35,183
Liabilities under insurance contracts	**142,680**	132,120
Current tax liabilities	**282**	4,159
Deferred tax liabilities	**7,302**	7,083
Subordinated liabilities	**19,481**	19,494
Total liabilities	**1,576,592**	1,498,074
Equity		
Share capital	**9,658**	9,658
Retained profits	**137,580**	133,734
Other equity instruments	**11,744**	11,744
Other reserves	**24,118**	23,674
Total shareholders' equity	**183,100**	178,810
Non-controlling interests	**95**	107
Total equity	**183,195**	178,917
Total equity and liabilities	**1,759,787**	1,676,991

For the year ended 31 December 2020

Figures in HK$m	Share capital	Other equity instrument	Retained profits[1]	Other Reserves: Premises revaluation reserve	Other Reserves: Financial assets at FVOCI reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others[2]	Total shareholders' equity	Non-controlling interests	Total equity
At 1 January 2020	9,658	11,744	133,734	19,889	3,296	16	(196)	669	178,810	107	178,917
Profit for the year	–	–	16,687	–	–	–	–	–	16,687	(17)	16,670
Other comprehensive income (net of tax)	–	–	(8)	(1,271)	1,261	244	854	(1)	1,079	–	1,079
Debt instruments at fair value through other comprehensive income	–	–	–	–	91	–	–	–	91	–	91
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	1,170	–	–	–	1,170	–	1,170
Cash flow hedges	–	–	–	–	–	244	–	–	244	–	244
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(1)	(1)	–	(1)
Property revaluation	–	–	–	(1,271)	–	–	–	–	(1,271)	–	(1,271)
Actuarial losses on defined benefit plans	–	–	(8)	–	–	–	–	–	(8)	–	(8)
Exchange differences and others	–	–	–	–	–	–	854	–	854	–	854
Total comprehensive income for the year	–	–	16,679	(1,271)	1,261	244	854	(1)	17,766	(17)	17,749
Dividends paid[3]	–	–	(12,808)	–	–	–	–	–	(12,808)	–	(12,808)
Coupons paid on AT1 capital instruments	–	–	(700)	–	–	–	–	–	(700)	–	(700)
Movement in respect of share-based payment arrangements	–	–	17	–	–	–	–	15	32	–	32
Others	–	–	–	–	–	–	–	–	–	5	5
Transfers	–	–	658	(658)	–	–	–	–	–	–	–
At 31 December 2020	9,658	11,744	137,580	17,960	4,557	260	658	683	183,100	95	183,195

[1] Retained profits are the cumulative net earnings of the Group that have not been paid out as dividends, but retained to be reinvested in the business. To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group has earmarked a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 31 December 2020, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$1,323m (2019: HK$3,509m).

[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 2019 and the first three interim dividends of 2020 amounted to HK$7,647m and HK$5,161m respectively.

For the year ended 31 December 2019

Figures in HK$m	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 2019	9,658	6,981	123,350	19,822	1,570	(11)	42	670	162,082	25	162,107
Profit for the year	–	–	24,840	–	–	–	–	–	24,840	(18)	24,822
Other comprehensive income (net of tax)	–	–	135	731	1,726	27	(238)	(5)	2,376	–	2,376
Debt instruments at fair value through other comprehensive income	–	–	–	–	(11)	–	–	–	(11)	–	(11)
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	1,737	–	–	–	1,737	–	1,737
Cash flow hedges	–	–	–	–	–	27	–	–	27	–	27
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(5)	(5)	–	(5)
Property revaluation	–	–	–	731	–	–	–	–	731	–	731
Actuarial gains on defined benefit plans	–	–	211	–	–	–	–	–	211	–	211
Exchange differences and others	–	–	(76)	–	–	–	(238)	–	(314)	–	(314)
Total comprehensive income for the year	–	–	24,975	731	1,726	27	(238)	(5)	27,216	(18)	27,198
Cancellation and repayment of AT1 capital instrument	–	(6,981)	–	–	–	–	–	–	(6,981)	–	(6,981)
Issue of new AT1 capital instruments	–	11,744	–	–	–	–	–	–	11,744	–	11,744
Dividends paid	–	–	(14,914)	–	–	–	–	–	(14,914)	–	(14,914)
Coupons paid on AT1 capital instruments	–	–	(342)	–	–	–	–	–	(342)	–	(342)
Movement in respect of share-based payment arrangements	–	–	1	–	–	–	–	4	5	–	5
Others	–	–	–	–	–	–	–	–	–	100	100
Transfers	–	–	664	(664)	–	–	–	–	–	–	–
At 31 December 2019	9,658	11,744	133,734	19,889	3,296	16	(196)	669	178,810	107	178,917

