

News Release

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THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED 2020 CONSOLIDATED RESULTS – HIGHLIGHTS

- Profit before tax down 34% to HK\$90,196m (2019: HK\$136,433m)
- Attributable profit down 34% to HK\$69,447m (2019: HK\$105,722m)
- Return on average ordinary shareholders' equity of 8.6% (2019: 13.9%)
- Total assets up 9% to HK\$9,416bn (2019: HK\$8,662bn)
- Common equity tier 1 ratio of 17.2%, total capital ratio of 20.8% (2019: 17.2% and 21.0%)
- Cost efficiency ratio of 50.6% (2019: 42.6%)

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



Consolidated income statement by global business¹

	Wealth and Personal Banking HK\$m	Commercial Banking HK\$m	Global Banking and Markets HK\$m	Corporate Centre ² HK\$m	Total HK\$m
Year ended 31 Dec 2020					
Net interest income	59,783	34,192	22,895	(5,357)	111,513
Net fee income	22,026	9,102	10,380	162	41,670
Net income from financial instruments measured at fair value through profit or loss	18,927	2,985	21,288	2,067	45,267
Gains less losses from financial investments	772	450	417	(15)	1,624
Net insurance premium income/(expense)	58,261	3,627	–	(325)	61,563
Other operating income	5,056	66	862	(372)	5,612
Total operating income	164,825	50,422	55,842	(3,840)	267,249
Net insurance claims and benefits paid and movement in liabilities to policyholders	(74,394)	(3,700)	–	183	(77,911)
Net operating income before change in expected credit losses and other credit impairment charges	90,431	46,722	55,842	(3,657)	189,338
Change in expected credit losses and other credit impairment charges	(4,441)	(12,145)	(1,128)	(5)	(17,719)
Net operating income	85,990	34,577	54,714	(3,662)	171,619
Operating expenses	(47,292)	(19,391)	(24,013)	(5,132)	(95,828)
Operating profit	38,698	15,186	30,701	(8,794)	75,791
Share of profit in associates and joint ventures	6	–	–	14,399	14,405
Profit before tax	38,704	15,186	30,701	5,605	90,196
Balance sheet data at 31 Dec 2020					
Loans and advances to customers (net)	1,463,558	1,206,857	994,864	3,402	3,668,681
Customer accounts	3,333,360	1,472,646	1,104,941	449	5,911,396
Year ended 31 Dec 2019					
Net interest income	73,776	44,604	27,067	(14,544)	130,903
Net fee income	21,473	9,950	9,965	117	41,505
Net income from financial instruments measured at fair value through profit or loss	17,983	2,959	17,862	11,654	50,458
Gains less losses from financial investments	186	187	264	1	638
Net insurance premium income/(expense)	56,222	4,380	–	(327)	60,275
Other operating income	13,906	431	821	600	15,758
Total operating income	183,546	62,511	55,979	(2,499)	299,537
Net insurance claims and benefits paid and movement in liabilities to policyholders	(75,627)	(4,529)	–	–	(80,156)
Net operating income before change in expected credit losses and other credit impairment charges	107,919	57,982	55,979	(2,499)	219,381
Change in expected credit losses and other credit impairment charges	(2,084)	(3,034)	(554)	–	(5,672)
Net operating income	105,835	54,948	55,425	(2,499)	213,709
Operating expenses	(46,077)	(19,442)	(23,654)	(4,321)	(93,494)
Operating profit	59,758	35,506	31,771	(6,820)	120,215
Share of profit in associates and joint ventures	346	–	–	15,872	16,218
Profit before tax	60,104	35,506	31,771	9,052	136,433
Balance sheet data at 31 Dec 2019					
Loans and advances to customers (net)	1,409,169	1,244,027	1,066,254	1,425	3,720,875
Customer accounts	3,101,820	1,345,176	985,018	410	5,432,424

¹ Effective from 2020, the reportable segments have been changed to reflect the merging of Retail Banking and Wealth Management and Global Private Banking to form Wealth and Personal Banking ('WPB'), and the re-allocation of Balance Sheet Management from Corporate Centre to the global businesses. Comparatives have been re-presented to conform to the current year's presentation. Further details on the change in reportable segments are set out in note 31 'Segmental analysis' in the Annual Report and Accounts 2020.

