恒生銀行
HANG SENG BANK

新聞稿
PRESS RELEASE

2 August 2021

HANG SENG BANK LIMITED
2021 INTERIM RESULTS - HIGHLIGHTS

- Profit attributable to shareholders down 4% to HK$8,767m (HK$9,143m for the first half of 2020; up 16% compared with HK$7,544m for the second half of 2020).

- Profit before tax down 3% to HK$10,298m (HK$10,619m for the first half of 2020; up 17% compared with HK$8,795m for the second half of 2020).

- Operating profit down 8% to HK$10,223m (HK$11,134m for the first half of 2020; up 14% compared with HK$8,991m for the second half of 2020).

- Net operating income before change in expected credit losses and other credit impairment charges down by 10% to HK$17,326m (HK$19,187m for the first half of 2020; up 3% compared with HK$16,881m for the second half of 2020).

- Return on average ordinary shareholders' equity of 9.9% (10.7% for the first half of 2020; 8.5% for the second half of 2020).

- Earnings per share down 4% to HK$4.44 per share (HK$4.64 per share for the first half of 2020).

- Second interim dividend of HK$1.10 per share; total dividends of HK$2.20 per share for the first half of 2021 (HK$1.90 per share for the first half of 2020).

- Common equity tier 1 ('CET1') capital ratio of 15.8%, tier 1 ('T1') capital ratio of 17.4% and total capital ratio of 18.9% at 30 June 2021 (CET1 capital ratio of 16.8%, T1 capital ratio of 18.5% and total capital ratio of 20.0% at 31 December 2020).

- Cost efficiency ratio of 39.0% (32.8% for the first half of 2020 and 40.9% for the second half of 2020).

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

The financial information in this press release is based on the unaudited Condensed Consolidated Financial Statements of Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') for the six months ended 30 June 2021.

1 Highlights of Results
2 Contents
4 Chairman's Comment
7 Acting Chief Executive's Review
11 Results Summary
18 Segmental Analysis
25 Condensed Consolidated Income Statement
26 Condensed Consolidated Statement of Comprehensive Income
27 Condensed Consolidated Balance Sheet
28 Condensed Consolidated Statement of Changes in Equity
31 Financial Review

- 31 Net interest income
- 32 Net fee income
- 32 Net income/(loss) from financial instruments measured at fair value through profit or loss
- 33 Other operating income
- 33 Analysis of income from wealth management business
- 34 Change in expected credit losses and other credit impairment charges
- 34 Operating expenses
- 35 Tax expense
- 35 Earnings per share – basic and diluted
- 35 Dividends/Distributions
- 36 Segmental analysis
- 38 Trading assets
- 38 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss
- 38 Loans and advances to customers
- 39 Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers, including loan commitments and financial guarantees
- 40 Overdue loans and advances to customers
- 40 Rescheduled loans and advances to customers
- 41 Gross loans and advances to customers by industry sector
- 42 Financial investments
- 42 Intangible assets
- 43 Other assets
- 43 Current, savings and other deposit accounts
- 43 Trading liabilities
- 44 Financial liabilities designated at fair value
- 44 Certificates of deposit and other debt securities in issue
- 44 Other liabilities
- 45 Shareholders' equity
- 45 Capital management
- 48 Liquidity information
- 48 Contingent liabilities, contractual commitments and guarantees

49 Additional Information
49 Statutory financial statements and accounting policies
49 Future accounting standard development
50 Comparative figures
50 Ultimate holding company
50 Register of shareholders
50 Corporate governance principles and practices
51 Board of Directors
51 Press release and Interim Report
51 Other financial information

Comment by Irene Lee, Chairman

The first six months of 2021 have been a period of transition. Supportive fiscal and monetary policies from governments and central banks and the wider implementation of effective measures to control the spread of Covid-19 have returned a degree of stability to international markets. Economies around the world, including those of Hong Kong and mainland China, are showing signs of recovery as more companies refocus energy directed at managing the acute effects of the pandemic back towards the pursuit of long-term business objectives. That said, the situation remains fragile. Economic recovery to this point has been uneven and incomplete, with sectors hardest hit by the pandemic continuing to be relatively weak.

In the Hang Seng context, our agile business structure facilitated an effective response to the upturn in market activity during the first half of 2021, resulting in good year-on-year growth in non-interest income. However, the continued decline in market interest rates remained a significant challenge. Further downward pressure on the net interest margin affected our ability to grow net interest income, despite increased balance sheet volumes.

The overall impact on the bottom line was a 4% decline in profit attributable to shareholders to HK$8,767m. Earnings per share were HK$4.44 per share. Return on average ordinary shareholders' equity was 9.9%. Return on average total assets was 1.0%.

As a business with a long-term vision and strategy for sustainable growth, progress and success is measured by more than financial figures.

Our previous investments in digital services and technology have played a major role in delivering successful banking solutions for customers, particularly amid the height of the pandemic. With more clients experiencing the convenience and speed of online and mobile banking, we continued to grow our digital capabilities during the first half to offer customers even greater flexibility and choice in how and when they manage their financial needs.

We established new and closer alliances with strategic partners who share our ambition to open up new opportunities for our customers and to facilitate the success of local start-ups and entrepreneurs. We rolled out innovative new wealth management products and services to help individuals and businesses plan more effectively for the future.

Our people have continued to excel in anticipating and meeting the banking needs of customers in an environment of rapidly evolving service expectations.

The Directors have declared a second interim dividend of HK$1.10 per share. This brings the total distribution for the first half of 2021 to HK$2.20 per share, compared with HK$1.90 per share for the first half of 2020.

Economic Outlook

The sustainability of global economic recovery is heavily dependent on a complex matrix of factors, not least the ability of the international community to contain the emergence and spread of new Covid-19 variants. Despite the expansion of vaccine programmes and ongoing economic policy support, many uncertainties are still in play and it will likely be some time before we see a sustained return to pre-pandemic levels of economic activity and market confidence.

Comment by Irene Lee, Chairman *(continued)*

Economic Outlook *(continued)*

In Hong Kong, increased demand for exports from major trading partners and government policy measures are the major factors underpinning the recent recovery. GDP rose by 7.9% year-on-year in the first quarter of 2021, the first expansion after six consecutive quarters of contraction. Domestic consumption, however, is lagging behind, and key sectors of the economy such as consumption and tourism-related industries are still very much feeling the effects of the pandemic. This is reflected in the job shortfall in the labour market, which remains significant in comparison with the pre-recession level. Assuming the worst of the downside risks are avoided, Hong Kong's economy will likely experience continued growth in the upcoming quarters, but regaining its previous balance will take longer to achieve. We expect Hong Kong's economy to achieve GDP growth of about 7.3% in 2021.

Trade, production and investment continue to be the primary engines of the Mainland's economic recovery. The government is continuing with major initiatives to boost domestic consumption, which remains restrained, as part of its 'dual circulation strategy', but rebalancing the mix of economic drivers will take time. As such, the government is likely to maintain a proactive fiscal policy, with the People's Bank of China providing support by ensuring the availability of adequate credit and liquidity. We expect the Mainland economy to achieve high single-digit GDP growth for the year.

Hong Kong Roots, Greater Bay Area Expertise

As this is my first results announcement as Chairman of Hang Seng's Board of Directors, I wish to take this opportunity to express my deep gratitude to my predecessor, Raymond Ch'ien. His leadership and sage guidance over the years has significantly strengthened Hang Seng's position as a progressive, customer-centric bank that continually demonstrates market leadership across all areas of its business and as a responsible and compassionate corporate citizen.

I also wish to sincerely thank the members of the Board and the senior management team for their invaluable support, as well as staff across the Bank for being adaptable, determined and passionate in taking care of our customers' needs under challenging conditions. By working together as one team, I am confident we will build on Raymond's strong legacy to grow Hang Seng in ways that continue to give us a strong sense of purpose and pride.

The past 18 months have underscored the need to ensure our business continues to have the resilience and agility necessary to respond smoothly and successfully to unexpected changes in market conditions and to play an active part in contributing to solutions that support the well-being and prosperity of our community.

One important way in which we are achieving this is through our environmental, social and governance ('ESG') commitments. Guided by our ESG Steering Committee, we have established ambitious targets, which include becoming carbon neutral in our operations by 2030. We aim to lead the way in driving ESG performance in Hong Kong's banking industry as we contribute to a bright future for Hong Kong and the Greater Bay Area.

Comment by Irene Lee, Chairman *(continued)*

Hong Kong Roots, Greater Bay Area Expertise *(continued)*

Our deep local roots and international perspective contribute to the long-term development of the markets we serve in many different ways. As the leading compiler of indexes focused on the Hong Kong and mainland China markets, our wholly owned subsidiary Hang Seng Indexes Company is building bridges with the global finance and investment community through the development of innovative indexes around new-economy and ESG themes focused on the Greater China region.

There will be more challenges ahead, but we have a clear business purpose and a robust set of values to guide us. We will continue to focus on improving outcomes for customers, building a more sustainable society, and opening up exciting new opportunities for our business and our diverse range of stakeholders.

Review by Margaret Kwan, Executive Director, Acting Chief Executive and Head of Wealth and Personal Banking

Economic and investment activity trends that began to emerge in the second half of 2020 carried forward into the first half of this year.

We leveraged our strong wealth management capabilities to achieve good growth in our retail investment business. On the commercial side, reviving export demand and other signs of recovery in the international economy facilitated new lending activity as we continued to build close customer relationships. We also accelerated efforts to develop new business segments and opportunities in green finance to further diversify our revenue base.

The success of these actions is reflected in the 24% year-on-year growth in our non-interest income. Our ability to move swiftly in fluid market conditions reflects the agility and resilience of our business model and the fruits of investing in technology and in enhancing the service experience.

However, the further lowering of interest rates and a decline in HIBOR compared with the first half of 2020 proved a significant challenge for our year-on-year performance, despite balance sheet growth. Overall, with the macroeconomic conditions putting pressure on the net interest margin, and net interest income down, we recorded a 4% drop in attributable profit to HK$8,767m.

Nevertheless, if we compare our performance to the second half of 2020, in which external market conditions were more comparable to the first half of this year, our attributable profit is up by 16%. This demonstrates the good business momentum we are generating and shows we are on the right track in driving our long-term business strategy and achieving sustainable growth.

Investment in technology remains a priority and has enabled us to stay ahead in the digital space as more customers discover the benefits of online and mobile banking. In the first six months of this year, we rolled out more than 270 new or enriched digital features to enhance customer experiences. These include functions such as the new 'My Investment' portfolio overview and market insights service for personal mobile banking customers that are helping to drive growth in digital banking usage. Year-on-year, the ratio of active personal banking mobile users increased to 75% and mobile app log-ons rose by 45%.

The greater convenience and speed of new solutions such as remote account opening and cross-boundary account management are helping us to win new business.

