

News Release

22 February 2022

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED 2021 CONSOLIDATED RESULTS – HIGHLIGHTS

- Profit before tax down 4% to HK\$86,563m (2020: HK\$90,196m)
- Attributable profit down 3% to HK\$67,348m (2020: HK\$69,447m)
- Return on average ordinary shareholders' equity of 8.0% (2020: 8.6%)
- Total assets up 5% to HK\$9,903bn (2020: HK\$9,416bn)
- Common equity tier 1 ratio of 15.4%, total capital ratio of 18.7% (2020: 17.2% and 20.8%)
- Cost efficiency ratio of 58.7% (2020: 50.6%)

This document is issued by The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group'). References to 'HSBC', 'the Group' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. The abbreviations 'HK\$m' and 'HK\$bn' represent millions and billions (thousands of millions) of Hong Kong dollars respectively.



Consolidated income statement by reportable segments

	Wealth and Personal Banking ¹	Commercial Banking ¹	Global Banking ^{1,2}	Markets and Securities Services ²	Corporate Centre ³	Other (GBM-other) ²	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Year ended 31 Dec 2021							
Net interest income	50,632	29,106	15,070	3,497	(2,640)	2,448	98,113
Net fee income/(expense)	23,827	9,828	5,746	5,730	243	(78)	45,296
Net income from financial instruments measured at fair value through profit or loss	22,195	3,551	39	19,363	214	513	45,875
Gains less losses from financial investments	956	368	—	—	—	343	1,667
Net insurance premium income/(expense)	58,645	3,499	—	—	(422)	—	61,722
Other operating income	202	39	237	1,113	599	(157)	2,033
Total operating income	156,457	46,391	21,092	29,703	(2,006)	3,069	254,706
Net insurance claims and benefits paid and movement in liabilities to policyholders	(72,658)	(3,743)	—	—	353	—	(76,048)
Net operating income before change in expected credit losses and other credit impairment charges	83,799	42,648	21,092	29,703	(1,653)	3,069	178,658
Change in expected credit losses and other credit impairment charges	(1,224)	(3,295)	(2,013)	(10)	(6)	9	(6,539)
Net operating income	82,575	39,353	19,079	29,693	(1,659)	3,078	172,119
Operating expenses	(49,429)	(20,839)	(10,152)	(14,629)	(7,332)	(2,495)	(104,876)
Operating profit	33,146	18,514	8,927	15,064	(8,991)	583	67,243
Share of profit in associates and joint ventures	137	—	—	—	19,183	—	19,320
Profit before tax	33,283	18,514	8,927	15,064	10,192	583	86,563
Balance sheet data at 31 Dec 2021							
Loans and advances to customers (net)	1,544,449	1,315,961	927,542	49,887	1,540	1,560	3,840,939
Customer accounts	3,407,789	1,659,464	891,994	211,621	28	6,286	6,177,182
Year ended 31 Dec 2020							
Net interest income	59,783	34,192	16,993	3,389	(5,357)	2,513	111,513
Net fee income/(expense)	22,174	9,002	5,382	4,973	162	(23)	41,670
Net income from financial instruments measured at fair value through profit or loss	18,927	2,985	(140)	20,544	2,067	884	45,267
Gains less losses from financial investments	772	450	—	—	(15)	417	1,624
Net insurance premium income/(expense)	58,261	3,627	—	—	(325)	—	61,563
Other operating income	5,056	66	303	1,250	(372)	(691)	5,612
Total operating income	164,973	50,322	22,538	30,156	(3,840)	3,100	267,249
Net insurance claims and benefits paid and movement in liabilities to policyholders	(74,394)	(3,700)	—	—	183	—	(77,911)
Net operating income before change in expected credit losses and other credit impairment charges	90,579	46,622	22,538	30,156	(3,657)	3,100	189,338
Change in expected credit losses and other credit impairment charges	(4,441)	(12,145)	(1,089)	(16)	(5)	(23)	(17,719)
Net operating income	86,138	34,477	21,449	30,140	(3,662)	3,077	171,619
Operating expenses	(47,292)	(19,391)	(9,261)	(12,317)	(5,132)	(2,435)	(95,828)
Operating profit	38,846	15,086	12,188	17,823	(8,794)	642	75,791
Share of profit in associates and joint ventures	6	—	—	—	14,399	—	14,405
Profit before tax	38,852	15,086	12,188	17,823	5,605	642	90,196
Balance sheet data at 31 Dec 2020							
Loans and advances to customers (net)	1,463,558	1,206,857	966,765	24,998	3,402	3,101	3,668,681
Customer accounts	3,333,360	1,472,646	899,564	204,431	449	946	5,911,396