Net interest income

Figures in HK$m	***2020***	*2019*
Net interest income/(expense) arising from:		
- financial assets and liabilities that are not at fair value through profit and loss	**27,695**	33,299
- trading assets and liabilities	**189**	299
- financial instruments designated and otherwise mandatorily measured at fair value through profit or loss	**(978)**	(1,343)
	26,906	32,255
Average interest-earning assets	**1,553,012**	1,466,871
Net interest spread	**1.59%**	1.99%
Net interest margin	**1.73%**	2.20%

The HSBC Group reports interest income and interest expense arising from financial assets and financial liabilities held for trading and income arising from financial instruments designated at fair value through profit and loss as 'Net income from financial instruments measured at fair value through profit or loss' (other than for debt securities in issue and subordinated liabilities, together with derivatives managed in conjunction with them).

The table below presents the net interest income of Hang Seng Bank, as included in the HSBC Group accounts:

Figures in HK$m	***2020***	*2019*
Net interest income and expense reported as 'Net interest income'		
- Interest income	**35,010**	43,214
- Interest expense	**(7,346)**	(9,966)
- Net interest income	**27,664**	33,248
Net interest income and expense reported as 'Net income from financial instruments measured at fair value through profit or loss'	**(758)**	(993)
Average interest-earning assets	**1,513,983**	1,422,968
Net interest spread	**1.69%**	2.14%
Net interest margin	**1.83%**	2.34%

Net fee income

Figures in HK$m	***2020***	*2019*
- securities broking and related services	**2,155**	1,365
- retail investment funds	**1,313**	1,534
- insurance	**591**	637
- account services	**391**	469
- remittances	**288**	493
- cards	**2,365**	3,013
- credit facilities	**598**	672
- trade services	**365**	446
- other	**522**	443
Fee income	**8,588**	9,072
Fee expense	**(2,221)**	(2,619)
	6,367	6,453

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

Figures in HK$m	***2020***	*2019*
Net trading income		
- trading income	**2,327**	2,197
- other trading income/(expense) from ineffective fair value hedges	**(9)**	1
	2,318	2,198
Net income/(expense) from financial instruments designated at fair value through profit or loss	**185**	(75)
Net income/(expense) from assets and liabilities of insurance businesses measured at fair value through profit or loss		
- financial assets held to meet liabilities under insurance and investment contracts	**842**	1,615
- liabilities to customers under investment contracts	**(19)**	(26)
	823	1,589
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**(6)**	(10)
	3,320	3,702

Other operating income

Figures in HK$m	***2020***	*2019*
Rental income from investment properties	**272**	342
Movement in present value of in-force long-term insurance business	**2,082**	4,559
Net losses from disposal of fixed assets	**(19)**	(7)
Net losses from the derecognition of loans and advances to customers measured at amortised cost	**(4)**	(3)
Others	**(50)**	223
	2,281	5,114