We were the first bank to introduce the use of Hong Kong's 'iAM Smart' app for identity verification at all our branches.

Our omni-channel 'branch of the future' model means shorter waiting times and improved efficiency for customers, enhancing Hang Seng's 'best-in-class' service with a human touch.

We are also developing more services that add real value in enriching customers' lifestyles. Our newly launched wellness app Olive, provided in partnership with two leading local healthcare experts, is helping customers to stay 'fit for the future' in all aspects of their lives. Our commercial business is assisting small and medium-sized enterprises ('SMEs') and other companies to get 'future fit' through an acceleration of our green financing activities.

Review by Margaret Kwan, Executive Director, Acting Chief Executive and Head of Wealth and Personal Banking *(continued)*

As part of our 'beyond banking' service proposition, we are also working to connect local companies with new markets. Our new strategic alliance with Cyberport is designed to help innovators and start-ups benefit from opportunities that are emerging in the Greater Bay Area ('GBA') through tailor-made financing solutions and fintech collaboration.

Our customer-centric and innovative services, particularly in the digital sphere, continued to garner industry recognition. *The Asset* named our personal banking mobile app as the best in Hong Kong for the second consecutive year, and acknowledged our efforts to support business customers with two Best Payment and Collection Solution awards. We were also identified as the Best Bank for SMEs in Hong Kong by *Asiamoney*.

Our SimplyFund in-app investment service, which won a Best Financial Asset/Market Trading Service award from *The Asian Banker*, provides young and novice investors with an easy-to-use and low-cost channel for beginning their wealth management journey.

Our growing appeal among younger segments is reflected in the year-on-year increase in our number of customers aged from 18 to 30 years. We will continue to launch new services that meet the specific banking needs and preferences of this important group of customers.

Financial Overview

Net operating income before change in expected credit losses and other credit impairment charges was HK$17,326m, down 10% year-on-year, but up by 3% compared with the second half of 2020.

Net interest income dropped by 20% year-on-year to HK$11,883m, with the impact of the unfavourable interest rate environment outweighing increased volumes from balance sheet growth and a 5% rise in average interest-earning assets. Year-on-year, the net interest margin fell by 45 basis points, to 1.51%, due mainly to balance sheet repricing. Compared with the second half of 2020, net interest margin was broadly in line. Net interest income was down by 2%, reflecting fewer calendar days in the first half of the year compared with the second half.

Non-interest income was HK$5,443m, up by 24% and 14% compared with the first and second halves of last year respectively.

Net fee income rose by 17% to HK$3,709m. Our swift response to the resurgence in financial markets activity drove strong growth in fee income from retail investment funds and stockbroking and related services. As social-distancing restrictions relaxed, we capitalised on improving retail consumption sentiment with lifestyle-focused spending offers to record a 10% increase in our card business income. Similarly, an upturn in commercial investment sentiment drove growth in corporate lending activities, leading to a 14% rise in credit facilities fees.

Net income from financial instruments measured at fair value through profit or loss recorded a gain of HK$2,685m, compared with a loss in the same period last year.

Net trading income and net income from financial instruments designated at fair value through profit or loss together fell by HK$373m, or 30%, due mainly to lower income from foreign exchange activities and debt securities trading.

Review by Margaret Kwan, Executive Director, Acting Chief Executive and Head of Wealth and Personal Banking *(continued)*

Financial Overview *(continued)*

Net income from assets and liabilities of insurance businesses measured at fair value through profit or loss recorded a gain of HK$1,821m as compared with a loss of HK$1,284m in same period last year, reflecting favourable equity market movements in the first half of 2021. To the extent that these investment returns were attributable to policyholders, there was an offsetting effect in 'net insurance claims and benefits paid and movement in liabilities to policyholders' and 'movement in present value of in-force long-term insurance business' under 'other operating income'.

Net insurance premium income fell by 5%, reflecting lower renewal business despite higher new business sales.

Other operating income fell by 81%, mainly reflecting the offsetting effect in relation to investment returns on our insurance portfolio as mentioned above.

Change in expected credit losses and other credit impairment charges ('ECL') decreased by HK$1,421m, or 81%, to HK$339m. The overall ECL balance remained stable.

As at the end of June, gross impaired loans and advances as a percentage of gross loans and advances to customers was 0.69%, up nine basis points on the end of last year. However, a large portion of these impaired loans are secured by tangible collaterals. We are comfortable with our current level of provisions and will remain vigilant in our monitoring of market conditions.

Year-on-year, operating expenses increased by HK$461m, or 7%, to HK$6,754m. This increase mainly reflects further investments in technology to keep pace with changing customer expectations, as well as increased marketing expenses to capture opportunities arising from the upturn in investment and commercial business activity. Compared with the second half of 2020, operating expenses decreased by HK$158m, or 2%.

Our cost efficiency ratio was 39.0%.

Operating profit was down by 8% at HK$10,223m. Compared with the second half of 2020, operating profit was up by 14%.

With gradual recovery in the commercial property market during the first half, the investment property revaluation recorded a net surplus of HK$39m, compared with a net deficit of HK$428m in the same period last year.

Profit before tax fell by 3% to HK$10,298m.

Attributable profit fell by 4% to HK$8,767m. Earnings per share were down by 4% at HK$4.44 per share.

Compared with the second half of 2020, profit before tax was up by 17% and attributable profit rose by 16%.

Our capital base remains strong. At 30 June 2021, our common equity tier 1 capital ratio was 15.8%, our tier 1 capital ratio was 17.4%, and our total capital ratio was 18.9%, compared with 16.8%, 18.5% and 20.0% respectively at the end of 2020.

Review by Margaret Kwan, Executive Director, Acting Chief Executive and Head of Wealth and Personal Banking *(continued)*

Towards a More Sustainable Future

Contributing to a more sustainable future is a core value for Hang Seng and major strategic focus of our long-term growth strategy. We are more deeply embedding environmental, social and governance ('ESG') considerations into our services, operations and disclosures. In particular, we are accelerating our actions to strengthen our climate risk management capabilities and increase our contribution to tackling the major global challenge of climate change.

We have set demanding targets to improve our own performance, such as committing to be carbon neutral by 2030. And we are providing customers with more services that facilitate the transition to a low-carbon future.

With a new team focusing exclusively on green financing solutions for business customers, we have already approved about HK$6.6bn in green loans in the first half of this year and will further intensify our activity in this burgeoning new area of business. In addition, between January this year when our Global Markets' Repo Trading team began accepting green bonds as collateral and the end of June, the volume of such collateral has grown rapidly.

We are also continuing to strengthen the ESG focus of our wealth management portfolio of products. Two of our investment funds won a total of five awards in sustainability categories in BENCHMARK's 2020 Funds of the Year Awards.

One Bank, A World of Opportunity

The global economy is showing tentative signs of recovery. The rollout of vaccine programmes and continuing policy support from governments and central banks around the world are bringing some calming effects to the business community and financial markets have become more active.

However, uncertainties ranging from new Covid-19 variants to geopolitical tensions still pose significant risks to economic recovery. The current low interest rate environment is likely to persist, which will continue to challenge our efforts to grow net interest income.

In fast-moving market conditions, we will continue to be guided by our values. Our strengths, reputation and progressive approach make us well positioned to fulfil our ambition of becoming the preferred banking and financial services partner for customers in Hong Kong and the GBA.

Through new customer-centric service innovations and accelerated efforts to tap the potential of new industry sectors, we will further grow our base of non-fund income revenue streams. We will leverage our digital advantage to offer customers a seamless financial services experience across channels and across boundaries.

The entire Hang Seng team is striving to create new opportunities and improve outcomes for our customers and our business. I wish to thank my colleagues for their continued hard work in a challenging operating environment. Their collaborative spirit has ensured the smooth delivery of quality services to our customers and will continue to contribute to the long-term well-being and prosperity of our customers, our community and the Bank.

Results Summary

In the first half of 2021 ('1H 21'), downward pressure on global economy continued amid the ongoing Covid-19 pandemic. The continuous decline in market interest rates was the primary cause of the fall in the Group's revenue as compared with the first half of 2020 ('1H 20'). The Group leveraged its strong wealth management capabilities to increase fee-based income and achieved strong growth in its wealth management business income. This helped offset some of the negative impact on profitability caused by the prevailing low interest rate environment. Change in expected credit losses and other credit impairment charges ('ECL') fell substantially, reflecting an improved economic outlook.

Compared with the second half of 2020 ('2H 20'), the Group achieved a double-digit increase in both profit attributable to shareholders and operating profit, with broad-based improvement in key income and expenses lines other than the decrease in net interest income which was due mainly to more calendar days in 2H 20 compared with 1H 21. This reflects the Group's effective actions to achieve solid business momentum amid the challenges of the continuing effects of the Covid-19 pandemic and the still fragile economic conditions in 1H 21.

The Group's **profit attributable to shareholders** for 1H 21 was HK$8,767m, down by 4% when compared with 1H 20. **Profit before tax** fell by 3% to HK$10,298m. **Net operating income before change in expected credit losses and other credit impairment charges** was HK$17,326m, down 10%, reflecting the net effect of the decrease in net interest income and the increase in non-interest income. Net interest income was 20% lower due to narrower margins with the continued decline in global interest rates. Wealth management business income was a key source of income, growing by 44%, on the back of increases in income from securities broking-related services and retail investment fund sales, as well as in insurance business-related income due largely to better investment returns. Operating expenses went up by 7% when compared with 1H 20. ECL decreased significantly by 81% to HK$339m, reflecting an improvement in the forward-looking economic outlook. **Operating profit** dropped by 8% to HK$10,223m. Investment property revaluation reported a revaluation surplus of HK$39m compared with a revaluation deficit of HK$428m for 1H 20.

Net interest income decreased by HK$2,909m, or 20%, to HK$11,883m, with increased volumes from balance sheet growth more than offset by the narrowing of the net interest margin in the low interest rate environment. Net interest margin was down by 45 basis points to 1.51%, due mainly to balance sheet repricing. Net interest spread declined by 35 basis points to 1.43% and contribution from net-free funds dropped by 10 basis points to 0.08%. The global low interest rate environment is likely to be prolonged, which will continue to exert pressure on the Group's net interest income and net interest margin.

Average interest-earning assets grew by HK$72bn, or 5%, to HK$1,588bn, mainly driven by growth in average financial investments. The Markets Treasury team continued to proactively defend the interest margin and investment yield by seeking out good market opportunities, taking action to diversify investment holdings, and actively managing the portfolio 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 current and savings deposits, arising from the progressive interest rate reductions during the period. The low interest rate environment also led to a reduction in contribution from net-free funds.