- 1 In 2021, the cards acquiring business has been transferred from Commercial Banking ('CMB') and Global Banking ('GB') to Wealth and Personal Banking ('WPB') to align with the business model. Comparatives have been re-presented to conform to the current year's presentation.
- 2 In the second half of 2021, the reportable segments have been changed to reflect the change in the management of the Global Banking and Markets ('GBM') business, with the splitting out of GB and Markets and Securities Services ('MSS') as separate reportable segments, whilst GBM-Other (previously reported within GBM) is now reported under 'Other (GBM-other)'. Comparatives have been re-presented to conform to the current year's presentation. Further details on the change in reportable segments are set out in Note 31 'Segmental analysis' in the Annual Report and Accounts 2021.
- 3 Includes inter-segment elimination.

Financial review

Effective from the second half of 2021, the operating segment of GBM has been expanded into Global Banking ('GB'), Markets and Securities Services ('MSS') and Global Banking and Markets – Other ('GBM–other') to reflect changes to both the management structure and internal reporting to the Chief Operating Decision Maker to execute the Group's GBM strategy in Asia. GB and MSS are separate reportable segments. GBM–other, which mainly comprises of business activities which are jointly managed by GB and MSS, is reported under 'Other (GBM–other)'. MSS includes revenues for products and services sold to GB clients that are not necessarily reflected on a shared basis in the GB segment. MSS and GB comprise certain costs and cost allocations that are split for internal reporting purposes but are shared in nature and not wholly directly attributable to any one segment. GBM–other mainly comprises of distinct business activities that are jointly managed by GB and MSS. The new reporting structure does not change the Group's management of its global GBM strategy.

The commentary that follows compares the group's financial performance for the year ended 2021 with 2020.

Results Commentary

The group reported profit before tax of HK\$86,563m, a decrease of HK\$3,633m, or 4%. Net operating income before change in expected credit losses and other credit risk provisions decreased by HK\$10,680m, or 6%, driven by lower net interest income, while operating expenses increased by HK\$9,048m, or 9%, from investments in technology and our wealth businesses. As a result, the cost efficiency ratio increased from 50.6% in 2020 to 58.7% in 2021.

Net interest income decreased by HK\$13,400m, or 12%. Excluding the favourable foreign exchange impact, net interest income decreased by HK\$15,010m, or 13%, driven by Hong Kong primarily due to narrower customer deposit spreads and lower reinvestment yields as market interest rates decreased, partly offset by balance sheet growth. Net interest income in India and Malaysia also decreased, reflecting the same impact from the lower interest rate environment.

Net fee income increased by HK\$3,626m, or 9%. Excluding the favourable foreign exchange impact, net fee income increased by HK\$3,114m, or 7%, driven by WPB in Hong Kong from an increase in unit trust income due to an increase in sales volumes, coupled with higher funds under management fees due to increased fund size, reflecting improved market sentiment compared to 2020. Net fee income in MSS also increased, mainly from higher global custody and securities brokerage fees due to increased equities turnover, coupled with higher funds under management fees. To a lesser extent, an increase was also noted in CMB, mainly from higher trade-related fees as global trade volumes recovered during 2021, coupled with higher remittance fees as customer activity increased.

Net income from financial instruments measured at fair value through profit or loss increased by HK\$608m, or 1%.

Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss increased by HK\$5,052m, or 38%, mainly in WPB in Hong Kong, driven by higher revaluation gains on the equity portfolio held to support insurance and investment contracts due to improved market conditions. To the extent that these gains are attributable to policyholders, there is an offsetting movement reported under 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Net income from financial instruments held for trading or managed on a fair value basis decreased by HK\$3,813m, or 12%, driven by Hong Kong from lower trading income in Global Debt Markets, Global Foreign Exchange and Securities Financing businesses, partly offset by higher Equities trading income. The decrease was partly offset by an increase in mainland China from the favourable movement in foreign exchange translation of balance sheet exposures and from the favourable revaluation on structured deposits.

Net insurance premium income increased by HK\$159m, remained flat. Gross insurance premium income increased by 3%, mainly in Singapore and mainland China, reflecting higher sales volumes, largely offset by increased reinsurance arrangements in Hong Kong.

Other operating income decreased by HK\$3,579m, or 64%, driven by the unfavourable movement in the present value of in-force long-term insurance business ('PVIF'), partly offset by the non-recurrence of revaluation losses on investment properties in Hong Kong in 2020.

