

News Release

21 February 2023

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED 2022 CONSOLIDATED RESULTS – HIGHLIGHTS

- Profit before tax up 13% to HK\$97,611m (2021: HK\$86,563m)
- Attributable profit up 16% to HK\$78,245m (2021: HK\$67,348m)
- Return on average ordinary shareholders' equity of 9.3% (2021: 8.0%)
- Total assets up 4% to HK\$10,324bn (2021: HK\$9,903bn)
- Common equity tier 1 ratio of 15.3%, total capital ratio of 18.8% (2021: 15.4% and 18.7%)
- Cost efficiency ratio of 53.7% (2021: 58.7%)

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



Consolidated income statement by reportable segments

	Wealth and Personal Banking	Commercial Banking	Global Banking	Markets and Securities Services	Corporate Centre ¹	Other (GBM-other)	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Year ended 31 Dec 2022							
Net interest income/(expense)	71,397	43,087	18,703	4,370	(12,718)	2,013	126,852
Net fee income/(expense)	17,895	9,727	5,086	3,701	247	(56)	36,600
Net income/(expense) from financial instruments measured at fair value through profit or loss	(9,603)	3,728	(110)	22,372	11,079	345	27,811
Gains less losses from financial investments	(34)	64	—	—	—	17	47
Net insurance premium income/(expense)	76,848	3,997	—	—	(430)	—	80,415
Other operating income/(expense)	2,329	(189)	369	1,208	315	(251)	3,781
Total operating income/(expense)	158,832	60,414	24,048	31,651	(1,507)	2,068	275,506
Net insurance claims and benefits paid and movement in liabilities to policyholders	(66,206)	(3,968)	—	—	360	—	(69,814)
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	92,626	56,446	24,048	31,651	(1,147)	2,068	205,692
Change in expected credit losses and other credit impairment charges	(1,326)	(11,953)	(3,070)	22	1	(39)	(16,365)
Net operating income/(expense)	91,300	44,493	20,978	31,673	(1,146)	2,029	189,327
Operating expenses	(52,773)	(20,972)	(10,513)	(13,897)	(9,521)	(2,832)	(110,508)
Operating profit/(loss)	38,527	23,521	10,465	17,776	(10,667)	(803)	78,819
Share of profit in associates and joint ventures	140	—	—	—	18,652	—	18,792
Profit/(loss) before tax	38,667	23,521	10,465	17,776	7,985	(803)	97,611
Balance sheet data at 31 Dec 2022							
Loans and advances to customers (net)	1,536,664	1,231,972	880,581	40,563	1,403	13,966	3,705,149
Customer accounts	3,443,694	1,665,463	805,600	195,775	11	3,166	6,113,709
Year ended 31 Dec 2021							
Net interest income/(expense)	50,632	29,106	15,070	3,497	(2,640)	2,448	98,113
Net fee income/(expense)	23,827	9,828	5,746	5,730	243	(78)	45,296
Net income from financial instruments measured at fair value through profit or loss	22,195	3,551	39	19,363	214	513	45,875
Gains less losses from financial investments	956	368	—	—	—	343	1,667
Net insurance premium income/(expense)	58,645	3,499	—	—	(422)	—	61,722
Other operating income/(expense)	202	39	237	1,113	599	(157)	2,033
Total operating income/(expense)	156,457	46,391	21,092	29,703	(2,006)	3,069	254,706
Net insurance claims and benefits paid and movement in liabilities to policyholders	(72,658)	(3,743)	—	—	353	—	(76,048)
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	83,799	42,648	21,092	29,703	(1,653)	3,069	178,658
Change in expected credit losses and other credit impairment charges	(1,224)	(3,295)	(2,013)	(10)	(6)	9	(6,539)
Net operating income/(expense)	82,575	39,353	19,079	29,693	(1,659)	3,078	172,119
Operating expenses	(49,429)	(20,839)	(10,152)	(14,629)	(7,332)	(2,495)	(104,876)
Operating profit/(loss)	33,146	18,514	8,927	15,064	(8,991)	583	67,243
Share of profit in associates and joint ventures	137	—	—	—	19,183	—	19,320
Profit before tax	33,283	18,514	8,927	15,064	10,192	583	86,563
Balance sheet data at 31 Dec 2021							
Loans and advances to customers (net)	1,544,449	1,315,961	927,542	49,887	1,540	1,560	3,840,939
Customer accounts	3,407,789	1,659,464	891,994	211,621	28	6,286	6,177,182

¹ Includes inter-segment elimination.

Financial Review

The commentary in this financial review compares the group's financial performance for the year ended 31 December 2022 with the year ended 31 December 2021.

Results Commentary

The group reported profit before tax of HK\$97,611m, an increase of HK\$11,048m, or 13%. Net operating income before change in expected credit losses and other credit impairment charges increased by HK\$27,034m, or 15%, primarily driven by higher net interest income. Operating expenses increased by HK\$5,632m, or 5%, from investment in technology.