² Includes inter-segment elimination.

Financial review

The commentary that follows compares the group's financial performance for the year ended 2020 with 2019.

Results Commentary

The group reported profit before tax of HK\$90,196m, a decrease of HK\$46,237m, or 34%.

Net interest income decreased by HK\$19,390m, or 15%. Excluding the unfavourable foreign exchange impact, net interest income decreased by HK\$18,401m, or 14%, driven by Hong Kong primarily due to narrower customer deposit spreads and lower reinvestment yields as market interest rates decreased, partly offset by balance sheet growth. Net interest income in mainland China, Singapore and Malaysia also decreased. These were partly offset by an increase in India, primarily from lower funding costs on customer deposits, coupled with balance sheet growth.

Net fee income increased by HK\$165m. Excluding the unfavourable foreign exchange impact, net fee income increased by HK\$355m, or 1%, driven by Wealth and Personal Banking ('WPB') in Hong Kong from an increase in securities brokerage income due to higher equities turnover, partly offset by lower income from unit trusts due to lower transaction volumes, coupled with lower credit cards income due to lower customer spending as a result of Covid-19. Net fee income in Commercial Banking ('CMB') decreased, mainly due to lower trade-related and remittance fees.

Net income from financial instruments measured at fair value through profit or loss decreased by HK\$5,191m, or 10%.

Net income from financial instruments held for trading or managed on a fair value basis decreased by HK\$4,216m, or 12%, mainly in Hong Kong from lower trading income notably in Global Foreign Exchange, Securities Financing and Debt Trading and Financing businesses. Decreases also occurred in Taiwan and Japan from unfavourable revaluation on funding swaps, and in mainland China mainly from revaluation losses on foreign currency translation of balance sheet exposures.

Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss decreased by HK\$1,129m, or 8%, notably in WPB in Hong Kong, driven by lower revaluation gains on the equity portfolio held to support insurance and investment contracts due to less favourable market conditions in 2020 as compared to 2019. To the extent that these gains are attributable to policyholders, there is an offsetting movement reported under 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Net insurance premium income increased by HK\$1,288m, or 2%, driven by lower reinsurance arrangements in 2020. Gross insurance premium (excluding the impact from reinsurance arrangements) decreased by 10%, mainly in Hong Kong driven by lower volumes due to the Covid-19 outbreak. These were largely offset by a corresponding movement in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Other operating income decreased by HK\$10,146m, or 64%, driven by the less favourable movement in the present value of in-force long-term insurance business ('PVIF'), and from the unfavourable revaluation on investment properties, mainly in Hong Kong. The movement in PVIF was partly offset by a corresponding movement in 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Net insurance claims and benefits paid and movement in liabilities to policyholders decreased by HK\$2,245m, or 3%, mainly driven by lower reinsurance share of policy reserve, lower investment returns to policyholders due to the less favourable equity market performance in 2020, coupled with lower premium income and the less favourable movement in PVIF.

Change in expected credit losses and other credit impairment charges increased by HK\$12,047m, or 212%, with increases across all global businesses, mainly from higher specific charges in CMB, notably in Singapore and Hong Kong, coupled with charges relating to the global impact of Covid-19 and the unfavourable economic outlook.

Total operating expenses increased by HK\$2,334m, or 2%. Excluding the favourable foreign exchange impact, operating expenses increased by HK\$2,900m, or 3%, reflecting an increase in principally IT-related investments to enhance our digital capabilities and on regulatory programmes. The increase was also due to higher amortisation charges on intangible assets due to increased capitalised costs, coupled with an impairment charge on intangible assets. These increases were partly offset by lower employee compensation and benefits, mainly from lower performance-related pay and lower average headcount, partly offset by wage inflation across the region. To a lesser extent, decreases were also noted in marketing and advertising, travel and entertainment, and professional and consultancy expenses.