Analysis of income from wealth management business

Figures in HK$m	***2020***	*2019*
Investment services income[1]:		
- retail investment funds	**1,302**	1,521
- structured investment products	**447**	403
- securities broking and related services	**2,118**	1,331
- margin trading and others	**81**	84
	3,948	3,339
Insurance income:		
- life insurance:		
- net interest income and fee income	**4,177**	3,907
- 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)	**724**	1,704
- net insurance premium income	**15,301**	15,652
- net insurance claims and benefits paid and movement in liabilities to policyholders	**(18,254)**	(19,827)
- movement in present value of in-force long-term insurance business	**2,082**	4,559
	4,030	5,995
- general insurance and others	**245**	263
	4,275	6,258
	8,223	9,597

[1] *Income from retail investment funds and securities broking and related services are net of fee expenses. Income from structured investment products includes income reported under net fee income on the sales of third-party structured investment products. It also includes profits generated from the selling of structured investment products in issue, reported under net income from financial instruments measured at fair value through profit or loss.*

Change in expected credit losses and other credit impairment charges

Figures in HK$m	***2020***	*2019*
Loans and advances to banks and customers	**2,608**	1,684
- new allowances net of allowance releases	**2,757**	1,773
- recoveries of amounts previously written off	**(104)**	(106)
- other movements	**(45)**	17
Loan commitments and guarantees	**33**	99
Other financial assets	**97**	54
	2,738	1,837

Operating expenses

Figures in HK$m	***2020***	*2019*
Employee compensation and benefits:		
- salaries and other costs	**5,613**	5,744
- retirement benefit costs	**489**	485
	6,102	6,229
General and administrative expenses:		
- rental expenses	**27**	82
- other premises and equipment	**1,617**	1,466
- marketing and advertising expenses	**369**	423
- other operating expenses	**2,707**	2,721
	4,720	4,692
Depreciation of premises, plant and equipment[1]	**2,086**	1,972
Amortisation of intangible assets	**297**	164
	13,205	13,057
Cost efficiency ratio	**36.6%**	30.0%

Full-time equivalent staff numbers by region	***At 31 December 2020***	*At 31 December 2019*
Hong Kong and others	**7,925**	8,629
Mainland	**1,703**	1,761
	9,628	10,390

[1] Included depreciation of right-of-use assets of HK$595m in 2020 (2019: HK$528m).

Tax expense

Taxation in the Consolidated Income Statement represents:

Figures in HK$m	***2020***	*2019*
Current tax – provision for Hong Kong profits tax		
- Tax for the year	**2,344**	3,527
- Adjustment in respect of prior years	**(57)**	(62)
Current tax – taxation outside Hong Kong		
- Tax for the year	**93**	47
- Adjustment in respect of prior years	**(1)**	(11)
Deferred tax		
- Origination and reversal of temporary differences	**365**	490
	2,744	3,991

The current tax provision is based on the estimated assessable profit for 2020, and is determined for the Bank and its subsidiaries operating in Hong Kong SAR by using the Hong Kong profits tax rate of 16.5% (the same as in 2019). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share is based on earnings of HK$15,987m (HK$24,421m in 2019), 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 2019).

Dividends/Distributions

	2020		*2019*	
(a) Dividends to ordinary shareholders	***HK$ per share***	***HK$m***	*HK$ per share*	*HK$m*
First interim	**1.10**	**2,103**	1.40	2,677
Second interim	**0.80**	**1,529**	1.40	2,677
Third interim	**0.80**	**1,529**	1.40	2,677
Fourth interim	**2.80**	**5,353**	4.00	7,647
	5.50	**10,514**	8.20	15,678

	2020	*2019*
	HK$m	*HK$m*
(b) Distributions to holders of AT1 capital instruments classified as equity		
Coupons paid on AT1 capital instruments	**700**	342

Segmental analysis

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

- **Wealth and Personal Banking (formerly 'Retail Banking and Wealth Management')** 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 and wealth management;
- **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 are reported under the 'Other' segment. When these premises are utilised by business segments, notional rent will be charged to the relevant business segments with reference to market rates.