Net fee income increased by HK$534m, or 17%, to HK$3,709m. In the uncertain investment environment, the Bank's comprehensive portfolio of wealth management products and the convenient service channels facilitated strong growth in income from retail investment funds and securities broking and related services which rose by 38% and 25% respectively. Amid improved retail consumption sentiment, card business income rose by 10%, due mainly to higher card spending and merchant sales. Credit facilities fees were up by 14% due to higher new corporate lending activities. Fee income from insurance-related business and remittances fell by 17% and 13% respectively.

Net income/(loss) from financial instruments measured at fair value through profit or loss recorded a gain of HK$2,685m, compared with a loss of HK$52m in the same period last year.

Net trading income and net income from financial instruments designated at fair value through profit or loss together fell by HK$373m, or 30%, to HK$864m, driven largely by the decrease in income from foreign exchange activities and debt securities trading.

Net income from assets and liabilities of insurance businesses measured at fair value through profit or loss recorded a gain of HK$1,821m, compared with a loss of HK$1,284m in the same period last year. Investment returns on financial assets supporting insurance liabilities contracts improved substantially, reflecting the favourable market movements in 1H 21, compared with unfavourable market movements in 1H 20. To the extent that these investment returns were attributable to policyholders, there was an offsetting effect reported under 'net insurance claims and benefits paid and movement in liabilities to policyholders' and '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')** increased by HK$1,042m, or 63%, to HK$2,709m. Net interest income and fee income from life insurance business rose by 4%, in line with the growth in the insurance investment fund portfolio. Investment returns on the insurance portfolio recorded a gain of HK$1,814m for 1H 21, compared with a loss of HK$1,705m for 1H 20, driven mainly by favourable equity market movements in 1H 21 as compared with unfavourable equity market movements in 1H 20. To the extent that these investment returns were attributable to policyholders, there was an offsetting effect in 'net insurance claims and benefits paid and movement in liabilities to policyholders' and 'movement in PVIF' under 'other operating income'.

Net insurance premium income fell by 5%, reflecting lower renewal business partly offset by higher new business sales. In the challenging operating environment, the Group continued to enrich its comprehensive range of tax and retirement planning products and healthcare solutions to suit different customer needs, and expanded distribution through digital and broker channels. Hang Seng Olive, a new mobile health and wellness app launched in 1H 21, provides a diverse array of online health and wellness services such as a clinic, e-booking service, and virtual health consultations, and convenient access to a wide variety of insurance solutions.

Net insurance claims and benefits paid and movement in liabilities to policyholders increased by 3%, reflecting higher investment returns attributable to policyholders from the favourable equity market performance in 1H 21 and higher new business sales.

The movement in present value of in-force long-term insurance business reported under 'other operating income' decreased by 94%, mainly due to a significant positive adjustment to present value of in-force long-term insurance business in 1H 20 to account for the sharing of unfavourable investment returns attributable to policyholders. The movement in PVIF in 1H 21 period reflected the negative adjustment to PVIF to account for the sharing of favourable investment returns attributable to policyholders as partly offset by higher new business sales.

General insurance income was up by 26% compared with 1H 20.

Other operating income dropped by 81% as a result of the change in the movement in PVIF.

Change in expected credit losses and other credit impairment charges decreased by HK$1,421m, or 81%, to HK$339m, largely recorded in the stage 1 and stage 2 exposures (unimpaired credit portfolios), reflecting an improvement in the economic outlook as compared with 1H 20. In 1H 21, ECL for stage 1 and stage 2 portfolios registered a net decrease of HK$1,250m when compared with 1H 20, reflecting an improved economic outlook, as compared with the significant build-up of stage 1 and stage 2 allowances in 1H 20 due to the deteriorating economic outlook at the onset of the Covid-19 outbreak. Wealth and Personal Banking ('WPB') accounted for HK$339m of the reduction, with the remaining HK$911m coming from Commercial Banking ('CMB') and Global Banking and Markets ('GBM').

The Bank regularly reviews its forward economic guidance to reflect changes in the economic outlook and other factors that may influence the credit environment. While there is some expectation that the full-year ECL charge for 2021 may be lower than that in 2020, a high degree of economic uncertainty remains and therefore additional scenario analysis and post model-adjustments will be applied to take such uncertainties into account in managing the Bank's ECL.

Change in ECL for stage 3 and purchased or originated credit-impaired exposures (impaired credit exposures) decreased by HK$171m when compared with 1H 20, largely in retail portfolios. WPB recorded a HK$175m decrease, due mainly to lower charges on credit card and personal loan portfolios. There was a HK$4m increase related to CMB customers.

Gross impaired loans and advances were up by HK$1,287m, or 22%, to HK$7,011m against 2020 year-end. Several impaired corporate loans through the Group's Mainland banking subsidiary and Hong Kong office were downgraded during the period as a result of the challenging economic and credit environment. 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 0.69% as at 30 June 2021, compared with 0.32% at 30 June 2020 and 0.60% at the end of December 2020. 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$461m, or 7%, to HK$6,754m, reflecting an increase in investments, mainly IT-related costs to enhance our digital capabilities, staff costs, depreciation and amortisation of intangible assets. Notwithstanding the Group's continued investment into transformational digital initiatives for future business growth, careful cost disciplines resulted in a 2 % decline in operating expenses when compared with 2H 20.

Staff costs were up by 2%, mainly due to increase in accrual of performance-related pay partly offset by the reduction in salaries resulting from lower headcount.

Depreciation charges remained flat. Amortisation of intangible assets increased by 60%, reflecting higher capitalised IT system development costs.

General and administrative expenses were up by 16%, largely in IT costs and marketing and advertising expenses.

The cost efficiency ratio increased by 6.2 percentage points to 39.0%, due mainly to the impact of lower revenue resulting from decreased net interest income and the increase in operating expenses.

Following the gradual recovery of the property market in 1H 21, **net surplus/(deficit) on property revaluation** recorded a net surplus of HK$39m, compared with a net deficit of HK$428m in 1H 20. **Share of profits/(losses) of associates** recorded a profit of HK$36m, compared with a loss of HK$87m for 1H 20, largely reflecting the significantly reduced revaluation loss of a property investment company.

First half of 2021 ('1H 21') compared with second half of 2020 ('2H 20')

The effects of the Covid-19 pandemic continued to dominate operating conditions in 1H 21. Despite the uncertain environment, the Group maintained broad-based business momentum and made good progress with its customer-centric strategy for growth, achieving increases in revenue and profit to return respectable results for 1H 21 compared with 2H 20. Key positive drivers included the increase in non-fund income, primarily in wealth management business income. ECL charges were comparatively lower in 1H 21 as a result of the improvement in the economic outlook. Investment property revaluation returned to a surplus compared with a deficit for 2H 20. These favourable factors were partly offset by lower net interest income, due mainly to more calendar days in 2H 20.

Profit attributable to shareholders grew by HK$1,223m, or 16%, when compared with 2H 20, driven by strong growth in non-interest income, reduction in ECL charges and improvement in investment property revaluation. **Operating profit** grew by HK$1,232m, or 14%. **Net operating income before change in expected credit losses and other credit impairment charges** was up by HK$445m, or 3%.

Net interest income decreased by HK$231m, or 2%. Excluding the calendar day change effect, net interest income remained flat, benefitting from stable net interest margin notwithstanding the declining low interest rate environment. Average interest-earning assets remained intact while net interest margin fell by 1 basis points to 1.51%, reflecting the flow-through of falling interest rates and compressed deposit spreads. There was also a reduction in contribution from net-free funds due to the low interest rate environment and the significant drop in HIBOR during 1H 21.

The Group continued to pursue a balanced growth strategy. Non-interest income grew by HK$676m, or 14%, representing 31% of net operating income before change in expected credit losses and other credit impairment charges, compared with 28% for 2H 20. Actions to further diversify revenue and strengthen customer relationships drove a 16% increase in net fee income to HK$3,709m. The Group capitalised on improved investor sentiment to achieve a 37% increase in retail investment funds income. Credit facilities fee income increased by 94%. Income from insurance businesses grew by 4%, attributable to the success of our active portfolio management following the partial rebound of financial markets since 2H 20.

Operating expenses decreased by HK$158m, or 2%, driven mainly by lower marketing and advertising costs and consultancy fees, the impact of which outweighed the increase in performance-related pay and salaries. The Group will continue to actively manage operating expenses to facilitate the ongoing direction of resources towards further optimising its digital capabilities.

ECL charges decreased by HK$639m, or 65%, largely due to reduced impairment charges under stage 3 impaired credit exposures. Stage 1 and 2 ECL charges remained flat following the improvement in economic outlook since 2H 20. Stage 3 ECL charges decreased by HK$653m, or 49% to HK$685m, reflecting lower ECL charges provided on downgrade of Commercial Banking customers taking collaterals into account, and lower ECL charges on credit cards and personal lending.

Net surplus/(deficit) on property revaluation recorded a revaluation surplus of HK$39m, compared with a revaluation deficit of HK$208m in 2H 20. **Share of profits/(losses) of associates** increased by HK$24m when compared with 2H 20.

Condensed Consolidated Balance Sheet and Key Ratios

Assets

Total assets increased by HK$40bn, or 2%, to HK$1,800bn compared with 2020 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 increased by HK$1bn, or 9%, to HK$12bn. Trading assets were down by HK$5bn, or 13%, to HK$32bn, mainly in Hong Kong Exchange Fund Bills.

Customer loans and advances (net of ECL allowances) were HK$1,013bn, up by HK$69bn, or 7%, from the end of 2020. In response to the continued challenges encountered by the Hong Kong business community on the back of the Covid-19 outbreak, certain relief measures were introduced by the Hong Kong government to support local 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 6%. Lending to industrial, commercial and financial sectors increased by 9%, primarily reflecting growth in the stockbrokers' sector on finance granted to stockbroking companies relating to several initial public offerings ('IPO') at the end of June 2021. Lending to property development and investment sectors were broadly in line with 2020 year-end. There was increased lending to financial concerns, transport and transport equipment, and 'others' sectors, partly offset by a decline in lending to the wholesale and retail trade sector. Lending to individuals grew by 3%. With the more active property market, residential mortgage lending grew by 3%. Credit card advances and other loans to individuals grew by 3% and 1% respectively. Trade finance lending regained momentum and recorded strong growth of 53% against 2020 year-end, reflecting Commercial Banking's achievement in expanding trade finance business by maintaining close relationships with its business partners. Loans for use outside Hong Kong grew by 4%, reflecting increased lending by the Group's Mainland banking subsidiary and loans for use outside Hong Kong granted by the Hong Kong office. Excluding the impact of IPO stagging finance at the end of June 2021, customer loans and advances (net of ECL allowances) rose by 4%.

Financial investments decreased by HK$55bn, or 10%, to HK$499bn, reflecting the partial redeployment of the commercial surplus to support loan growth.