Share of profit in associates and joint ventures decreased by HK\$1,813m, or 11%. Excluding the unfavourable foreign exchange impact, the share of profit in associates and joint ventures decreased by HK\$1,646m, or 10%, mainly from Bank of Communications Co., Limited.

Consolidated income statement
for the year ended 31 December

	2020 HK\$m	2019 HK\$m
Net interest income	111,513	130,903
– interest income	147,376	191,322
– interest expense	(35,863)	(60,419)
Net fee income	41,670	41,505
– fee income	52,370	53,099
– fee expense	(10,700)	(11,594)
Net income from financial instruments held for trading or managed on a fair value basis	32,172	36,388
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	13,128	14,257
Changes in fair value of designated debts issued and related derivatives	(171)	(305)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	138	118
Gains less losses from financial investments	1,624	638
Net insurance premium income	61,563	60,275
Other operating income	5,612	15,758
Total operating income	267,249	299,537
Net insurance claims and benefits paid and movement in liabilities to policyholders	(77,911)	(80,156)
Net operating income before change in expected credit losses and other credit impairment charges	189,338	219,381
Change in expected credit losses and other credit impairment charges	(17,719)	(5,672)
Net operating income	171,619	213,709
Employee compensation and benefits	(36,183)	(38,048)
General and administrative expenses	(46,304)	(44,769)
Depreciation and impairment of property, plant and equipment	(9,405)	(8,230)
Amortisation and impairment of intangible assets	(3,936)	(2,447)
Total operating expenses	(95,828)	(93,494)
Operating profit	75,791	120,215
Share of profit in associates and joint ventures	14,405	16,218
Profit before tax	90,196	136,433
Tax expense	(14,505)	(21,393)
Profit for the year	75,691	115,040
Attributable to:		
– ordinary shareholders of the parent company	66,997	104,200
– other equity holders	2,450	1,522
– non-controlling interests	6,244	9,318
Profit for the year	75,691	115,040

Consolidated statement of comprehensive income
for the year ended 31 December

	2020	2019
	HK\$m	HK\$m
Profit for the year	75,691	115,040
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	2,238	1,674
– fair value gains	4,642	2,782
– fair value gains transferred to the income statement	(1,648)	(606)
– expected credit losses recognised in the income statement	112	23
– income taxes	(868)	(525)
Cash flow hedges	969	5
– fair value gains/(losses)	(4,393)	681
– fair value (gains)/losses reclassified to the income statement	5,551	(673)
– income taxes	(189)	(3)
Share of other comprehensive income/(expense) of associates and joint ventures	(726)	167
Exchange differences	17,891	(3,606)
Items that will not be reclassified subsequently to profit or loss:		
Property revaluation	(5,774)	3,673
– fair value gains/(losses)	(6,914)	4,426
– income taxes	1,140	(753)
Equity instruments designated at fair value through other comprehensive income	1,647	2,854
– fair value gains	1,654	2,859
– income taxes	(7)	(5)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	257	(2,060)
– before income taxes	320	(2,467)
– income taxes	(63)	407
Remeasurement of defined benefit asset/liability	(315)	192
– before income taxes	(384)	245
– income taxes	69	(53)
Other comprehensive income for the year, net of tax	16,187	2,899
Total comprehensive income for the year	91,878	117,939
Attributable to:		
– ordinary shareholders of the parent company	82,738	106,187
– other equity holders	2,450	1,522
– non-controlling interests	6,690	10,230
Total comprehensive income for the year	91,878	117,939