Profit before tax contributed by the business segments is set out in the table below. More business segment analysis and discussion is set out in the 'Segmental analysis' section on page 17.

Figures in HK$m	***Wealth and Personal Banking***	***Commercial Banking***	***Global Banking and Markets***	***Other***	***Total***
Year ended 31 December 2020					
Profit/(loss) before tax	**10,470**	**5,101**	**4,979**	**(1,136)**	**19,414**
Share of profit/(loss) before tax	**53.9%**	**26.3%**	**25.7%**	**(5.9)%**	**100.0%**
Year ended 31 December 2019					
Profit/(loss) before tax	15,371	8,795	4,960	(313)	28,813
Share of profit/(loss) before tax	53.4%	30.5%	17.2%	(1.1)%	100.0%

Segmental analysis *(continued)*

(b) Information by geographical region

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

Figures in HK$m	*Hong Kong*	*Mainland China*	*Others*	*Inter-region elimination*	*Total*
Year ended 31 December 2020					
Total operating income/(loss)	**51,357**	**2,732**	**276**	**(43)**	**54,322**
Profit before tax	**18,364**	**884**	**166**	–	**19,414**
At 31 December 2020					
Total assets	**1,648,014**	**149,586**	**23,420**	**(61,233)**	**1,759,787**
Total liabilities	**1,471,529**	**134,424**	**22,102**	**(51,463)**	**1,576,592**
Equity	**176,485**	**15,162**	**1,318**	**(9,770)**	**183,195**
Share capital	**9,658**	**10,632**	–	**(10,632)**	**9,658**
Interest in associates	**2,358**	–	–	–	**2,358**
Non-current assets[1]	**63,465**	**1,544**	**64**	–	**65,073**
Contingent liabilities and commitments	**455,594**	**57,825**	**5,921**	–	**519,340**
Year ended 31 December 2019					
Total operating income/(loss)	60,530	2,580	271	(40)	63,341
Profit before tax	27,732	913	168	–	28,813
At 31 December 2019					
Total assets	1,578,710	120,696	23,239	(45,654)	1,676,991
Total liabilities	1,404,716	107,172	22,070	(35,884)	1,498,074
Equity	173,994	13,524	1,169	(9,770)	178,917
Share capital	9,658	10,018	–	(10,018)	9,658
Interest in associates	2,522	(2)	–	–	2,520
Non-current assets[1]	63,001	1,415	21	–	64,437
Contingent liabilities and commitments	460,924	49,529	6,060	–	516,513

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

Trading assets

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Treasury bills	**16,533**	24,894
Other debt securities	**20,539**	22,452
Debt securities	**37,072**	47,346
Investment funds/equity shares	**45**	11
	37,117	47,357

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

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Debt securities	**2**	2
Equity shares	**4,253**	6,916
Investment funds	**15,158**	10,442
Other	**1,282**	1,411
	20,695	18,771

Loans and advances to customers

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Gross loans and advances to customers	**949,954**	946,443
Less: Expected credit losses	**(5,180)**	(3,513)
	944,774	942,930
Expected credit losses as a percentage of gross loans and advances to customers	**0.55%**	0.37%
Gross impaired loans and advances	**5,724**	2,073
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.60%**	0.22%

Reconciliation of gross exposure and allowances/provision for loans and advances to banks and customers including loan commitments and financial guarantees