Liabilities and equity

Customer deposits, including certificates of deposit and other debt securities in issue, increased by HK$1bn, or 0.1%, to HK$1,305bn against the end of 2020. Current and savings deposits increased, but there was a drop in time deposits. To diversify its sources of funding, the Group issued more certificates of deposit in 1H 21. At 30 June 2021, the advances-to-deposits ratio was 77.6%, compared with 72.4% at 31 December 2020. Excluding IPO stagging finance at the end of June 2021, the advances-to-deposits ratio was 75.1%.

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Customer loans and advances (net of ECL allowances)	**1,013,463**	944,774
Customer deposits, including certificates of deposit and other debt securities in issue	**1,305,256**	1,304,083
Advances-to-deposits ratio	**77.6%**	72.4%

Liabilities and equity *(continued)*

At 30 June 2021, shareholders' equity increased by HK$1bn, or 0.3% compared with 2020 year-end, to HK$184bn. Retained profits were up by HK$2bn, or 1%, reflecting profit accumulation after the appropriation of dividends paid during the period. Financial assets at fair value through other comprehensive income reserves were down by HK$1bn, or 31%, 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%, compared with 1.1% and 0.9% for the first and second halves of 2020. **Return on average ordinary shareholders' equity** was 9.9%, compared with 10.7% and 8.5% for the first and second halves of 2020.

At 30 June 2021, the **common equity tier 1 ('CET1') capital ratio, tier 1 ('T1') capital ratio** and **total capital ratio** were 15.8%, 17.4% and 18.9% respectively, compared with 16.8%, 18.5% and 20.0% at 2020 year-end. CET1, T1 and total capital ratios decreased by 1.0 to 1.1 percentage points against 2020 year-end. This reflects the combined effect of a decrease in capital base and an increase in total risk-weighted assets.

Under the Banking (Liquidity) Rules, the average **liquidity coverage ratio ('LCR')** was 214.4% and 204.0% for the quarters ended 30 June 2021 and 31 March 2021 respectively, compared with 198.0% and 181.6% for the quarters ended 30 June 2020 and 31 March 2020 respectively. The Group maintained a healthy average LCR for both periods, with both being higher than the statutory requirement of 100%. The LCR at 30 June 2021 was 217.0%, compared with 230.4% at 31 December 2020. The period-end **net stable funding ratio ('NSFR')** was 146.6% and 150.5% for the quarters ended 30 June 2021 and 31 March 2021 respectively, well in excess of the regulatory requirement of 100%.

Dividends

The Directors have declared a second interim dividend of HK$1.10 per share, which will be payable on 2 September 2021 to shareholders on the register as of 17 August 2021. Together with the first interim dividend, the total distribution for 1H 21 will be HK$2.20 per share.

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking and Markets*	*Other* [1]	*Total*
Half-year ended 30 June 2021					
Net interest income/(expense)	**6,531**	**3,495**	**2,029**	**(172)**	**11,883**
Net fee income	**2,545**	**859**	**175**	**130**	**3,709**
Net income from financial instruments measured at fair value through profit or loss	**2,051**	**188**	**414**	**32**	**2,685**
Gains less losses from financial investments	**57**	**4**	**87**	**–**	**148**
Dividend income	**–**	**–**	**–**	**5**	**5**
Net insurance premium income	**5,994**	**804**	**–**	**–**	**6,798**
Other operating income	**274**	**12**	**–**	**119**	**405**
Total operating income	**17,452**	**5,362**	**2,705**	**114**	**25,633**
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(7,557)**	**(750)**	**–**	**–**	**(8,307)**
Net operating income before change in expected credit losses and other credit impairment charges	**9,895**	**4,612**	**2,705**	**114**	**17,326**
Change in expected credit losses and other credit impairment charges	**(226)**	**(188)**	**75**	**–**	**(339)**
Net operating income	**9,669**	**4,424**	**2,780**	**114**	**16,987**
Operating expenses [2]	**(4,128)**	**(1,644)**	**(603)**	**(379)**	**(6,754)**
Impairment loss on intangible assets	**–**	**–**	**–**	**(10)**	**(10)**
Operating profit/(loss)	**5,541**	**2,780**	**2,177**	**(275)**	**10,223**
Net surplus on property revaluation	**–**	**–**	**–**	**39**	**39**
Share of profits of associates	**36**	**–**	**–**	**–**	**36**
Profit/(loss) before tax	**5,577**	**2,780**	**2,177**	**(236)**	**10,298**
Share of profit/(loss) before tax	**54.2%**	**27.0%**	**21.1%**	**(2.3)%**	**100.0%**
Operating profit/(loss) excluding change in expected credit losses and other credit impairment charges	**5,767**	**2,968**	**2,102**	**(275)**	**10,562**
[2] *Depreciation/amortisation included in operating expenses*	**(410)**	**(6)**	**(2)**	**(822)**	**(1,240)**
At 30 June 2021					
Total assets	**578,028**	**433,372**	**787,623**	**1,192**	**1,800,215**
Total liabilities	**1,025,634**	**335,777**	**250,123**	**4,914**	**1,616,448**
Interest in associates	**2,351**	**–**	**–**	**–**	**2,351**
Half-year ended 30 June 2021					
Net fee income by segment					
- securities broking and related services	**1,110**	**99**	**16**	**–**	**1,225**
- retail investment funds	**885**	**18**	**–**	**–**	**903**
- insurance	**176**	**49**	**39**	**–**	**264**
- account services	**119**	**62**	**4**	**–**	**185**
- remittances	**28**	**83**	**17**	**–**	**128**
- cards	**1,239**	**11**	**–**	**–**	**1,250**
- credit facilities	**9**	**313**	**107**	**–**	**429**
- trade services	**–**	**170**	**13**	**–**	**183**
- other	**107**	**66**	**27**	**126**	**326**
Fee income	**3,673**	**871**	**223**	**126**	**4,893**
Fee expense	**(1,128)**	**(12)**	**(48)**	**4**	**(1,184)**
Net fee income	**2,545**	**859**	**175**	**130**	**3,709**

[1] *Including inter-segment elimination, of which total assets amounted to HK$75.3bn (31 December 2020: HK$62.2bn) and total liabilities amounted to HK$64.1bn (31 December 2020: HK$51.1bn).*

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking and Markets*	*Other* [1]	*Total*
Half-year ended 30 June 2020 (restated) [2]					
Net interest income/(expense)	8,119	4,514	2,415	(256)	14,792
Net fee income	2,088	827	135	125	3,175
Net income/(loss) from financial instruments measured at fair value through profit or loss	(939)	128	788	(29)	(52)
Gains less losses from financial investments	–	–	20	–	20
Dividend income	–	–	–	6	6
Net insurance premium income	6,279	892	–	–	7,171
Other operating income/(loss)	2,054	(17)	3	107	2,147
Total operating income/(loss)	17,601	6,344	3,361	(47)	27,259
Net insurance claims and benefits paid and movement in liabilities to policyholders	(7,338)	(734)	–	–	(8,072)
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	10,263	5,610	3,361	(47)	19,187
Change in expected credit losses and other credit impairment charges	(740)	(821)	(199)	–	(1,760)
Net operating income/(loss)	9,523	4,789	3,162	(47)	17,427
Operating expenses [3]	(3,945)	(1,581)	(519)	(248)	(6,293)
Operating profit/(loss)	5,578	3,208	2,643	(295)	11,134
Net deficit on property revaluation	–	–	–	(428)	(428)
Share of profits/(losses) of associates	(89)	–	–	2	(87)
Profit/(loss) before tax	5,489	3,208	2,643	(721)	10,619
Share of profit/(loss) before tax	51.7%	30.2%	24.9%	(6.8)%	100.0%
Operating profit/(loss) excluding change in expected credit losses and other credit impairment charges	6,318	4,029	2,842	(295)	12,894
[3] *Depreciation/amortisation included in operating expenses*	(424)	(3)	(1)	(742)	(1,170)
At 31 December 2020 (restated) [2]					
Total assets	556,503	404,157	785,858	13,269	1,759,787
Total liabilities	1,037,041	323,783	217,188	(1,420)	1,576,592
Interest in associates	2,358	–	–	–	2,358
Half-year ended 30 June 2020 (restated) [2]					
Net fee income by segment					
- securities broking and related services	857	109	12	–	978
- retail investment funds	645	11	–	–	656
- insurance	243	40	34	–	317
- account services	113	75	3	–	191
- remittances	32	98	17	–	147
- cards	1,122	10	–	–	1,132
- credit facilities	12	296	69	–	377
- trade services	–	160	23	–	183
- other	43	42	20	122	227
Fee income	3,067	841	178	122	4,208
Fee expense	(979)	(14)	(43)	3	(1,033)
Net fee income	2,088	827	135	125	3,175

[1] *Including inter-segment elimination, of which total assets amounted to HK$62.2bn and total liabilities amounted to HK$51.1bn.*

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

Wealth and Personal Banking ('WPB') recorded a 4% year-on-year decrease in net operating income before change in expected credit losses and other credit impairment charges to HK$9,895m compared with 1H 20. Operating profit dropped by 1% to HK$5,541m and profit before tax increased by 2% to HK$5,577m.

Operating profit increased by HK$521m, or 10%, and profit before tax grew by HK$544m, or 11%, compared with 2H 20, due mainly to growth in non-interest income and lower operating expenses.

Despite the average balances of both deposits and loans growing by 4% compared with 1H 20, the persistent downward trend in market interest rates resulted in a 20% drop in net interest income to HK$6,531m.

Leveraging strengthened sales management strategies, advanced data analytics and continuous uplift of digital banking capabilities, as well as actions to make customer journeys more convenient, non-interest income increased by 57% to HK$3,364m and wealth management business revenue grew by 51%.

We continued to invest in our digital infrastructure to support the changing banking behaviours of our customers. The ratio of active mobile users increased to 75%, mobile app log-ons rose by 45% and the total number of e-Banking and digital transactions grew by 62% year-on-year. We added new online products and services to enrich our suite of customer-centric solutions, with delivery of 170 new digital features and enhancements in 1H 21. These features included seamless mobile payment and transfer experience; an easier card application journey and application status tracking; and a new 'My Investment' function in our mobile app, which provides an 'all-in-one' view of a customer's investment holdings and performance, timely market insights, and customised journeys for different levels of investment experience.

Our digital products and services continued to win industry recognition during 1H 21, including awards for our mobile banking app and wealth management innovations from organisations such as *The Asian Banker* and *The Asset*. We made good progress with further developing our open banking ecosystem to integrate our services more closely with the everyday lifestyle needs of our customers.

Total investment services income recorded year-on-year growth of 31%. We achieved strong securities business growth, facilitated by our Invest Express Stock Trading app that makes it easy and convenient for customers to capture good market opportunities. In fluid market conditions, we leveraged our all-weather portfolio of wealth management products and strengthened analytical capabilities to develop personalised wealth solutions for our customers, and offer the right products and services at the right time. New investments in our digital platform to uplift our online investment capabilities helped us achieve a 55% year-on-year increase in the number of our digital investment customers.