Consolidated balance sheet

at 31 December

	2020 HK\$m	2019 HK\$m
Assets		
Cash and balances at central banks	347,999	202,746
Items in the course of collection from other banks	21,943	21,140
Hong Kong Government certificates of indebtedness	313,404	298,944
Trading assets	600,414	622,761
Derivatives	422,945	280,642
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	178,960	153,511
Reverse repurchase agreements – non-trading	520,344	422,333
Loans and advances to banks	403,884	328,905
Loans and advances to customers	3,668,681	3,720,875
Financial investments	2,175,432	1,900,298
Amounts due from Group companies	83,203	87,632
Interests in associates and joint ventures	168,754	151,917
Goodwill and intangible assets	89,968	81,643
Property, plant and equipment	128,537	137,930
Deferred tax assets	3,325	2,179
Prepayments, accrued income and other assets	288,610	248,258
Total assets	9,416,403	8,661,714
Liabilities		
Hong Kong currency notes in circulation	313,404	298,944
Items in the course of transmission to other banks	25,699	25,576
Repurchase agreements – non-trading	136,157	106,396
Deposits by banks	248,628	179,819
Customer accounts	5,911,396	5,432,424
Trading liabilities	60,812	87,532
Derivatives	428,211	292,231
Financial liabilities designated at fair value	167,013	160,291
Debt securities in issue	79,419	106,933
Retirement benefit liabilities	2,701	2,595
Amounts due to Group companies	296,308	311,111
Accruals and deferred income, other liabilities and provisions	215,987	203,252
Liabilities under insurance contracts	581,406	528,760
Current tax liabilities	2,669	12,614
Deferred tax liabilities	30,997	29,889
Subordinated liabilities	4,065	4,066
Total liabilities	8,504,872	7,782,433
Equity		
Share capital	172,335	172,335
Other equity instruments	44,615	44,615
Other reserves	149,500	133,099
Retained earnings	478,903	464,629
Total shareholders' equity	845,353	814,678
Non-controlling interests	66,178	64,603
Total equity	911,531	879,281
Total liabilities and equity	9,416,403	8,661,714

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

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

Consolidated statement of changes in equity (continued)

for the year ended 31 December

	Other reserves										Total equity HK\$m
	Share capital ¹ HK\$m	Other equity instruments HK\$m	Retained earnings HK\$m	Property revaluation reserve HK\$m	Financial assets at FVOCI reserve HK\$m	Cash flow hedge reserve HK\$m	Foreign exchange reserve HK\$m	Other ² HK\$m	Total shareholders' equity HK\$m	Non-controlling interests HK\$m	
At 31 Dec 2018	172,335	35,879	429,595	57,914	2,953	(99)	(24,649)	78,830	752,758	60,162	812,920
Impact on transition to HKFRS 16	—	—	—	13,483	—	—	—	—	13,483	—	13,483
At 1 Jan 2019	172,335	35,879	429,595	71,397	2,953	(99)	(24,649)	78,830	766,241	60,162	826,403
Profit for the year	—	—	105,722	—	—	—	—	—	105,722	9,318	115,040
Other comprehensive income/(expense) (net of tax)	—	—	(1,949)	3,395	4,006	(5)	(3,469)	9	1,987	912	2,899
– debt instruments at fair value through other comprehensive income	—	—	—	—	1,676	—	—	—	1,676	(2)	1,674
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	2,169	—	—	—	2,169	685	2,854
– cash flow hedges	—	—	—	—	—	(5)	—	—	(5)	10	5
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	(2,058)	—	—	—	—	—	(2,058)	(2)	(2,060)
– property revaluation	—	—	—	3,395	—	—	—	—	3,395	278	3,673
– remeasurement of defined benefit asset/liability	—	—	112	—	—	—	—	—	112	80	192
– share of other comprehensive income/(expense) of associates and joint ventures	—	—	(3)	—	161	—	—	9	167	—	167
– exchange differences	—	—	—	—	—	—	(3,469)	—	(3,469)	(137)	(3,606)
Total comprehensive income/(expense) for the year	—	—	103,773	3,395	4,006	(5)	(3,469)	9	107,709	10,230	117,939
Other equity instruments issued ³	—	44,615	—	—	—	—	—	—	44,615	—	44,615
Other equity instruments repaid ³	—	(35,879)	—	—	—	—	—	—	(35,879)	—	(35,879)
Dividends paid ⁴	—	—	(68,369)	—	—	—	—	—	(68,369)	(5,646)	(74,015)
Movement in respect of share-based payment arrangements	—	—	(42)	—	—	—	—	249	207	2	209
Transfers and other movements ⁵	—	—	(328)	(2,779)	—	—	—	3,261	154	(145)	9
At 31 Dec 2019	172,335	44,615	464,629	72,013	6,959	(104)	(28,118)	82,349	814,678	64,603	879,281

1 Ordinary share capital includes preference shares which have been redeemed or bought back via a payments out of distributable profits in previous years.