	Non credit - impaired				Credit - impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI[1]			
Figures in HK$m	Gross Exposure	Allowance/ provision for ECL	Gross Exposure	Allowance/ provision for ECL	Gross Exposure	Allowance/ provision for ECL	Gross Exposure	Allowance/ provision for ECL	Gross Exposure	Allowance/ provision for ECL
At 1 January 2020	1,243,623	(1,014)	118,301	(1,838)	2,073	(814)	–	–	1,363,997	(3,666)
Transfers of financial instruments:										
- transfers from Stage 1 to Stage 2	(71,117)	118	71,117	(118)	–	–	–	–	–	–
- transfers from Stage 2 to Stage 1	33,455	(480)	(33,455)	480	–	–	–	–	–	–
- transfers to Stage 3	(1,607)	2	(1,443)	52	3,050	(54)	–	–	–	–
- transfers from Stage 3	–	–	31	–	(31)	–	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	219	–	(101)	–	(3)	–	–	–	115
New financial assets originated and purchased	186,164	(342)	7,988	(177)	563	(329)	2	–	194,717	(848)
Assets derecognised (including final repayments)	(111,033)	74	(21,136)	253	(357)	109	–	–	(132,526)	436
Changes to risk parameters – further lending/(repayment)	(73,811)	117	(6,336)	135	1,463	(399)	(1)	–	(78,685)	(147)
Changes to risk parameters – credit quality	–	(255)	–	(1,610)	–	(1,645)	–	–	–	(3,510)
Changes to model used for ECL calculation	–	140	–	1,028	–	–	–	–	–	1,168
Assets written off	–	–	–	–	(1,091)	1,091	–	–	(1,091)	1,091
Foreign exchange and others	7,334	–	312	–	53	–	–	–	7,699	–
At 31 December 2020	1,213,008	(1,421)	135,379	(1,896)	5,723	(2,044)	1	–	1,354,111	(5,361)

	Total
ECL in income statement (charge)/release for the year	(2,786)
Add: Recoveries	104
Add/(less): Others	43
Total ECL (charge)/release for the year[2]	(2,639)

[1] *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*
[2] *The provision for ECL balance at 31 December 2020 and total ECL charges for the year does not include ECL related to other financial assets measured at amortised cost, debt instruments at FVOCI and performance and other guarantees. The corresponding total ECL balances and ECL charges amount to HK$203m and HK$99m respectively.*

Overdue loans and advances to customers

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

	At 31 December 2020		*At 31 December 2019*	
	HK$m	***%***	*HK$m*	*%*
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	**591**	**0.06**	228	0.02
- more than six months but not more than one year	**703**	**0.07**	54	0.01
- more than one year	**950**	**0.10**	896	0.09
	2,244	**0.23**	1,178	0.12

Rescheduled loans and advances to customers

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

	At 31 December 2020		*At 31 December 2019*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**140**	**0.01**	117	0.01

In response to the Covid-19 pandemic, the Bank has rolled out certain relief measures to customers impacted by the coronavirus to support their immediate cash flow and liquidity by offering principal moratorium or tenor extension. As the Bank offers to revise the repayment terms of the loans on a commercial basis, the regulatory treatment will follow the same as current and the loans under relief measures are not included as 'rescheduled loans'. There are no rescheduled loans under relief measure program reported under this category.

Gross loans and advances to customers by industry sector

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

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**71,868**	72,692
Property investment	**154,338**	157,472
Financial concerns	**3,201**	7,764
Stockbrokers	**11**	185
Wholesale and retail trade	**32,041**	29,591
Manufacturing	**24,077**	23,274
Transport and transport equipment	**14,617**	13,891
Recreational activities	**976**	867
Information technology	**9,973**	9,043
Other	**92,614**	89,898
	403,716	404,677
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**33,806**	30,007
Loans and advances for the purchase of other residential properties	**226,996**	216,131
Credit card loans and advances	**25,951**	29,137
Other	**30,274**	30,814
	317,027	306,089
Total gross loans and advances for use in Hong Kong	**720,743**	710,766
Trade finance	**26,636**	33,431
Gross loans and advances for use outside Hong Kong	**202,575**	202,246
Gross loans and advances to customers	**949,954**	946,443