Insurance income rose by 75%, reflecting our astute management of the life insurance investment portfolio as financial markets became more active. Our distribution business achieved satisfactory growth, with our revamped analytics approach to strengthen sales capability helping to drive a 12% year-on-year increase in annualised premiums. We also launched our Olive Wellness app, which offers customers a one-stop health and wellness platform, backed by partnerships with CUHK Medical Centre Limited and Quality HealthCare Medical Services Limited.

Leveraging greater activity in the property sector, our extensive network of outlets and our close engagement with property agencies and mortgage brokers, we captured new business in both primary and secondary property markets and achieved a 38% year-on-year increase in new mortgage drawdowns. This helped facilitate 6% growth in our mortgage balances in Hong Kong. Our customer-centric end-to-end services drove new mortgage business and we continued to rank among the top three in Hong Kong for new mortgage registration.

Amid improved retail consumption sentiment, we were able to sustain our card market position through effective product and marketing initiatives. To serve the priorities of our customers, we continued to focus our initiatives towards everyday spending and e-commerce, in order to capture more business amid the improvement in discretionary spending. Our enJoy card's partnership with Dairy Farm's 'yuu' rewards programme has been well-received, with growth in the number of cardholders and spending, and has further strengthened our proposition to serve the lifestyle needs of our cardholders. We expanded our Cash Dollars ecosystem and solicited new partnerships to strengthen lifestyle benefits and offers for our cardholders. Year-on-year, card spending grew by 10%.

We continued to invest in upgrading our branch infrastructure to provide customer centric and fintech-enabled services. We were the first bank to begin accepting Hong Kong's 'iAM Smart' mobile app, which gives individuals a convenient alternative to presenting their physical Hong Kong ID card, for identity verification purposes across our branch network for enquiries and application services. We also leveraged the use of digital tablets for enquiries and account services, as well as for helping customers enhance their digital banking literacy, to save on waiting times and reduce our use of paper.

Driven by our customer-centric approach, we used our stronger analytics capabilities and robust contact management platform to deepen and broaden relationships with existing customers and reach out more effectively to new ones. Year-on-year, we achieved a 14% increase in the Signature customer base and grew our Prestige and Preferred Banking customer base by 13%.

Commercial Banking ('CMB') recorded a 18% year-on-year decrease in net operating income before change in expected credit losses and other credit impairment charges to HK$4,612m. Operating profit and profit before tax dropped by 13% to HK$2,780m.

Operating profit and profit before tax grew by HK$933m, or 51%, compared with 2H 20, due mainly to the reduction in ECL charges as a result of the improvement in the forward economic outlook and growth in non-interest income.

Supported by the successful acquisition of new operating accounts, our average deposits balance rose by 11%. However, net interest income from deposits was significantly affected by the low interest rate environment, resulting in a 23% decline to HK$3,495m.

Non-interest income grew by 2% to HK$1,117m, driven mainly by our active participation in syndicated loans, which also resulted in ranking second in terms of number of deals in the League Table for Hong Kong Mandated Arrangers for 1H 21. We also grew trade-related fee income by 5%.

We continued to support small and medium-sized enterprises ('SMEs') by providing fast and convenient banking services that are tailored towards their specific needs. We further extended our Remote Account Opening service scope from sole proprietors and one-person limited companies to include limited companies with up to five connected parties. With the introduction of an 'e-Sign' function, customers can now open an account remotely without the need to visit a Business Banking Centre.

Our new account proposition, 'Biz Virtual+', provides start-up companies with a wide range of digital commercial banking services that make it easier to get a new enterprise off the ground and for local entrepreneurs to focus on their core business at a low operating cost. Biz Virtual+ accounts can be opened in as few as three working days.

Our dedicated green financing team is helping customers to improve their environmental performance and start transitioning to a lower-carbon future. The Bank's new Greenness Assessment programme makes it easier for customers to apply for green bilateral and syndicated loan facilities.

A strategic alliance with Hong Kong Cyberport Management Company Limited was formed to assist Hong Kong entrepreneurs to scale up their operations and capture business opportunities in the Greater Bay Area, cultivate innovators, further the development of smart banking, explore corporate venture capital, and provide more banking services with cross-boundary financial features.

We continued to transform banking services through the expansion and enrichment of our digital platforms. Various enhancements were made to Hang Seng Business Mobile Banking, including the addition of biometric authentication to facilitate customer login and the launch of an Inward Payment Tracker function that enables customers to check the status of inward payments in real-time.

Our revamped flagship Business Banking Centre at our headquarters building provides customers with a spacious and relaxing environment in which to meet their banking needs, offering the speed and convenience of digital services through our Digital Bar and the personal attention and specialist advice of our experienced team.

In the uncertain economic environment, we continued to be vigilant in managing asset quality and proactively manage our credit risk. Our overall credit quality remained resilient.

We received various industry awards during 1H 21, including 'Best Payments and Collections Solution, Industry: E-commerce', 'Best Liquidity and Investments Solution, Industry: Chemicals' and 'Best in Treasury and Working Capital – SME's Hong Kong' in *The Asset*'s Triple A Treasury, Trade and Risk Management Awards 2021. Our strong proposition for SMEs was recognised with a 'Best Bank for SMEs, Hong Kong' award from *Asiamoney* and a 'Best SME's Partner Award' from The Hong Kong General Chamber of Small and Medium Business.

Global Banking and Markets ('GBM') recorded a 20% year-on-year decrease in net operating income before change in expected credit losses and other credit impairment charges to HK$2,705m and an 18% decrease in operating profit and profit before tax to HK$2,177m.

Operating profit and profit before tax decreased by HK$150m, or 6%, compared with 2H 20, due mainly to higher net release of ECL in 2H 20.

Global Banking ('GB') recorded a 1% year-on-year drop in net operating income before change in expected credit losses and other credit impairment charges to HK$1,361m. Operating profit and profit before tax both rose by 16% to HK$1,152 m.

Net interest income fell by 6% to HK$1,151m.

New digital cash management solutions, including QR code collection, enabled us to build new and stronger operating account relationships. Customers also appreciated our award-winning corporate API solution for enhancing the efficiency of collections and payments. These developments helped us to grow average current and saving deposits by 68% and achieve robust growth in deposit interest income.

Our stagging loan business performed well. However, the continuing compression of credit spreads and the uncertain economic conditions continued to challenge growth. The average loans balance remained broadly in line with a year earlier but net interest income from lending dropped by 11%.

Non-interest income grew by 30% to HK$210m, driven mainly by strong growth in fee income from credit facilities and syndicated loan activities.

Leveraging our strong customer relationships, we made solid progress with further diversifying our income streams, particularly through the activities of our Debt Capital Markets Origination team, which completed several breakthrough deals involving dim-sum and green bonds in the first six months of the year.

Global Markets ('GM') reported a 32% decrease in net operating income before change in expected credit losses and other credit impairment charges to HK$1,344m. Operating profit and profit before tax both decreased by 38% to HK$1,025m.

Net interest income decreased by 27% to HK$878m, due mainly to the flattened yield curve and tightened credit spreads caused by the prevailing low interest rate environment. The Global Markets Treasury team continued to proactively defend the interest margin and investment yield by exploring market opportunities and actively managing and diversifying our portfolio while continuing to uphold prudent risk management standards.

Non-interest income decreased by 41% to HK$466m. Decreased volatility in the G7 foreign exchange market, together with the low interest rate environment, resulted in a decline in non-fund income from sales and trading activities. Nevertheless, we recorded a 15% year-on-year increase in corporate foreign exchange turnover as signs that the worst of the pandemic might be coming to an end which encouraged corporate clients become more active. Against the backdrop of low interest rates, we explored revenue diversification opportunities by uplifting our product capabilities and captured good opportunities in the foreign exchange markets. Year-on-year, we more than doubled our Hong Kong dollar and renminbi trading revenue.

Our Repo Trading business continued to build good momentum. Our Repo Trading team has achieved significant growth in volumes year-on-year, and has continued to expand its network of financial institution/ non-bank financial institution counterparts. To support the Bank's sustainable financing initiatives, the team began accepting green bonds as collateral earlier this year. Between January and the end of June this year, the collateral volume of green bonds has grown rapidly.

We continued with initiatives to deepen the penetration of GM products among WPB, CMB and GB customers.

The stronger market sentiment and higher turnover in Hong Kong stock market during 1H 21 drove an increase in customer demand for equity-related products. We recorded a 33% year-on-year rise in income from equity-linked products and an 18% increase in turnover.

Figures in HK$m	*Half-year ended 30 June* **2021**	*2020*
Interest income calculated using effective interest method	**13,945**	20,020
Interest income – others	**229**	408
Interest income	**14,174**	20,428
Interest expense	**(2,291)**	(5,636)
Net interest income	**11,883**	14,792
Fee income	**4,893**	4,208
Fee expense	**(1,184)**	(1,033)
Net fee income	**3,709**	3,175
Net income/(loss) from financial instruments measured at fair value through profit or loss	**2,685**	(52)
Gains less losses from financial investments	**148**	20
Dividend income	**5**	6
Net insurance premium income	**6,798**	7,171
Other operating income	**405**	2,147
Total operating income	**25,633**	27,259
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(8,307)**	(8,072)
Net operating income before change in expected credit losses and other credit impairment charges	**17,326**	19,187
Change in expected credit losses and other credit impairment charges	**(339)**	(1,760)
Net operating income	**16,987**	17,427
Employee compensation and benefits	**(3,165)**	(3,090)
General and administrative expenses	**(2,349)**	(2,033)
Depreciation expenses	**(1,030)**	(1,039)
Amortisation of intangible assets	**(210)**	(131)
Operating expenses	**(6,754)**	(6,293)
Impairment loss on intangible assets	**(10)**	–
Operating profit	**10,223**	11,134
Net surplus/(deficit) on property revaluation	**39**	(428)
Share of profits/(losses) of associates	**36**	(87)
Profit before tax	**10,298**	10,619
Tax expense	**(1,537)**	(1,484)
Profit for the period	**8,761**	9,135
Profit attributable to:		
Shareholders of the Bank	**8,767**	9,143
Non-controlling interests	**(6)**	(8)
Earnings per share – basic and diluted (in HK$)	**4.44**	4.64