The unfavourable movement in PVIF reflected adverse assumption changes and experience variances in Hong Kong and Singapore, primarily due to interest rates movements, partly offset by an increase in the value of new business written, mainly in Hong Kong. The movement in PVIF was partly offset by a corresponding movement in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Net insurance claims and benefits paid and movement in liabilities to policyholders decreased by HK\$1,863m, or 2%, driven by the unfavourable movement in PVIF, partly offset by higher investment returns to policyholders due to the more favourable equity market performance compared with the prior year.

Change in expected credit losses and other credit impairment charges decreased by HK\$11,180m, or 63%, notably in CMB, mainly reflecting the non-recurrence of charges in relation to the unfavourable forward economic outlook as impacted by Coronavirus Disease 2019 ('Covid-19') in 2020, and also from lower specific charges due to the non-recurrence of a significant charge in the prior year. A decrease was also noted in WPB, reflecting the same impact from the forward economic outlook update in the prior year. The decreases in CMB and WPB were partly offset by an increase in GB, mainly due to an increase in allowance relating to mainland China's commercial real estate sector.

Total operating expenses increased by HK\$9,048m, or 9%. Excluding the unfavourable foreign exchange impact, operating expenses increased by HK\$7,719m, or 8%, reflecting an increase in investments in technology, including investments in our digital capabilities, and in our Asia wealth business. Employee compensation and benefits also increased, mainly from higher performance-related pay and wage inflation, partly offset by lower average headcount across the region.

Share of profit in associates and joint ventures increased by HK\$4,915m, or 34%. Excluding the favourable foreign exchange impact, the share of profit in associates and joint ventures increased by HK\$3,857m, or 25%, mainly from Bank of Communications Co., Limited.

Consolidated income statement
for the year ended 31 December

	2021 HK\$m	2020 HK\$m
Net interest income	98,113	111,513
– interest income	121,382	147,376
– interest expense	(23,269)	(35,863)
Net fee income	45,296	41,670
– fee income	57,819	52,370
– fee expense	(12,523)	(10,700)
Net income from financial instruments held for trading or managed on a fair value basis	28,359	32,172
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	18,180	13,128
Changes in fair value of designated debts issued and related derivatives	(639)	(171)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	(25)	138
Gains less losses from financial investments	1,667	1,624
Net insurance premium income	61,722	61,563
Other operating income	2,033	5,612
Total operating income	254,706	267,249
Net insurance claims and benefits paid and movement in liabilities to policyholders	(76,048)	(77,911)
Net operating income before change in expected credit losses and other credit impairment charges	178,658	189,338
Change in expected credit losses and other credit impairment charges	(6,539)	(17,719)
Net operating income	172,119	171,619
Employee compensation and benefits	(39,261)	(36,183)
General and administrative expenses	(52,327)	(46,304)
Depreciation and impairment of property, plant and equipment	(8,891)	(9,405)
Amortisation and impairment of intangible assets	(4,397)	(3,936)
Total operating expenses	(104,876)	(95,828)
Operating profit	67,243	75,791
Share of profit in associates and joint ventures	19,320	14,405
Profit before tax	86,563	90,196
Tax expense	(14,015)	(14,505)
Profit for the year	72,548	75,691
Attributable to:		
– ordinary shareholders of the parent company	64,633	66,997
– other equity holders	2,715	2,450
– non-controlling interests	5,200	6,244
Profit for the year	72,548	75,691

Consolidated statement of comprehensive income
for the year ended 31 December

	2021 HK\$m	2020 HK\$m
Profit for the year	72,548	75,691
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	(4,009)	2,238
– fair value gains/(losses)	(3,907)	4,642
– fair value gains transferred to the income statement	(1,276)	(1,648)
– expected credit (recoveries)/losses recognised in the income statement	(17)	112
– income taxes	1,191	(868)
Cash flow hedges	(700)	969
– fair value gains/(losses)	7,038	(4,393)
– fair value (gains)/losses reclassified to the income statement	(7,850)	5,551
– income taxes	112	(189)
Share of other comprehensive income/(expense) of associates and joint ventures	596	(726)
Exchange differences	3,973	17,891
Items that will not be reclassified subsequently to profit or loss:		
Property revaluation	4,771	(5,774)
– fair value gains/(losses)	5,643	(6,914)
– income taxes	(872)	1,140
Equity instruments designated at fair value through other comprehensive income	(3,480)	1,647
– fair value gains/(losses)	(3,478)	1,654
– income taxes	(2)	(7)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	522	257
– before income taxes	631	320
– income taxes	(109)	(63)
Remeasurement of defined benefit asset/liability	724	(315)
– before income taxes	885	(384)
– income taxes	(161)	69
Other comprehensive income for the year, net of tax	2,397	16,187
Total comprehensive income for the year	74,945	91,878
Attributable to:		
– ordinary shareholders of the parent company	67,148	82,738
– other equity holders	2,715	2,450
– non-controlling interests	5,082	6,690
Total comprehensive income for the year	74,945	91,878