2 The other reserves mainly comprise share of associates' other reserves, purchase premium arising from transfer of business from fellow subsidiaries, property revaluation reserve relating to transfer of properties to a fellow subsidiary and the share-based payment reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the group directly by HSBC Holdings plc.

3 In 2019, there were US\$1,100m additional tier 1 capital instruments issued. In addition, US\$4,600m of additional tier 1 capital instruments were repaid and reissued in 2019 with no actual cash movement.

4 Including distributions paid on perpetual subordinated loans classified as equity under HKFRS.

5 The movements include transfers from retained earnings to other reserves in associates according to local regulatory requirements, and from the property revaluation reserve to retained earnings in relation to depreciation of revalued properties.

1 Net interest income

	2020 HK\$m	2019 HK\$m
Net interest income	111,513	130,903
Average interest-earning assets	6,882,970	6,464,424
	%	%
Net interest spread	1.53	1.87
Contribution from net free funds	0.09	0.15
Net interest margin	1.62	2.02

Net interest income ('NII') decreased by HK\$19,390m, or 15%. Excluding the unfavourable foreign exchange impact, net interest income decreased by HK\$18,401m, or 14%, driven by Hong Kong primarily from narrower customer deposit spreads and lower reinvestment yields as market interest rates decreased, partly offset by balance sheet growth. NII in mainland China, Singapore and Malaysia also decreased. These were partly offset by an increase in India, primarily from lower funding costs on customer deposits, coupled with balance sheet growth.

Average interest-earning assets increased by HK\$419bn, or 6%, driven by Hong Kong and mainland China, mainly in financial investments, reflecting growth in the commercial surplus as customer deposits increased. To a lesser extent, increases were also noted in Singapore, Australia and India.

Net interest margin ('NIM') dropped by 40 basis points, with decreases noted across the region, primarily in Hong Kong and mainland China, as market interest rates decreased significantly compared to the prior year. This resulted in narrower customer deposit spreads and lower reinvestment yields. The increase in commercial surplus, which was primarily deployed into financial investments, also contributed to lower yields.

As a result, the NIM at the Bank's operations in Hong Kong decreased by 53 basis points, and at Hang Seng Bank, the NIM decreased by 51 basis points.

2 Net fee income

	2020 HK\$m	2019 HK\$m
Account services	2,098	2,538
Funds under management	7,544	7,215
Cards	6,939	8,567
Credit facilities	2,871	3,293
Broking income	6,213	3,560
Imports/exports	2,932	3,280
Unit trusts	6,134	7,150
Underwriting	1,511	1,555
Remittances	2,599	2,883
Global custody	3,993	3,742
Insurance agency commission	1,416	1,735
Other	8,120	7,581
Fee income	52,370	53,099
Fee expense	(10,700)	(11,594)
Net fee income	41,670	41,505

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

	2020 HK\$m	2019 HK\$m
Net income/(expense) arising on:		
Net trading activities	35,141	42,813
Other instruments managed on a fair value basis	(2,969)	(6,425)
Net income from financial instruments held for trading or managed on a fair value basis	32,172	36,388
Financial assets held to meet liabilities under insurance and investment contracts	15,873	16,245
Liabilities to customers under investment contracts	(2,745)	(1,988)
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	13,128	14,257
Change in fair value of designated debt issued and related derivatives ¹	(171)	(305)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	138	118
Year ended 31 Dec	45,267	50,458