Financial investments

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Financial investments measured at fair value through other comprehensive income		
- treasury bills	**268,031**	212,041
- debt securities	**144,814**	125,927
- equity shares	**7,051**	5,881
Debt instruments measured at amortised cost		
- treasury bills	**3,667**	500
- debt securities	**131,330**	117,435
Less: Expected credit losses	**(173)**	(80)
	554,720	461,704
Fair value of debt securities at amortised cost	**146,275**	121,987
Treasury bills	**271,698**	212,541
Certificates of deposit	**3,633**	9,773
Other debt securities	**272,338**	233,509
Debt securities	**547,669**	455,823
Equity shares	**7,051**	5,881
	554,720	461,704

Intangible assets

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Present value of in-force long-term insurance business	**22,551**	20,469
Internally developed/acquired software	**1,853**	1,156
Goodwill	**329**	329
	24,733	21,954

Other assets

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Items in the course of collection from other banks	**5,062**	5,650
Bullion	**12,337**	9,394
Prepayments and accrued income	**3,917**	4,503
Acceptances and endorsements	**9,027**	8,336
Less: Expected credit losses	**(14)**	(8)
Reinsurers' share of liabilities under insurance contracts	**5,471**	8,503
Settlement accounts	**4,329**	4,175
Cash collateral	**5,286**	2,216
Other accounts	**3,511**	3,661
	48,926	46,430

Other accounts included 'Assets held for sale' of HK$28m (31 December 2019: HK$19m). It also included 'Retirement benefit assets' of HK$7m (31 December 2019: HK$26m).

Current, savings and other deposit accounts

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Current, savings and other deposit accounts:		
- as stated in Consolidated Balance Sheet	**1,209,472**	1,203,458
- structured deposits reported as financial liabilities designated as fair value	**26,840**	24,498
	1,236,312	1,227,956
By type:		
- demand and current accounts	**137,050**	99,431
- savings accounts	**825,547**	670,573
- time and other deposits	**273,715**	457,952
	1,236,312	1,227,956

Trading liabilities

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Short positions in securities	**30,937**	37,976

Financial liabilities designated at fair value

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Certificates of deposit in issue	**1,516**	2,014
Structured deposits	**26,840**	24,498
Other structured debt securities in issue	**3,755**	2,639
Liabilities to customers under investment contracts	**419**	429
	32,530	29,580

Certificates of deposit and other debt securities in issue

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Certificates of deposit and other debt securities in issue:		
- as stated in Consolidated Balance Sheet	**62,500**	17,190
- certificates of deposit in issue designated at fair value	**1,516**	2,014
- other structured debt securities in issue reported as financial liabilities designated at fair value	**3,755**	2,639
	67,771	21,843
By type:		
- certificates of deposit in issue	**64,016**	19,204
- other debt securities in issue	**3,755**	2,639
	67,771	21,843

Other liabilities

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Items in the course of transmission to other banks	**6,316**	6,751
Accruals	**3,490**	4,634
Acceptances and endorsements	**9,027**	8,336
Retirement benefit liabilities	**630**	670
Settlement accounts	**5,124**	8,410
Cash collateral	**1,060**	688
Lease liabilities	**2,102**	1,438
Other	**3,585**	4,256
	31,334	35,183

Shareholders' equity

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Share capital	**9,658**	9,658
Retained profits	**137,580**	133,734
Other equity instruments	**11,744**	11,744
Premises revaluation reserve	**17,960**	19,889
Cash flow hedging reserve	**260**	16
Financial assets at fair value through other comprehensive income reserve	**4,557**	3,296
Other reserves	**1,341**	473
Total reserves	**173,442**	169,152
Total shareholders' equity	**183,100**	178,810
Return on average ordinary shareholders' equity	**9.6%**	15.2%

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during 2020.