Consolidated balance sheet

at 31 December

	2021 HK\$m	2020 HK\$m
Assets		
Cash and balances at central banks	276,857	347,999
Items in the course of collection from other banks	21,632	21,943
Hong Kong Government certificates of indebtedness	332,044	313,404
Trading assets	777,450	600,414
Derivatives	365,167	422,945
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	202,399	178,960
Reverse repurchase agreements – non-trading	803,775	520,344
Loans and advances to banks	432,247	403,884
Loans and advances to customers	3,840,939	3,668,681
Financial investments	2,051,575	2,175,432
Amounts due from Group companies	112,719	83,203
Interests in associates and joint ventures	188,485	168,754
Goodwill and intangible assets	95,181	89,968
Property, plant and equipment	129,827	128,537
Deferred tax assets	3,353	3,325
Prepayments, accrued income and other assets	269,743	288,610
Total assets	9,903,393	9,416,403
Liabilities		
Hong Kong currency notes in circulation	332,044	313,404
Items in the course of transmission to other banks	25,701	25,699
Repurchase agreements – non-trading	255,374	136,157
Deposits by banks	280,310	248,628
Customer accounts	6,177,182	5,911,396
Trading liabilities	92,723	60,812
Derivatives	355,791	428,211
Financial liabilities designated at fair value	138,965	167,013
Debt securities in issue	67,364	79,419
Retirement benefit liabilities	1,890	2,701
Amounts due to Group companies	356,233	296,308
Accruals and deferred income, other liabilities and provisions	219,206	215,987
Liabilities under insurance contracts	638,145	581,406
Current tax liabilities	2,378	2,669
Deferred tax liabilities	32,522	30,997
Subordinated liabilities	4,054	4,065
Total liabilities	8,979,882	8,504,872
Equity		
Share capital	172,335	172,335
Other equity instruments	44,615	44,615
Other reserves	151,804	149,500
Retained earnings	488,055	478,903
Total shareholders' equity	856,809	845,353
Non-controlling interests	66,702	66,178
Total equity	923,511	911,531
Total liabilities and equity	9,903,393	9,416,403

Consolidated statement of changes in equity
for the year ended 31 December

	Other reserves								Total share- holders' equity	Non- controlling interests	Total equity
	Share capital ¹	Other equity instruments	Retained earnings	Property revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Other ²			
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 1 Jan 2021	172,335	44,615	478,903	63,793	9,883	772	(10,688)	85,740	845,353	66,178	911,531
Profit for the year	–	–	67,348	–	–	–	–	–	67,348	5,200	72,548
Other comprehensive income/ (expense) (net of tax)	–	–	1,160	4,359	(5,992)	(619)	3,558	49	2,515	(118)	2,397
– debt instruments at fair value through other comprehensive income	–	–	–	–	(3,775)	–	–	–	(3,775)	(234)	(4,009)
– equity instruments designated at fair value through other comprehensive income	–	–	–	–	(2,737)	–	–	–	(2,737)	(743)	(3,480)
– cash flow hedges	–	–	–	–	–	(619)	–	–	(619)	(81)	(700)
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	521	–	–	–	–	–	521	1	522
– property revaluation	–	–	–	4,359	–	–	–	–	4,359	412	4,771
– remeasurement of defined benefit asset/liability	–	–	612	–	–	–	–	–	612	112	724
– share of other comprehensive income of associates and joint ventures	–	–	27	–	520	–	–	49	596	–	596
– exchange differences	–	–	–	–	–	–	3,558	–	3,558	415	3,973
Total comprehensive income/ (expense) for the year	–	–	68,508	4,359	(5,992)	(619)	3,558	49	69,863	5,082	74,945
Dividends paid ³	–	–	(59,105)	–	–	–	–	–	(59,105)	(4,418)	(63,523)
Movement in respect of share- based payment arrangements	–	–	131	–	–	–	–	(173)	(42)	(2)	(44)
Transfers and other movements ⁴	–	–	(382)	(3,162)	(22)	–	–	4,306	740	(138)	602
At 31 Dec 2021	172,335	44,615	488,055	64,990	3,869	153	(7,130)	89,922	856,809	66,702	923,511