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

4 Other operating income

	2020 HK\$m	2019 HK\$m
Movement in present value of in-force insurance business	3,840	12,546
Gains/(losses) on investment properties	(996)	154
Losses on disposal of property, plant and equipment and assets held for sale	(61)	(2)
Losses on disposal of subsidiaries, associates and business portfolios	(70)	(14)
Rental income from investment properties	370	423
Dividend income	165	161
Other	2,364	2,490
Year ended 31 Dec	5,612	15,758

5 Insurance business

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

	2020 HK\$m	2019 HK\$m
Insurance manufacturing operations¹		
Net interest income	15,654	14,634
Net fee expense	(2,923)	(4,424)
Net income from financial instruments measured at fair value	13,812	13,633
Net insurance premium income	61,874	60,577
Change in present value of in-force long-term insurance business	3,840	12,546
Other operating income/(expense)	(364)	267
Total operating income	91,893	97,233
Net insurance claims and benefits paid and movement in liabilities to policyholders	(78,093)	(80,156)
Net operating income before change in expected credit losses and other credit impairment charges	13,800	17,077
Change in expected credit losses and other credit impairment charges	(440)	(113)
Net operating income	13,360	16,964
Total operating expenses	(2,595)	(2,095)
Operating profit	10,765	14,869
Share of profit in associates and joint ventures	6	346
Profit before tax	10,771	15,215
Annualised new business premiums of insurance manufacturing operations ²	15,749	23,617
Distribution income earned by the group's bank channels	4,092	5,800

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

2 Annualised new business premium comparatives have been re-presented to include 100% of first year regular premiums and 10% of single premiums, before reinsurance ceded.

Profit before tax from the insurance manufacturing operations decreased by HK\$4,444m, or 29%, driven by the less favourable equity market performance compared to 2019, together with lower new business volumes in 2020 due to the Covid-19 outbreak.

Net interest income increased by 7% from growth in invested funds, reflecting net new business and renewal premium inflows on life insurance contracts.

Net income from financial instruments measured at fair value increased, mainly from favourable gains on currency swaps, partly offset by lower revaluation gains on the equity portfolio held to support insurance and investment contracts due to less favourable market conditions in 2020 as compared to 2019. While there was strong investment performance within the portfolio in light of volatile markets during the year, the overall fair value gains were lower compared to 2019.

Net insurance premium income increased slightly, driven by lower reinsurance arrangements in 2020 in Hong Kong. Gross insurance premium income (excluding the impact from reinsurance arrangements) decreased by 10%, mainly in Hong Kong driven by lower volumes due to the Covid-19 outbreak.

The less favourable movement in the present value of in-force long-term insurance business was driven by Hong Kong, mainly from the effect of interest rate changes on the valuation of liabilities under insurance contracts, lower sales volumes of new business written during 2020 due to the Covid-19 outbreak, and actuarial assumptions and methodology updates.

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

Annualised new business premiums ('ANP') is a measure of new insurance premium generation by the business. It is calculated as the sum of 100% of annualised first year regular premiums and 10% of single premiums, before reinsurance ceded. The decrease in ANP during the year reflected lower volumes in all insurance manufacturing markets, principally in Hong Kong.

6 Change in expected credit losses and other credit impairment charges

	2020 HK\$m	2019 HK\$m
Loans and advances to banks and customers	16,509	5,420
– new allowances net of allowance releases	17,242	6,283
– recoveries of amounts previously written off	(733)	(863)
Loan commitments and guarantees	654	95
Other financial assets	556	157
Year ended 31 Dec	17,719	5,672

Change in expected credit losses as a percentage of average gross customer advances was 0.44% for 2020 (2019: 0.15%).

7 Employee compensation and benefits

	2020 HK\$m	2019 HK\$m
Wages and salaries	33,367	34,674
Social security costs	893	1,264
Post-employment benefits	1,923	2,110
Year ended 31 Dec	36,183	38,048

8 General and administrative expenses

	2020 HK\$m	2019 HK\$m
Premises and equipment	2,804	3,246
Marketing and advertising expenses	1,959	2,815
Other administrative expenses	41,541	38,708
Year ended 31 Dec	46,304	44,769

The decrease in premises and equipment expenses was mainly due to the reclassification of certain short-term leases to long-term leases which are recognised as 'Right-of-Use' ('RoU') assets in 2020. This reclassification resulted in a corresponding increase in depreciation charges on 'RoU' assets below.