Capital management

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

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

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

Capital management *(continued)*

(a) Capital base

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**145,915**	143,026
- Shareholders' equity per Consolidated Balance Sheet	**183,100**	178,810
- Additional Tier 1 ('AT1') perpetual capital instruments	**(11,744)**	(11,744)
- Unconsolidated subsidiaries	**(25,441)**	(24,040)
Non-controlling interests	–	–
- Non-controlling interests per Consolidated Balance Sheet	**95**	107
- Non-controlling interests in unconsolidated subsidiaries	**(95)**	(107)
Regulatory deductions to CET1 capital	**(27,306)**	(31,466)
- Cash flow hedge reserve	**(51)**	(7)
- Changes in own credit risk on fair valued liabilities	**(10)**	(5)
- Property revaluation reserves[1]	**(24,067)**	(26,631)
- Regulatory reserve	**(1,323)**	(3,509)
- Intangible assets	**(1,566)**	(1,027)
- Defined benefit pension fund assets	**(6)**	(22)
- Deferred tax assets net of deferred tax liabilities	**(183)**	(110)
- Valuation adjustments	**(100)**	(155)
Total CET1 Capital	**118,609**	111,560
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	**130,353**	123,304
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**11,762**	14,860
- Property revaluation reserves[1]	**10,831**	11,984
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**931**	2,876
Regulatory deductions to T2 capital	**(1,045)**	(915)
- Significant capital investments in unconsolidated financial sector entities	**(1,045)**	(915)
Total T2 Capital	**10,717**	13,945
Total Capital	**141,070**	137,249

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

Capital management *(continued)*

(b) Risk-weighted assets by risk type

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Credit risk	**624,487**	584,631
Market risk	**14,332**	8,357
Operational risk	**66,709**	65,868
Total	**705,528**	658,856

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

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

	At 31 December 2020	*At 31 December 2019*
CET1 capital ratio	**16.8 %**	16.9 %
T1 capital ratio	**18.5 %**	18.7 %
Total capital ratio	**20.0 %**	20.8 %

In addition, the capital ratios of all tiers as of 31 December 2020 would be reduced by approximately 0.8 percentage point after the prospective fourth interim dividend payment for 2020. The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 31 December 2020	*Pro-forma At 31 December 2019*
CET1 capital ratio	**16.1 %**	15.8 %
T1 capital ratio	**17.7 %**	17.6 %
Total capital ratio	**19.2 %**	19.7 %

Liquidity information

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

	Average LCR for			
	Quarter ended 31 December	*Quarter ended 30 September*	*Quarter ended 30 June*	*Quarter ended 31 March*
- 2020	**207.8%**	**199.4%**	**198.0%**	**181.6%**
- 2019	201.8%	210.5%	198.5%	210.8%

The LCR as at 31 December 2020 was 230.4% compared with 205.9% at 31 December 2019.

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

	Quarter ended 31 December	*Quarter ended 30 September*	*Quarter ended 30 June*	*Quarter ended 31 March*
- 2020	**152.9%**	**149.2%**	**151.0%**	**146.0%**
- 2019	149.1%	148.6%	152.5%	150.3%

Contingent liabilities, contractual commitments and guarantees

Figures in HK$m	***At 31 December 2020***	*At 31 December 2019*
Contingent liabilities and financial guarantee contracts		
- Financial guarantees	**3,024**	3,825
- Performance and other guarantees	**16,774**	13,959
- Other contingent liabilities	**49**	59
	19,847	17,843
Commitments		
- Documentary credits and short-term trade-related transactions	**3,248**	2,570
- Forward asset purchases and forward forward deposits placed	**7,432**	4,356
- Undrawn formal standby facilities, credit lines and other commitments to lend	**488,813**	491,744
	499,493	498,670

1. Statutory financial statements and accounting policies

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

Certain financial information in this press release is extracted from the statutory financial statements for the year ended 31 December 2020 ('2020 account') which will be delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those financial statements in their report dated 23 February 2021. The auditor's report did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

Except as described below, the accounting policies and methods of computation adopted by the Group for this press release are consistent with those described on pages 169 to 185 of the 2019 statutory financial statements.