Consolidated statement of changes in equity (continued)

for the year ended 31 December

	Other reserves								Total share-holders' equity	Non-controlling interests	Total equity
	Share capital ¹	Other equity instruments	Retained earnings	Property revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Other ²			
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 1 Jan 2020	172,335	44,615	464,629	72,013	6,959	(104)	(28,118)	82,349	814,678	64,603	879,281
Profit for the year	—	—	69,447	—	—	—	—	—	69,447	6,244	75,691
Other comprehensive income/ (expense) (net of tax)	—	—	(98)	(5,286)	2,921	876	17,430	(102)	15,741	446	16,187
– debt instruments at fair value through other comprehensive income	—	—	—	—	2,203	—	—	—	2,203	35	2,238
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	1,299	—	—	—	1,299	348	1,647
– cash flow hedges	—	—	—	—	—	876	—	—	876	93	969
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	257	—	—	—	—	—	257	—	257
– property revaluation	—	—	—	(5,286)	—	—	—	—	(5,286)	(488)	(5,774)
– remeasurement of defined benefit asset/liability	—	—	(312)	—	—	—	—	—	(312)	(3)	(315)
– share of other comprehensive expense of associates and joint ventures	—	—	(43)	—	(581)	—	—	(102)	(726)	—	(726)
– exchange differences	—	—	—	—	—	—	17,430	—	17,430	461	17,891
Total comprehensive income/ (expense) for the year	—	—	69,349	(5,286)	2,921	876	17,430	(102)	85,188	6,690	91,878
Dividends paid ³	—	—	(54,268)	—	—	—	—	—	(54,268)	(4,853)	(59,121)
Movement in respect of share-based payment arrangements	—	—	120	—	—	—	—	213	333	12	345
Transfers and other movements ⁴	—	—	(927)	(2,934)	3	—	—	3,280	(578)	(274)	(852)
At 31 Dec 2020	172,335	44,615	478,903	63,793	9,883	772	(10,688)	85,740	845,353	66,178	911,531

- 1 Ordinary share capital includes preference shares which have been redeemed or bought back via payments out of distributable profits in previous years.
- 2 The other reserves mainly comprise share of associates' other reserves, purchase premium arising from transfer of business from fellow subsidiaries, property revaluation reserve relating to transfer of properties to a fellow subsidiary and the share-based payment reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the group directly by HSBC Holdings plc.
- 3 Including distributions paid on perpetual subordinated loans classified as equity under HKFRS.
- 4 The movements include transfers from retained earnings to other reserves in associates according to local regulatory requirements, and from the property revaluation reserve to retained earnings in relation to depreciation of revalued properties.

1 Net interest income

	2021 HK\$m	2020 HK\$m
Net interest income	98,113	111,513
Average interest-earning assets	7,173,973	6,882,970
	%	%
Net interest spread	1.32	1.53
Contribution from net free funds	0.05	0.09
Net interest margin	1.37	1.62

Net interest income ('NII') decreased by HK\$13,400m, or 12%. Excluding the favourable foreign exchange impact, net interest income decreased by HK\$15,010m, or 13%, driven by Hong Kong primarily due to narrower customer deposit spreads and lower reinvestment yields as market interest rates decreased, partly offset by balance sheet growth. To a lesser extent, net interest income in India and Malaysia also decreased.

Average interest-earning assets increased by HK\$291bn, or 4%, driven by Hong Kong, mainland China and India, mainly reflecting growth in the commercial surplus as customer deposits increased.

Net interest margin ('NIM') dropped by 25 basis points ('bps'), with decreases noted across the region, primarily in Hong Kong and mainland China, as market interest rates decreased significantly compared to the prior year. This resulted in narrower customer deposit spreads and lower reinvestment yields. The increase in commercial surplus, which was primarily deployed into reverse repurchase agreements and other short-term funds, also contributed to lower yields.

2 Net fee income

	2021 HK\$m	2020 HK\$m
Account services	2,175	2,098
Funds under management	8,610	7,544
Cards	7,806	6,939
Credit facilities	3,146	2,871
Broking income	6,415	6,213
Imports/exports	3,056	2,932
Unit trusts	7,550	6,134
Underwriting	1,554	1,511
Remittances	2,813	2,599
Global custody	4,487	3,993
Insurance agency commission	1,441	1,416
Other	8,766	8,120
Fee income	57,819	52,370
Fee expense	(12,523)	(10,700)
Net fee income	45,296	41,670

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

	2021 HK\$m	2020 HK\$m
Net income/(expense) arising on:		
Net trading activities	29,888	35,141
Other instruments managed on a fair value basis	(1,529)	(2,969)
Net income from financial instruments held for trading or managed on a fair value basis	28,359	32,172
Financial assets held to meet liabilities under insurance and investment contracts	17,837	15,873
Liabilities to customers under investment contracts	343	(2,745)
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	18,180	13,128
Change in fair value of designated debt issued and related derivatives ¹	(639)	(171)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	(25)	138
Year ended 31 Dec	45,875	45,267

¹ Includes debt instruments which are issued for funding purposes and are designated under the fair value option to reduce an accounting mismatch.