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

Figures in HK$m	*Half-year ended 30 June* ***2021***	*2020*
Profit for the period	**8,761**	9,135
Other comprehensive income		
Items that will be reclassified subsequently to the Condensed Consolidated Income Statement when specific conditions are met:		
Debt instruments at fair value through other comprehensive income (‘FVOCI’):		
- fair value changes taken to equity	**(729)**	1,313
- fair value changes transferred to the Condensed Consolidated Income Statement:		
-- on hedged items	**491**	(1,004)
-- on disposal	**(87)**	(20)
- expected credit losses recognised in the Condensed Consolidated Income Statement:	**–**	46
- deferred taxes	**6**	(40)
- exchange difference	**254**	16
Cash flow hedge reserve:		
- fair value changes taken to equity	**1,519**	395
- fair value changes transferred to the Condensed Consolidated Income Statement	**(1,625)**	(120)
- deferred taxes	**18**	(45)
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	**198**	(268)
Items that will not be reclassified subsequently to the Condensed Consolidated Income Statement:		
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:		
- before deferred taxes	**–**	4
- deferred taxes	**–**	(1)
Equity instrument designated at fair value through other comprehensive income:		
- fair value changes taken to equity	**(1,427)**	(869)
- exchange difference	**88**	(74)
Premises:		
- unrealised surplus/(deficit) on revaluation of premises	**648**	(1,061)
- deferred taxes	**(109)**	175
- exchange difference	**4**	(3)
Defined benefit plans:		
- actuarial gains/(losses) on defined benefit plans	**369**	(450)
- deferred taxes	**(61)**	74
Exchange differences and others	**(4)**	–
Other comprehensive income for the period, net of tax	**(447)**	(1,932)
Total comprehensive income for the period	**8,314**	7,203
Total comprehensive income for the period attributable to:		
- shareholders of the Bank	**8,320**	7,211
- non-controlling interests	**(6)**	(8)
	8,314	7,203

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
ASSETS		
Cash and balances at central banks	**12,283**	11,226
Trading assets	**32,299**	37,117
Derivative financial instruments	**12,985**	17,181
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**25,783**	20,695
Reverse repurchase agreements – non-trading	**14,733**	13,360
Placings with and advances to banks	**61,791**	44,357
Loans and advances to customers	**1,013,463**	944,774
Financial investments	**499,236**	554,720
Interest in associates	**2,351**	2,358
Investment properties	**9,808**	9,415
Premises, plant and equipment	**30,566**	30,925
Intangible assets	**25,189**	24,733
Other assets	**59,728**	48,926
Total assets	**1,800,215**	1,759,787
LIABILITIES AND EQUITY		
Liabilities		
Deposits from banks	**22,196**	12,943
Current, savings and other deposit accounts	**1,190,438**	1,209,472
Repurchase agreements – non-trading	**20,405**	6,270
Trading liabilities	**27,494**	30,937
Derivative financial instruments	**12,780**	20,861
Financial liabilities designated at fair value	**35,809**	32,530
Certificates of deposit and other debt securities in issue	**79,418**	62,500
Other liabilities	**51,563**	31,334
Liabilities under insurance contracts	**148,475**	142,680
Current tax liabilities	**923**	282
Deferred tax liabilities	**7,461**	7,302
Subordinated liabilities	**19,486**	19,481
Total liabilities	**1,616,448**	1,576,592
Equity		
Share capital	**9,658**	9,658
Retained profits	**139,222**	137,580
Other equity instruments	**11,744**	11,744
Other reserves	**23,053**	24,118
Total shareholders' equity	**183,677**	183,100
Non-controlling interests	**90**	95
Total equity	**183,767**	183,195
Total equity and liabilities	**1,800,215**	1,759,787

For the half-year ended 30 June 2021

Figures in HK$m	Share capital	Other equity instruments	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 2021	**9,658**	**11,744**	**137,580**	**17,960**	**4,557**	**260**	**658**	**683**	**183,100**	**95**	**183,195**
Profit for the period	–	–	**8,767**	–	–	–	–	–	**8,767**	**(6)**	**8,761**
Other comprehensive income (net of tax)	–	–	**304**	**543**	**(1,404)**	**(88)**	**198**	–	**(447)**	–	**(447)**
Debt instruments at fair value through other comprehensive income	–	–	–	–	**(65)**	–	–	–	**(65)**	–	**(65)**
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	**(1,339)**	–	–	–	**(1,339)**	–	**(1,339)**
Cash flow hedges	–	–	–	–	–	**(88)**	–	–	**(88)**	–	**(88)**
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	–	–	–	–
Property revaluation	–	–	–	**543**	–	–	–	–	**543**	–	**543**
Actuarial gains on defined benefit plans	–	–	**308**	–	–	–	–	–	**308**	–	**308**
Exchange differences and others	–	–	**(4)**	–	–	–	**198**	–	**194**	–	**194**
Total comprehensive income for the period	–	–	**9,071**	**543**	**(1,404)**	**(88)**	**198**	–	**8,320**	**(6)**	**8,314**
Dividends paid [3]	–	–	**(7,456)**	–	–	–	–	–	**(7,456)**	–	**(7,456)**
Coupons paid on AT1 capital instruments	–	–	**(280)**	–	–	–	–	–	**(280)**	–	**(280)**
Movement in respect of share-based payment arrangements	–	–	**(3)**	–	–	–	–	**(4)**	**(7)**	–	**(7)**
Others	–	–	–	–	–	–	–	–	–	**1**	**1**
Transfers	–	–	**310**	**(310)**	–	–	–	–	–	–	–
At 30 June 2021	**9,658**	**11,744**	**139,222**	**18,193**	**3,153**	**172**	**856**	**679**	**183,677**	**90**	**183,767**

[1] Retained profits are the cumulative net earnings of the Group that have not been paid out as dividends, but retained to be reinvested in the business. To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group has earmarked a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 30 June 2021, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$1,997m (31 December 2020: HK$1,323m).

[2] Other reserves comprise share-based payment reserve and own credit risk reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the Group by the ultimate holding company. The own credit risk reserve is for the change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk.

[3] Dividends paid represented the payment of fourth interim dividend of 2020 and the first interim dividend of 2021 amounted to HK$5,353m and HK$2,103m respectively.

For the half-year ended 30 June 2020

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 2020	9,658	11,744	133,734	19,889	3,296	16	(196)	669	178,810	107	178,917
Profit for the period	–	–	9,143	–	–	–	–	–	9,143	(8)	9,135
Other comprehensive income (net of tax)	–	–	(376)	(889)	(632)	230	(268)	3	(1,932)	–	(1,932)
Debt instruments at fair value through other comprehensive income	–	–	–	–	311	–	–	–	311	–	311
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	(943)	–	–	–	(943)	–	(943)
Cash flow hedges	–	–	–	–	–	230	–	–	230	–	230
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	3	3	–	3
Property revaluation	–	–	–	(889)	–	–	–	–	(889)	–	(889)
Actuarial losses on defined benefit plans	–	–	(376)	–	–	–	–	–	(376)	–	(376)
Exchange differences and others	–	–	–	–	–	–	(268)	–	(268)	–	(268)
Total comprehensive income for the period	–	–	8,767	(889)	(632)	230	(268)	3	7,211	(8)	7,203
Dividends paid	–	–	(9,750)	–	–	–	–	–	(9,750)	–	(9,750)
Coupons paid on AT1 capital instruments	–	–	(279)	–	–	–	–	–	(279)	–	(279)
Movement in respect of share-based payment arrangements	–	–	8	–	–	–	–	19	27	–	27
Others	–	–	–	–	–	–	–	–	–	(3)	(3)
Transfers	–	–	337	(337)	–	–	–	–	–	–	–
At 30 June 2020	9,658	11,744	132,817	18,663	2,664	246	(464)	691	176,019	96	176,115

For the half-year ended 31 December 2020

				Other Reserves							
Figures in HK$m	**Share capital**	**Other equity instruments**	**Retained profits**	**Premises revaluation reserve**	**Financial assets at FVOCI reserve**	**Cash flow hedge reserve**	**Foreign exchange reserve**	**Others**	**Total shareholders' equity**	**Non-controlling interests**	**Total equity**
At 1 July 2020	9,658	11,744	132,817	18,663	2,664	246	(464)	691	176,019	96	176,115
Profit for the period	–	–	7,544	–	–	–	–	–	7,544	(9)	7,535
Other comprehensive income (net of tax)	–	–	368	(382)	1,893	14	1,122	(4)	3,011	–	3,011
Debt instruments at fair value through other comprehensive income	–	–	–	–	(220)	–	–	–	(220)	–	(220)
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	2,113	–	–	–	2,113	–	2,113
Cash flow hedges	–	–	–	–	–	14	–	–	14	–	14
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(4)	(4)	–	(4)
Property revaluation	–	–	–	(382)	–	–	–	–	(382)	–	(382)
Actuarial gains on defined benefit plans	–	–	368	–	–	–	–	–	368	–	368
Exchange differences and others	–	–	–	–	–	–	1,122	–	1,122	–	1,122
Total comprehensive income for the period	–	–	7,912	(382)	1,893	14	1,122	(4)	10,555	(9)	10,546
Dividends paid	–	–	(3,058)	–	–	–	–	–	(3,058)	–	(3,058)
Coupons paid on AT1 capital instruments	–	–	(421)	–	–	–	–	–	(421)	–	(421)
Movement in respect of share-based payment arrangements	–	–	9	–	–	–	–	(4)	5	–	5
Others	–	–	–	–	–	–	–	–	–	8	8
Transfers	–	–	321	(321)	–	–	–	–	–	–	–
At 31 December 2020	9,658	11,744	137,580	17,960	4,557	260	658	683	183,100	95	183,195

Net interest income

Figures in HK$m	***Half-year ended 30 June 2021***	*Half-year ended 30 June 2020*
Net interest income/(expense) arising from:		
- financial assets and liabilities that are not at fair value through profit and loss	**12,343**	15,168
- trading assets and liabilities	**57**	119
- financial instruments designated and otherwise mandatorily measured at fair value through profit or loss	**(517)**	(495)
	11,883	14,792
Average interest-earning assets	**1,587,529**	1,515,614
Net interest spread	**1.43%**	1.78%
Net interest margin	**1.51%**	1.96%

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	***Half-year ended 30 June 2021***	*Half-year ended 30 June 2020*
Net interest income and expense reported as 'Net interest income'		
- Interest income	**13,945**	20,020
- Interest expense	**(1,606)**	(4,874)
- Net interest income	**12,339**	15,146
Net interest income and expense reported as 'Net income from financial instruments measured at fair value through profit or loss'	**(456)**	(354)
Average interest-earning assets	**1,550,173**	1,476,660
Net interest spread	**1.54%**	1.88%
Net interest margin	**1.61%**	2.06%

Net fee income

Figures in HK$m	***Half-year ended 30 June 2021***	*Half-year ended 30 June 2020*
- securities broking and related services	**1,225**	978
- retail investment funds	**903**	656
- insurance	**264**	317
- account services	**185**	191
- remittances	**128**	147
- cards	**1,250**	1,132
- credit facilities	**429**	377
- trade services	**183**	183
- other	**326**	227
Fee income	**4,893**	4,208
Fee expense	**(1,184)**	(1,033)
	3,709	3,175