Standards applied during the year ended 31 December 2020

Amendments to HKFRS 16 'Lease'
In June 2020, Hong Kong Institute of Certified Public Accountants ('HKICPA') has issued the amendments to HKFRS 16 with effective date 1 June 2020. The amendments provide practical expedient for lessee to account for Covid-19 related rent concessions in profit or loss instead of lease modification. The Group has adopted these amendments retrospectively from 1 January 2020 with insignificant impact.

Interest Rate Benchmark Reform Phase 2
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 issued in October 2020 represents the second phase of the HKICPA's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationship as a result of the reform.

Under these amendments, changes made to a financial instrument that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments apply from 1 January 2021 with early adoption permitted. The Group has adopted the amendments from 1 January 2020 and has made the additional disclosure as required in the amendments.

Use of estimates and judgements

Further information on summary of significant accounting policies, use of estimates and judgements and future accounting developments are set out in the accounting policies of the Group's 2020 Annual Report.

2. Future accounting standard development

The Hong Kong Institute of Certified Public Accountants ('HKICPA') has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2020 and which have not been adopted in the financial statements. Key changes of new standards are summarised as follows:

<u>HKFRS 17 'Insurance Contracts'</u>
HKFRS 17 'Insurance Contracts' was issued in January 2018 with amendments to the standard issued in October 2020. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, HKFRS 17 is effective from 1 January 2023. The Group is in the process of implementing HKFRS 17. Industry practice and interpretation of the standard is still developing and there may be changes to implementation decisions as practice evolves, therefore the likely impact of its implementation remains uncertain.

---

3. Ultimate holding company

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

---

4. Register of shareholders

The register of shareholders of the Bank will be closed on Wednesday, 10 March 2021, during which no transfer of shares can be registered. In order to qualify for the fourth interim dividend for 2020, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on Tuesday, 9 March 2021. The fourth interim dividend will be payable on Thursday, 25 March 2021, to shareholders whose names appear on the register of shareholders of the Bank on Wednesday, 10 March 2021. Shares of the Bank will be traded ex-dividend as from Monday, 8 March 2021.

---

5. Corporate governance principles and practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the HKMA.

5. Corporate governance principles and practices *(Continued)*

The Bank has also fully complied with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year of 2020. Further, the Bank constantly reviews and enhances its corporate governance framework, by making reference to market trend as well as guidelines and requirements issued by regulatory authorities, to ensure that it is in line with international and local corporate governance best practices. The Bank has also implemented the 'Subsidiary Accountability Framework' initiative introduced by the HSBC Group throughout the year to simplify subsidiary oversight framework, and strengthen and enhance corporate governance. In addition, the Bank has continued to embed 'Ways of Working' Governance into the Bank's Board and Board Committee governance for meeting effectiveness. Lastly, a comprehensive Subsidiary Governance Review was initiated by the HSBC Group in 2020 for sharing of best governance practices, with full support of the Board.

The Audit Committee of the Bank has reviewed the results of the Bank for the year ended 31 December 2020.

---

6. Board of Directors

At 23 February 2021, the Board of Directors of the Bank comprises Dr Raymond K F Ch'ien* (Chairman), Ms Louisa Cheang (Vice-Chairman and Chief Executive), Dr John C C Chan*, Ms L Y Chiang*, Ms Kathleen C H Gan#, Ms Margaret W H Kwan, Ms Irene Y L Lee*, Dr Eric K C Li*, Dr Vincent H S Lo#, Mr Kenneth S Y Ng#, Mr Peter T S Wong# and Mr Michael W K Wu*.

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

---

7. Press release and Annual Report

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

The 2020 Annual Report will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank and printed copies of the 2020 Annual Report will be sent to shareholders at or about the end of March 2021.

---

8. Other financial information

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

Press enquiries to:
May Wong Telephone: (852) 2198 9003
Ruby Chan Telephone: (852) 2198 4236