4 Other operating income

	2021 HK\$m	2020 HK\$m
Movement in present value of in-force insurance business	(1,294)	3,840
Gains/(losses) on investment properties	277	(996)
Losses on disposal of property, plant and equipment and assets held for sale	(54)	(61)
Gains/(losses) on disposal of subsidiaries, associates and business portfolios	4	(70)
Rental income from investment properties	393	370
Dividend income	198	165
Other	2,509	2,364
Year ended 31 Dec	2,033	5,612

5 Insurance business

Results of insurance manufacturing operations and insurance distribution income earned by the group's bank channels

	2021 HK\$m	2020 HK\$m
Insurance manufacturing operations¹		
Net interest income	16,527	15,654
Net fee expense	(3,617)	(2,923)
Net income from financial instruments measured at fair value	18,036	13,812
Net insurance premium income	62,135	61,874
Change in present value of in-force long-term insurance business	(1,294)	3,840
Other operating income/(expense)	719	(364)
Total operating income	92,506	91,893
Net insurance claims and benefits paid and movement in liabilities to policyholders	(76,361)	(78,093)
Net operating income before change in expected credit losses and other credit impairment charges	16,145	13,800
Change in expected credit losses and other credit impairment charges	(216)	(440)
Net operating income	15,929	13,360
Total operating expenses	(3,464)	(2,595)
Operating profit	12,465	10,765
Share of profit in associates and joint ventures	137	6
Profit before tax	12,602	10,771
Annualised new business premiums of insurance manufacturing operations	19,136	15,749
Distribution income earned by the group's bank channels	4,135	4,092

¹ The results presented for insurance manufacturing operations are shown before elimination of intercompany transactions with the group's non-insurance operations.

Profit before tax from the insurance manufacturing operations increased by HK\$1,831m, or 17%, driven by more favourable equity market performances compared to 2020, together with higher new business volumes.

Net interest income increased by 6% from growth in invested funds, reflecting net new business and renewal premium inflows from life insurance contracts.

Net income from financial instruments measured at fair value increased, mainly from gains on the equity portfolio held to support insurance and investment contracts due to a more favourable equity market performance in Hong Kong.

Net insurance premium income increased slightly, reflecting higher sales volumes mainly in Singapore and mainland China, largely offset by increased reinsurance arrangements in Hong Kong.

The unfavourable movement in PVIF reflected adverse assumption changes and experience variances in Hong Kong and Singapore primarily due to interest rates movements, partly offset by an increase in the value of new business written, mainly in Hong Kong.

To the extent that the above gains or losses are attributable to policyholders, there is an offsetting movement reported under 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Annualised new business premiums of insurance manufacturing increased by HK\$3,387m, or 22%, mainly in Hong Kong reflecting new business initiatives, product launches and marketing promotions. New business levels in 2020 were impacted by the onset of Covid-19.

6 Change in expected credit losses and other credit impairment charges

Change in expected credit losses and other credit impairment charges arising from the following asset categories:

	2021	2020
	HK\$m	HK\$m
Loans and advances to banks and customers	7,055	16,509
– new allowances net of allowance releases	8,065	17,242
– recoveries of amounts previously written off	(1,010)	(733)
Loan commitments and guarantees	(683)	654
Other financial assets	167	556
Year ended 31 Dec	6,539	17,719

Change in expected credit losses as a percentage of average gross customer advances was 0.18% for 2021 (2020: 0.44%).

7 Employee compensation and benefits

	2021	2020
	HK\$m	HK\$m
Wages and salaries	35,736	33,367
Social security costs	1,344	893
Post-employment benefits	2,181	1,923
Year ended 31 Dec	39,261	36,183

8 General and administrative expenses

	2021	2020
	HK\$m	HK\$m
Premises and equipment	2,867	2,804
Marketing and advertising expenses	2,417	1,959
Other administrative expenses	47,043	41,541
Year ended 31 Dec	52,327	46,304

9 Depreciation and impairment of property, plant and equipment

	2021	2020
	HK\$m	HK\$m
Owned property, plant and equipment	6,019	6,059
Other right-of-use assets	2,872	3,346
Year ended 31 Dec	8,891	9,405