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

Figures in HK$m	***Half-year ended 30 June 2021***	*Half-year ended 30 June 2020*
Net trading income		
- trading income	**919**	483
- other trading income/(expense) from ineffective fair value hedges	**(5)**	4
	914	487
Net income/(expense) from financial instruments designated at fair value through profit or loss	**(50)**	750
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	**1,834**	(1,286)
- liabilities to customers under investment contracts	**(13)**	2
	1,821	(1,284)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	(5)
	2,685	(52)

Other operating income

Figures in HK$m	***Half-year ended 30 June 2021***	*Half-year ended 30 June 2020*
Rental income from investment properties	**132**	139
Movement in present value of in-force long-term insurance business	**131**	2,106
Net losses from disposal of fixed assets	**(10)**	(6)
Net gains/(losses) from the derecognition of loans and advances to customers measured at amortised cost	**6**	(1)
Others	**146**	(91)
	405	2,147

Analysis of income from wealth management business

Figures in HK$m	***Half-year ended 30 June 2021***	*Half-year ended 30 June 2020*
Investment services income [1]:		
- retail investment funds	**897**	650
- structured investment products	**241**	218
- securities broking and related services	**1,205**	960
- margin trading and others	**38**	42
	2,381	1,870
Insurance income:		
- life insurance:		
- net interest income and fee income	**2,115**	2,042
- 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)	**1,814**	(1,705)
- net insurance premium income	**6,798**	7,171
- net insurance claims and benefits paid and movement in liabilities to policyholders	**(8,307)**	(8,072)
- movement in present value of in-force long-term insurance business	**131**	2,106
	2,551	1,542
- general insurance and others	**158**	125
	2,709	1,667
	5,090	3,537

[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	***Half-year ended 30 June 2021***	*Half-year ended 30 June 2020*
Loans and advances to banks and customers	**319**	1,456
- new allowances net of allowance releases	**372**	1,484
- recoveries of amounts previously written off	**(78)**	(42)
- other movements	**25**	14
Loan commitments and guarantees	**(84)**	53
Other financial assets	**104**	251
	339	1,760

Operating expenses

Figures in HK$m	***Half-year ended 30 June 2021***	*Half-year ended 30 June 2020*
Employee compensation and benefits:		
- salaries and other costs	**2,917**	2,846
- retirement benefit costs	**248**	244
	3,165	3,090
General and administrative expenses:		
- rental expenses	**6**	11
- other premises and equipment	**856**	785
- marketing and advertising expenses	**131**	97
- other operating expenses	**1,356**	1,140
	2,349	2,033
Depreciation of premises, plant and equipment [1]	**1,030**	1,039
Amortisation of intangible assets	**210**	131
	6,754	6,293
Cost efficiency ratio	**39.0%**	32.8%

Full-time equivalent staff numbers by region	***At 30 June 2021***	*At 30 June 2020*
Hong Kong and others	**8,028**	8,429
Mainland	**1,676**	1,714
	9,704	10,143

[1] *Included depreciation of right-of-use assets of HK$286m in the first half of 2021 (first half of 2020: HK$293m).*

Tax expense

Taxation in the Condensed Consolidated Income Statement represents:

Figures in HK$m	***Half-year ended 30 June 2021***	*Half-year ended 30 June 2020*
Current tax – provision for Hong Kong profits tax		
- Tax for the period	**1,406**	1,380
- Adjustment in respect of prior periods	**2**	–
Current tax – taxation outside Hong Kong		
- Tax for the period	**45**	15
- Adjustment in respect of prior periods	**(7)**	–
Deferred tax		
- Origination and reversal of temporary differences	**91**	89
	1,537	1,484

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

Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share for the first half of 2021 is based on earnings of HK$8,487m (HK$8,864m for the first half of 2020), adjusted for the AT1 capital instrument related deductions and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2020).

Dividends/Distributions

	Half-year ended 30 June 2021		*Half-year ended 30 June 2020*	
(a) Dividends to ordinary shareholders	***HK$ per share***	***HK$m***	*HK$ per share*	*HK$m*
First interim	**1.10**	**2,103**	1.10	2,103
Second interim	**1.10**	**2,103**	0.80	1,529
	2.20	**4,206**	1.90	3,632
(b) Distributions to holders of AT1 capital instruments classified as equity				
Coupons paid on AT1 capital instruments		**280**		279

Segmental analysis

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

- **Wealth and Personal Banking** offers a broad range of products and services to meet the personal banking, consumer lending and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, time deposits, mortgages and personal loans, credit cards, insurance 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 apart from outlets dedicated for Wealth and Personal Banking, investment properties, equity shares and subordinated debt funding as well as central support and functional costs with associated recoveries.

(a) Segmental result

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

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

Figures in HK$m	***Wealth and Personal Banking***	***Commercial Banking***	***Global Banking and Markets***	***Other***	***Total***
Half-year ended 30 June 2021					
Profit/(loss) before tax	**5,577**	**2,780**	**2,177**	**(236)**	**10,298**
Share of profit/(loss) before tax	**54.2%**	**27.0%**	**21.1%**	**(2.3)%**	**100.0%**
Half-year ended 30 June 2020 (restated)					
Profit/(loss) before tax	5,489	3,208	2,643	(721)	10,619
Share of profit/(loss) before tax	51.7%	30.2%	24.9%	(6.8)%	100.0%

Segmental analysis *(continued)*

(b) Information by geographical region

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

Figures in HK$m	***Hong Kong***	***Mainland China***	***Others***	***Inter-region elimination***	***Total***
Half-year ended 30 June 2021					
Total operating income/(loss)	**24,007**	**1,503**	**139**	**(16)**	**25,633**
Profit before tax	**9,420**	**786**	**92**	**–**	**10,298**
At 30 June 2021					
Total assets	**1,695,315**	**155,388**	**23,985**	**(74,473)**	**1,800,215**
Total liabilities	**1,519,357**	**139,212**	**22,582**	**(64,703)**	**1,616,448**
Equity	**175,958**	**16,176**	**1,403**	**(9,770)**	**183,767**
Share capital	**9,658**	**10,772**	**–**	**(10,772)**	**9,658**
Interest in associates	**2,351**	**–**	**–**	**–**	**2,351**
Non-current assets [1]	**63,939**	**1,568**	**56**	**–**	**65,563**
Half-year ended 30 June 2020					
Total operating income/(loss)	25,753	1,390	144	(28)	27,259
Profit before tax	10,007	522	90	–	10,619
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

[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 30 June 2021***	*At 31 December 2020*
Treasury bills	**10,131**	16,533
Other debt securities	**22,121**	20,539
Debt securities	**32,252**	37,072
Investment funds/equity shares	**47**	45
	32,299	37,117

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

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Debt securities	–	2
Equity shares	**4,252**	4,253
Investment funds	**20,460**	15,158
Other	**1,071**	1,282
	25,783	20,695

Loans and advances to customers

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Gross loans and advances to customers	**1,018,595**	949,954
Less: Expected credit losses	**(5,132)**	(5,180)
	1,013,463	944,774
Expected credit losses as a percentage of gross loans and advances to customers	**0.50%**	0.55%
Gross impaired loans and advances	**7,011**	5,724
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**0.69%**	0.60%

Reconciliation of changes in gross carrying/nominal amount and allowances 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 carrying/ nominal amount	Allowances for ECL	Gross carrying/ nominal amount	Allowances for ECL	Gross carrying/ nominal amount	Allowances for ECL	Gross carrying/ nominal amount	Allowances for ECL	Gross carrying/ nominal amount	Allowances for ECL
At 1 January 2021	**1,213,008**	**(1,421)**	**135,379**	**(1,896)**	**5,723**	**(2,044)**	**1**	–	**1,354,111**	**(5,361)**
Transfers of financial instruments:										
- transfers from Stage 1 to Stage 2	**(99,604)**	**255**	**99,604**	**(255)**	–	–	–	–	–	–
- transfers from Stage 2 to Stage 1	**30,021**	**(260)**	**(30,021)**	**260**	–	–	–	–	–	–
- transfers to Stage 3	**(155)**	**5**	**(1,544)**	**131**	**1,699**	**(136)**	–	–	–	–
- transfers from Stage 3	**7**	**(1)**	**23**	**(1)**	**(30)**	**2**	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	**120**	–	**(669)**	–	**(9)**	–	–	–	**(558)**
New financial assets originated and purchased	**175,035**	**(96)**	**2,231**	**(33)**	**103**	**(35)**	–	–	**177,369**	**(164)**
Assets derecognised (including final repayments)	**(94,000)**	**45**	**(11,899)**	**133**	**(213)**	**90**	–	–	**(106,112)**	**268**
Changes to risk parameters – further lending/(repayments)	**25,262**	**166**	**(14,555)**	**100**	**134**	**54**	–	–	**10,841**	**320**
Changes to risk parameters – credit quality	–	**373**	–	**168**	–	**(719)**	–	–	–	**(178)**
Assets written off	–	–	–	–	**(419)**	**419**	–	–	**(419)**	**419**
Foreign exchange and others	**1,699**	–	**65**	–	**13**	–	–	–	**1,777**	–
At 30 June 2021	**1,251,273**	**(814)**	**179,283**	**(2,062)**	**7,010**	**(2,378)**	**1**	–	**1,437,567**	**(5,254)**

	Total
ECL in income statement (charge)/ release for the period	**(312)**
Add: Recoveries	**78**
Add/(less): Others	**(1)**
Total ECL (charge)/release for the period [2]	**(235)**

[1] *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*
[2] *The provision for ECL balance at 30 June 2021 and total ECL charges for the period 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$278m and HK$104m 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 30 June 2021		*At 31 December 2020*	
	HK$m	***%***	*HK$m*	*%*
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	**997**	**0.10**	591	0.06
- more than six months but not more than one year	**1,713**	**0.17**	703	0.07
- more than one year	**1,483**	**0.15**	950	0.10
	4,193	**0.42**	2,244	0.23

Rescheduled loans and advances to customers

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

	At 30 June 2021		*At 31 December 2020*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**228**	**0.02**	140	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 30 June 2021***	*At 31 December 2020*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**71,113**	71,868
Property investment	**155,364**	154,338
Financial concerns	**4,524**	3,201
Stockbrokers	**31,043**	11
Wholesale and retail trade	**29,264**	32,041
Manufacturing	**23,037**	24,077
Transport and transport equipment	**15,687**	14,617
Recreational activities	**902**	976
Information technology	**10,249**	9,973
Other	**98,934**	92,614
	440,117	403,716
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**34,095**	33,806
Loans and advances for the purchase of other residential properties	**234,528**	226,996
Credit card loans and advances	**26,753**	25,951
Other	**30,690**	30,274
	326,066	317,027
Total gross loans and advances for use in Hong Kong	**766,183**	720,743
Trade finance	**40,839**	26,636
Gross loans and advances for use outside Hong Kong	**211,573**	202,575
Gross loans and advances to customers	**1,018,595**	949,954

Financial investments

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Financial investments measured at fair value through other comprehensive income		
- treasury bills	**218,697**	268,031
- debt securities	**131,544**	144,814
- equity shares	**5,714**	7,051
Debt instruments measured at amortised cost		
- treasury bills	**3,502**	3,667
- debt securities	**140,036**	131,330
Less: Expected credit losses	**(257)**	(173)
	499,236	554,720
Fair value of debt securities at amortised cost	**151,823**	146,275
Treasury bills	**222,199**	271,698
Certificates of deposit	**4,440**	3,633
Other debt securities	**266,883**	272,338
Debt securities	**493,522**	547,669
Equity shares	**5,714**	7,051
	499,236	554,720

Intangible assets

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Present value of in-force long-term insurance business	**22,682**	22,551
Internally developed/acquired software	**2,178**	1,853
Goodwill	**329**	329
	25,189	24,733

Other assets

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Items in the course of collection from other banks	**7,491**	5,062
Bullion	**8,940**	12,337
Prepayments and accrued income	**4,037**	3,917
Acceptances and endorsements	**10,068**	9,027
Less: Expected credit losses	**(9)**	(14)
Reinsurers' share of liabilities under insurance contracts	**5,902**	5,471
Settlement accounts	**17,719**	4,329
Cash collateral	**2,460**	5,286
Other accounts	**3,120**	3,511
	59,728	48,926

Other accounts included 'Assets held for sale' of HK$39m (31 December 2020: HK$28m). It also included 'Retirement benefit assets' of HK$17m (31 December 2020: HK$7m).