9 Depreciation and impairment of property, plant and equipment

	2020 HK\$m	2019 HK\$m
Owned property, plant and equipment	6,059	5,620
Other right-of-use assets	3,346	2,610
Year ended 31 Dec	9,405	8,230

Depreciation charges on property, plant and equipment increased by HK\$1,175m, or 14%, which included the impact from the reclassification of certain short-term leases to long-term leases in 2020 as mentioned under 'general and administrative expenses' above.

10 Associates and joint ventures

At 31 December 2020, an impairment review on the group's investment in Bank of Communications Co., Ltd ('BoCom') was carried out and it was concluded that the investment was not impaired based on our value-in-use calculation (see Note 14 'Associates and Joint Ventures' in the *Annual Report and Accounts 2020* for further details). As discussed in that note, in future periods, the value in use may increase or decrease depending on the effect of changes to model inputs. It is expected that the carrying amount will increase due to retained profits earned by BoCom. At the point where the carrying amount exceeds the value in use, impairment would be recognised. The group would continue to recognise its share of BoCom's profit or loss, but the carrying amount would be reduced to equal the value in use, with a corresponding reduction in income. An impairment review would continue to be performed at each subsequent reporting period, with the carrying amount and income adjusted accordingly.

11 Dividends

Dividends to shareholders of the parent company

	2020		2019	
	HK\$ per share	HK\$m	HK\$ per share	HK\$m
Dividends paid on ordinary shares				
In respect of previous year:				
– fourth interim dividend	0.58	27,026	0.47	21,958
In respect of current year:				
– first interim dividend paid	0.13	5,814	0.32	14,963
– second interim dividend paid	0.19	8,915	0.32	14,963
– third interim dividend paid	0.22	10,063	0.32	14,963
Total	1.12	51,818	1.43	66,847
Distributions on other equity instruments		2,450		1,522
Dividends to shareholders		54,268		68,369

The Directors have declared a fourth interim dividend in respect of the financial year ended 31 December 2020 of HK\$0.47 per ordinary share (HK\$21,665m) (2019: HK\$0.58 per ordinary share (HK\$27,026m)).

Total coupons on capital securities classified as equity

	2020	2019
	HK\$m	HK\$m
US\$1,900m Floating rate perpetual subordinated loans (interest rate at one year US dollar LIBOR plus 3.840%) ¹	–	497
US\$1,400m Floating rate perpetual subordinated loans (interest rate at three months US dollar LIBOR plus 3.510%) ¹	–	373
US\$600m Floating rate perpetual subordinated loan (interest rate at three months US dollar LIBOR plus 3.620%) ¹	–	178
US\$700m Floating rate perpetual subordinated loan (interest rate at three months US dollar LIBOR plus 4.980%) ¹	–	214
US\$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.510%) ²	454	150
US\$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.030%) ²	420	110
US\$1,000m Fixed rate perpetual subordinated loan (interest rate fixed at 6.090%) ²	370	–
US\$1,200m Fixed rate perpetual subordinated loan (interest rate fixed at 6.172%) ²	445	–
US\$600m Fixed rate perpetual subordinated loan (interest rate fixed at 5.910%) ²	249	–
US\$1,100m Fixed rate perpetual subordinated loan (interest rate fixed at 6.000%) ²	512	–
Total	2,450	1,522

1 These subordinated loans were early repaid in the first half of 2019 and distributions were made on repayment.

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

12 Loans and advances to customers

	2020	2019
	HK\$m	HK\$m
Gross loans and advances to customers	3,697,568	3,738,269
Expected credit loss allowances	(28,887)	(17,394)
At 31 Dec	3,668,681	3,720,875