10 Associates and joint ventures

At 31 December 2021, an impairment review on the group's investment in Bank of Communications Co., Ltd ('BoCom') was carried out and it was concluded that the investment was not impaired based on our value-in-use calculation (see Note 14 'Associates and Joint Ventures' in the *Annual Report and Accounts 2021* for further details). As discussed in that note, in future periods, the value in use may increase or decrease depending on the effect of changes to model inputs. It is expected that the carrying amount will continue to increase due to retained profits earned by BoCom. At the point where the carrying amount exceeds the value in use, impairment would be recognised. The group would continue to recognise its share of BoCom's profit or loss, but the carrying amount would be reduced to equal the value in use, with a corresponding reduction in the income statement. An impairment review would continue to be performed at each subsequent reporting period, with the carrying amount and income adjusted accordingly.

11 Dividends

Dividends to shareholders of the parent company

	2021		2020	
	HK\$ per share	HK\$m	HK\$ per share	HK\$m
Dividends paid on ordinary shares				
In respect of previous year:				
– fourth interim dividend	0.47	21,665	0.58	27,026
In respect of current year:				
– first interim dividend paid	0.26	12,211	0.13	5,814
– second interim dividend paid	0.24	11,153	0.19	8,915
– third interim dividend paid	0.24	11,361	0.22	10,063
Total	1.21	56,390	1.12	51,818
Distributions on other equity instruments		2,715		2,450
Dividends to shareholders		59,105		54,268

On 15 February 2022, the Directors declared a fourth interim dividend in respect of the financial year ended 31 December 2021 of HK\$0.23 per ordinary share (HK\$10,584m) (2020: HK\$0.47 per ordinary share (HK\$21,665m)). No liability was recorded in the financial statements in respect of the fourth interim dividend for 2021.

Total coupons on other equity instruments

	2021	2020
	HK\$m	HK\$m
US\$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.510%) ¹	456	454
US\$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.030%) ¹	422	420
US\$1,000m Fixed rate perpetual subordinated loan (interest rate fixed at 6.090%) ¹	474	370
US\$1,200m Fixed rate perpetual subordinated loan (interest rate fixed at 6.172%) ¹	576	445
US\$600m Fixed rate perpetual subordinated loan (interest rate fixed at 5.910%) ¹	275	249
US\$1,100m Fixed rate perpetual subordinated loan (interest rate fixed at 6.000%) ¹	512	512
Total	2,715	2,450

¹ These subordinated loans were issued in May and June 2019 and discretionary coupons are paid annually.

12 Loans and advances to customers

	2021	2020
	HK\$m	HK\$m
Gross loans and advances to customers	3,872,956	3,697,568
Expected credit loss allowances	(32,017)	(28,887)
At 31 Dec	3,840,939	3,668,681

The following table provides an analysis of gross loans and advances to customers by industry sector based on the Statistical Classification of economic activities in the European Community ('NACE').

Analysis of gross loans and advances to customers

	2021	2020
	HK\$m	HK\$m
Residential mortgages	1,167,487	1,097,760
Credit card advances	89,005	86,735
Other personal	275,819	267,852
Total personal	1,532,311	1,452,347
Real estate	635,217	638,560
Wholesale and retail trade	428,785	394,624
Manufacturing	410,033	379,853
Transportation and storage	111,388	97,204
Other	471,988	489,737
Total corporate and commercial	2,057,411	1,999,978
Non-bank financial institutions	283,234	245,243
At 31 Dec	3,872,956	3,697,568
By geography¹		
Hong Kong	2,447,799	2,357,375
Rest of Asia Pacific	1,425,157	1,340,193

¹ The geographical information shown above is classified by the location of the principal operations of the subsidiary or the branch responsible for advancing the funds.

Gross loans and advances to customers increased by HK\$175bn, or 5%. Excluding the unfavourable foreign exchange translation effects of HK\$13bn, gross loans and advances to customers increased by HK\$188bn, driven by an increase in residential mortgages of HK\$77bn, mainly in Hong Kong and Australia. In addition, corporate and commercial lending and non-bank financial institution lending increased by HK\$62bn and HK\$37bn respectively, mainly in Hong Kong, mainland China and India.