Current, savings and other deposit accounts

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Current, savings and other deposit accounts:		
- as stated in Condensed Consolidated Balance Sheet	**1,190,438**	1,209,472
- structured deposits reported as financial liabilities designated as fair value	**29,858**	26,840
	1,220,296	1,236,312
By type:		
- demand and current accounts	**152,655**	137,050
- savings accounts	**845,670**	825,547
- time and other deposits	**221,971**	273,715
	1,220,296	1,236,312

Trading liabilities

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Short positions in securities	**27,494**	30,937

Financial liabilities designated at fair value

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Certificates of deposit in issue	–	1,516
Structured deposits	**29,858**	26,840
Other structured debt securities in issue	**5,542**	3,755
Liabilities to customers under investment contracts	**409**	419
	35,809	32,530

Certificates of deposit and other debt securities in issue

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Certificates of deposit and other debt securities in issue:		
- as stated in Condensed Consolidated Balance Sheet	**79,418**	62,500
- certificates of deposit in issue designated at fair value	–	1,516
- other structured debt securities in issue reported as financial liabilities designated at fair value	**5,542**	3,755
	84,960	67,771
By type:		
- certificates of deposit in issue	**79,418**	64,016
- other debt securities in issue	**5,542**	3,755
	84,960	67,771

Other liabilities

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Items in the course of transmission to other banks	**26,466**	6,316
Accruals	**2,852**	3,490
Acceptances and endorsements	**10,068**	9,027
Retirement benefit liabilities	**303**	630
Settlement accounts	**4,280**	5,124
Cash collateral	**1,968**	1,060
Lease liabilities	**1,865**	2,102
Other	**3,761**	3,585
	51,563	31,334

Shareholders' equity

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Share capital	**9,658**	9,658
Retained profits	**139,222**	137,580
Other equity instruments	**11,744**	11,744
Premises revaluation reserve	**18,193**	17,960
Cash flow hedge reserve	**172**	260
Financial assets at fair value through other comprehensive income reserve	**3,153**	4,557
Other reserves	**1,535**	1,341
Total reserves	**174,019**	173,442
Total shareholders' equity	**183,677**	183,100
Annualised return on average ordinary shareholders' equity for the half-year ended	**9.9%**	8.5%

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

Capital management

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

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

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

Capital management *(continued)*

(a) Capital base

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**144,701**	145,915
- Shareholders' equity per Condensed Consolidated Balance Sheet	**183,677**	183,100
- Additional Tier 1 ('AT1') perpetual capital instruments	**(11,744)**	(11,744)
- Unconsolidated subsidiaries	**(27,232)**	(25,441)
Non-controlling interests	–	–
- Non-controlling interests per Condensed Consolidated Balance Sheet	**90**	95
- Non-controlling interests in unconsolidated subsidiaries	**(90)**	(95)
Regulatory deductions to CET1 capital	**(28,477)**	(27,306)
- Cash flow hedge reserve	**(25)**	(51)
- Changes in own credit risk on fair valued liabilities	**(5)**	(10)
- Property revaluation reserves [1]	**(24,340)**	(24,067)
- Regulatory reserve	**(1,997)**	(1,323)
- Intangible assets	**(1,838)**	(1,566)
- Defined benefit pension fund assets	**(14)**	(6)
- Deferred tax assets net of deferred tax liabilities	**(106)**	(183)
- Valuation adjustments	**(152)**	(100)
Total CET1 Capital	**116,224**	118,609
AT1 Capital		
Total AT1 capital before and after regulatory deductions	**11,744**	11,744
- Perpetual capital instruments	**11,744**	11,744
Total AT1 Capital	**11,744**	11,744
Total Tier 1 ('T1') Capital	**127,968**	130,353
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**12,087**	11,762
- Property revaluation reserves [1]	**10,953**	10,831
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**1,134**	931
Regulatory deductions to T2 capital	**(1,045)**	(1,045)
- Significant capital investments in unconsolidated financial sector entities	**(1,045)**	(1,045)
Total T2 Capital	**11,042**	10,717
Total Capital	**139,010**	141,070

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

Capital management *(continued)*

(b) Risk-weighted assets by risk type

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Credit risk	**654,023**	624,487
Market risk	**16,676**	14,332
Operational risk	**63,833**	66,709
Total	**734,532**	705,528

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

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

	At 30 June 2021	*At 31 December 2020*
CET1 capital ratio	**15.8 %**	16.8 %
T1 capital ratio	**17.4 %**	18.5 %
Total capital ratio	**18.9 %**	20.0 %

In addition, the capital ratios of all tiers as of 30 June 2021 would be reduced by approximately 0.3 percentage point after the prospective second interim dividend payment for 2021. The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 30 June 2021	*Pro-forma At 31 December 2020*
CET1 capital ratio	**15.5 %**	16.1 %
T1 capital ratio	**17.1 %**	17.7 %
Total capital ratio	**18.6 %**	19.2 %

Liquidity information

The Group is required under rule 11(1) of the Banking (Liquidity) Rules to calculate its liquidity coverage ratio ('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 30 June	*Quarter ended 31 March*
- 2021	**214.4%**	**204.0%**
- 2020	198.0%	181.6%

The LCR as at 30 June 2021 was 217.0% compared with 230.4% at 31 December 2020.

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

	Quarter ended 30 June	*Quarter ended 31 March*
- 2021	**146.6%**	**150.5%**
- 2020	151.0%	146.0%

Contingent liabilities, contractual commitments and guarantees

Figures in HK$m	***At 30 June 2021***	*At 31 December 2020*
Contingent liabilities and financial guarantee contracts		
- Financial guarantees	**2,226**	3,024
- Performance and other guarantees	**18,479**	16,774
- Other contingent liabilities	**50**	49
	20,755	19,847
Commitments		
- Documentary credits and short-term trade-related transactions	**3,110**	3,248
- Forward asset purchases and forward deposits placed	**8,252**	7,432
- Undrawn formal standby facilities, credit lines and other commitments to lend	**487,879**	488,813
	499,241	499,493

1. Statutory financial statements and accounting policies

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

Certain financial information in this press release is extracted from the interim report prepared under Hong Kong Accounting Standard ('HKAS') 34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). The interim report was reviewed by Audit Committee. The Board of Directors of the Bank has approved the interim report on 2 August 2021.

The financial information relating to the year ended 31 December 2020 that is included in this press release does not constitute the Group's statutory financial statements for that year but is extracted from those financial statements which have been delivered to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and to the HKMA.

The auditor has reported on those statutory financial statements for the year ended 31 December 2020. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying this report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap.622).

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

Standards applied during the half-year ended 30 June 2021

There were no new standards or amendments to standards that had a material effect on these interim condensed consolidated financial statements.

Use of estimates and judgements

Further information on summary of significant accounting policies, use of estimates and judgements and future accounting developments are set out in the accounting policies of the Group's 2021 Interim 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 half-year ended 30 June 2021 and which have not been adopted in the financial statements. Key changes of new standards are summarised as follows:

2. Future accounting standard development *(continued)*

HKFRS 17 'Insurance Contracts'

HKFRS 17 'Insurance Contracts' was issued in January 2018 with amendments to the standard issued in October 2020. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, HKFRS 17 is effective from 1 January 2023. The Group is in the process of implementing HKFRS 17. Industry practice and interpretation of the standard is still developing. Therefore, the likely impact of its implementation remains uncertain. However, compared with the Group's current accounting policy for insurance, there will be no PVIF asset recognised; rather the estimated future profit will be included in the measurement of the insurance contract liability as the contractual service margin and gradually recognised in revenue as services are provided over the duration of the insurance contract.

3. Comparative figures

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

4. Ultimate holding company

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

5. Register of shareholders

The register of shareholders of the Bank will be closed on Tuesday, 17 August 2021, during which no transfer of shares can be registered. In order to qualify for the second interim dividend for 2021, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on Monday, 16 August 2021. The second interim dividend will be payable on Thursday, 2 September 2021, to shareholders whose names appear on the register of shareholders of the Bank on Tuesday, 17 August 2021. Shares of the Bank will be traded ex-dividend as from Friday, 13 August 2021.

6. Corporate governance principles and practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the HKMA. The Bank has also fully complied with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2021.

6. Corporate governance principles and practices *(continued)*

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 to simplify the subsidiary oversight framework, and strengthen and enhance corporate governance, and continued to embed Group governance requirements to enhance meeting effectiveness. Lastly, a comprehensive Subsidiary Governance Review was initiated by the HSBC Group in 2020 for sharing of best governance practices and the Bank was on track in implementing the recommendations from such Review, with full support of the Board.

The Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30 June 2021.

---

7. Board of Directors

At 2 August 2021, the Board of Directors of the Bank comprises Ms Irene Y L Lee* (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 (Acting Chief Executive), Mr Clement K M Kwok*, 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

---

8. Press release and Interim Report

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

The 2021 Interim Report will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank and printed copies of the 2021 Interim Report will be sent to shareholders before the end of August 2021.

---

9. Other financial information

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

<u>Press enquiries to</u>:
May Wong Telephone / email: (852) 2198 9003 / may.m.k.wong@hangseng.com
Ruby Chan Telephone / email: (852) 2198 4236 / rubypychan@hangseng.com