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

Analysis of gross loans and advances to customers

	2020	2019
	HK\$m	HK\$m
Residential mortgages	1,097,760	1,027,087
Credit card advances	86,735	94,582
Other personal	267,852	281,087
Total personal	1,452,347	1,402,756
Real estate	638,560	666,380
Wholesale and retail trade	394,624	418,669
Manufacturing	379,853	418,822
Transportation and storage	97,204	86,912
Other	489,737	494,416
Total corporate and commercial	1,999,978	2,085,199
Non-bank financial institutions	245,243	250,314
At 31 Dec	3,697,568	3,738,269
By geography¹		
Hong Kong	2,357,375	2,399,867
Rest of Asia Pacific	1,340,193	1,338,402

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

Gross loans and advances to customers decreased by HK\$41bn, or 1%, which included favourable foreign exchange translation effects of HK\$54bn. Excluding this impact, the underlying decrease of HK\$95bn was driven by a decrease in corporate and commercial lending

of HK\$112bn mainly in Hong Kong and Australia, coupled with decreases in other personal lending of HK\$15bn and credit card advances of HK\$9bn, mainly in Hong Kong. The decrease was partly offset by an increase in residential mortgages of HK\$50bn, mainly in Hong Kong and Australia.

13 Financial investments

	2020 HK\$m	2019 HK\$m
Financial investments measured at fair value through other comprehensive income	1,700,406	1,465,998
– treasury and other eligible bills	790,627	606,738
– debt securities	899,193	850,623
– equity shares	10,586	8,637
Debt instruments measured at amortised cost	475,026	434,300
– treasury and other eligible bills	4,443	5,049
– debt securities	470,583	429,251
At 31 Dec	2,175,432	1,900,298

14 Customer accounts

Customer accounts by country/territory

	2020 HK\$m	2019 HK\$m
Hong Kong	4,120,955	3,894,175
Mainland China	440,608	376,390
Singapore	427,537	378,303
Australia	227,072	180,637
India	156,615	116,330
Malaysia	124,036	113,907
Taiwan	124,375	114,250
Indonesia	40,304	36,861
Other	249,894	221,571
At 31 Dec	5,911,396	5,432,424

15 Contingent liabilities, contractual commitments and guarantees

	2020 HK\$m	2019 HK\$m
Guarantees and contingent liabilities	329,706	318,770
Commitments	2,815,583	2,750,332
At 31 Dec	3,145,289	3,069,102

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

16 Capital

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

Capital ratios

	2020 %	2019 %
Common equity tier 1 ('CET1') capital ratio	17.2	17.2
Tier 1 capital ratio	18.8	18.8
Total capital ratio	20.8	21.0

Total regulatory capital and RWAs

	2020 HK\$m	2019 HK\$m
Common equity tier 1 capital	509,452	491,641
Additional tier 1 capital	46,101	45,819
Tier 2 capital	58,992	61,474
Total regulatory capital	614,545	598,934
RWAs	2,956,993	2,851,380

17 Accounting policies

The accounting policies and methods of computation adopted by the group for this document are consistent with those set out in Note 1 on the Consolidated Financial Statements in the *Annual Report and Accounts 2020*.

Standards adopted during the year ended 31 December 2020

Interest Rate Benchmark Reform – Phase 2

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

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

These amendments apply from 1 January 2021 with early adoption permitted. The group has adopted the amendments from 1 January 2020 and has made the additional disclosures as required by the amendments. Further information is included in the 'Top and emerging risks' section of the *Annual Report and Accounts 2020*.

Other changes

In addition, the group has adopted a number of interpretations and amendments to standards, which have had an insignificant effect on the consolidated financial statements of the group.

18 Statutory accounts

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

Certain financial information in this document is extracted from the Consolidated Financial Statements for the year ended 31 December 2020, which were approved by the Board of Directors on 23 February 2021 and will be delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The Auditor's Report was unqualified; did not include a reference to any matters to which the auditor drew any attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap.622). The Annual Report and Accounts 2020, which include the Consolidated Financial Statements, will be published on the Bank's website: www.hsbc.com.hk. A press release will be issued to announce the availability of this information.

19 Ultimate holding company

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

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