13 Financial investments

	2021 HK\$m	2020 HK\$m
Financial investments measured at fair value through other comprehensive income	1,549,011	1,700,406
– treasury and other eligible bills	653,245	790,627
– debt securities	888,664	899,193
– equity shares	7,102	10,586
Debt instruments measured at amortised cost	502,564	475,026
– treasury and other eligible bills	6,900	4,443
– debt securities	495,664	470,583
At 31 Dec	2,051,575	2,175,432

14 Customer accounts

Customer accounts by country/territory

	2021 HK\$m	2020 HK\$m
Hong Kong	4,284,719	4,120,955
Mainland China	462,187	440,608
Singapore	448,976	427,537
Australia	220,233	227,072
India	191,116	156,615
Malaysia	128,673	124,036
Taiwan	120,744	124,375
Indonesia	46,938	40,304
Other	273,596	249,894
At 31 Dec	6,177,182	5,911,396

15 Contingent liabilities, contractual commitments and guarantees

	2021 HK\$m	2020 HK\$m
Guarantees and contingent liabilities	379,443	329,706
Commitments	2,945,560	2,815,583
At 31 Dec	3,325,003	3,145,289

The above table discloses the nominal principal amounts of commitments (excluding commitments for the purchase of properties), guarantees and other contingent liabilities, which represents the amounts at risk should contracts be fully drawn upon and clients default. The amount of commitments shown above reflects, where relevant, the expected level of take-up of pre-approved facilities. As a significant amount of guarantees and commitments are expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

16 Capital

The following tables show the capital ratios, risk-weighted assets ('RWAs') and capital base on a consolidated basis, in accordance with the Banking (Capital) Rules.

Capital ratios

	2021 %	2020 %
Common equity tier 1 ('CET1') capital ratio	15.4	17.2
Tier 1 capital ratio	16.8	18.8
Total capital ratio	18.7	20.8

Total regulatory capital and RWAs

	2021 HK\$m	2020 HK\$m
Common equity tier 1 capital	484,654	509,452
Additional tier 1 capital	46,047	46,101
Tier 2 capital	59,777	58,992
Total regulatory capital	590,478	614,545
RWAs	3,156,553	2,956,993

17 Accounting policies

The accounting policies and methods of computation adopted by the group for this document are consistent with those set out in Note 1 on the Consolidated Financial Statements in the *Annual Report and Accounts 2021*.

Standards adopted during the year ended 31 December 2021

There were no new accounting standards or interpretations that had a significant effect on the group in 2021. Accounting policies have been consistently applied to all the years presented, unless otherwise stated.

18 Events after the balance sheet date

The following recently announced acquisitions form part of our strategy to grow our insurance business, helping to deliver on our strategic priority to become a market leader in Asian wealth management.

- On 11 February 2022, following the completion of all regulatory approvals, HSBC Insurance (Asia-Pacific) Holdings Ltd, a wholly-owned subsidiary of the group, acquired 100% of the issued share capital of AXA Insurance Pte Limited for HK\$4.1bn, subject to adjustment for closing items. This will be reflected in our 2022 results by which time determination of the initial acquisition accounting will have been completed.
- On 30 December 2021, HSBC Insurance (Asia) Limited, a wholly-owned subsidiary of the group, received approval from the China Banking and Insurance Regulatory Commission to acquire the remaining 50% equity interest in HSBC Life Insurance Company Limited (HSBC Life China). Completion is expected to occur during the first half of 2022. Headquartered in Shanghai, HSBC Life China offers a comprehensive range of insurance solutions covering annuity, whole life, critical illness and unit-linked insurance products and in 2021 reported gross written premiums of approximately HK\$3.0bn (2020: HK\$2.2bn).
- On 28 January 2022, HSBC Insurance (Asia-Pacific) Holdings Limited notified the shareholders of Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited ('CHOICe') of its intention to increase its shareholding in CHOICe up to 49%. The group currently has a 26% shareholding which is accounted for as an associate. Any increase in shareholding is subject to agreement with other shareholders in CHOICe, as well as internal and regulatory approvals. Established in 2008, CHOICe is a life insurance company based in India with reported gross written premiums of approximately HK\$5.4bn for the year to 31 March 2021 (31 March 2020: HK\$4.1bn).

19 Statutory accounts

The information in this document is not audited and does not constitute the Bank's statutory accounts.

Certain financial information in this document is extracted from the Consolidated Financial Statements for the year ended 31 December 2021, which were approved by the Board of Directors on 22 February 2022 and will be delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The Auditor's Report was unqualified; did not include a reference to any matters to which the auditor drew any attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap.622). The *Annual Report and Accounts 2021*, which include the Consolidated Financial Statements, will be published on the Bank's website: www.hsbc.com.hk. A press release will be issued to announce the availability of this information.

20 Ultimate holding company

The Hongkong and Shanghai Banking Corporation Limited is an indirectly-held, wholly-owned subsidiary of HSBC Holdings plc, which is incorporated in England.

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