Net interest income increased by HK\$28,739m, or 29%. Excluding the unfavourable foreign exchange impact, net interest income increased by HK\$30,715m, or 32%, primarily driven by Hong Kong with wider customer deposit spreads and higher reinvestment yields as market interest rates increased, coupled with balance sheet growth. Net interest income in Singapore also increased, reflecting the favourable impact of the higher market interest rates.

Net fee income decreased by HK\$8,696m, or 19%. Excluding the unfavourable foreign exchange impact, net fee income decreased by HK\$7,928m, or 18%, driven by Wealth and Personal Banking ('WPB') in Hong Kong with lower transaction volumes resulting in decreases in unit trust income and brokerage income, coupled with lower funds under management fees reflecting the unfavourable market performance. To a lesser extent, net fee income in Markets and Securities Services ('MSS') also decreased, mainly from lower global custody and securities brokerage fees coupled with a drop in underwriting fees.

Net income from financial instruments measured at fair value through profit or loss decreased by HK\$18,064m, or 39%.

Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss decreased by HK\$31,374m, mainly in Hong Kong and driven from losses on the equity portfolio held to support insurance and investment contracts, due to unfavourable equity market performance. To the extent that these losses are attributable to policyholders, there is an offsetting movement reported under 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Net income from financial instruments held for trading or managed on a fair value basis increased by HK\$13,315m, or 47%, most notably in Hong Kong from higher gains on derivatives principally benefitting from rising interest rates, partly offset by lower equity trading income attributable to unfavourable market conditions. Mainland China also increased due to the favourable movement on foreign currency position held locally.

Net insurance premium income increased by HK\$18,693m, or 30%, driven from higher sales volumes mainly in Hong Kong, and in Singapore with the acquisition of AXA Insurance Pte Limited ('AXA Singapore') during 2022.

Other operating income increased by HK\$1,748m, or 86%, driven by the favourable movement in the present value of in-force long-term insurance business ('PVIF') of HK\$1,038m, reflecting increases in Hong Kong from the value of new business written and the one-off gain from a pricing update for policyholder funds held on deposit to reflect the cost of provision of these services. This was partly offset by adverse assumption changes and experience variances in Hong Kong and Singapore, primarily due to interest rates movements.

The net movement in PVIF was partly offset by a corresponding movement in 'Net insurance claims and benefits paid and movement in liabilities to policyholders' to the extent gains or losses are attributable to the policy holders.

The overall increase also included a gain of HK\$665m on completion of our acquisition of AXA Singapore.

Net insurance claims and benefits paid and movement in liabilities to policyholders decreased by HK\$6,234m, or 8%, primarily due to a decline in returns on financial assets supporting contracts where the policyholder is subject to part or all of the investment risk, mainly in Hong Kong. This decrease was partially offset by higher sales volumes in Hong Kong.

Change in expected credit losses and other credit impairment charges increased by HK\$9,826m, or 150%, notably in Commercial Banking ('CMB') and to a lesser extent in Global Banking ('GB'), mainly reflecting increases in allowances relating to exposures to the mainland China commercial real estate sector.

Total operating expenses increased by HK\$5,632m, or 5%. Excluding the favourable foreign exchange impact, operating expenses increased by HK\$7,459m, or 7%, reflecting an increase in investment in technology, including our digital capabilities to support business growth. Employee compensation and benefits also increased, mainly from higher performance-related pay and wage inflation.

Share of profit in associates and joint ventures decreased by HK\$528m, or 3%. Excluding the unfavourable foreign exchange impact, the share of profit in associates and joint ventures increased by HK\$32m, mainly from Bank of Communications Co., Limited.

Consolidated income statement
for the year ended 31 December

	2022	2021
	HK\$m	HK\$m
Net interest income	126,852	98,113
– interest income	180,097	121,382
– interest expense	(53,245)	(23,269)
Net fee income	36,600	45,296
– fee income	50,622	57,819
– fee expense	(14,022)	(12,523)
Net income from financial instruments held for trading or managed on a fair value basis	41,674	28,359
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	(13,194)	18,180
Changes in fair value of designated debts issued and related derivatives	(703)	(639)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	34	(25)
Gains less losses from financial investments	47	1,667
Net insurance premium income	80,415	61,722
Other operating income	3,781	2,033
Total operating income	275,506	254,706
Net insurance claims and benefits paid and movement in liabilities to policyholders	(69,814)	(76,048)
Net operating income before change in expected credit losses and other credit impairment charges	205,692	178,658
Change in expected credit losses and other credit impairment charges	(16,365)	(6,539)
Net operating income	189,327	172,119
Employee compensation and benefits	(40,662)	(39,261)
General and administrative expenses	(54,549)	(52,327)
Depreciation and impairment of property, plant and equipment	(9,157)	(8,891)
Amortisation and impairment of intangible assets	(6,140)	(4,397)
Total operating expenses	(110,508)	(104,876)
Operating profit	78,819	67,243
Share of profit in associates and joint ventures	18,792	19,320
Profit before tax	97,611	86,563
Tax expense	(15,507)	(14,015)
Profit for the year	82,104	72,548
Attributable to:		
– ordinary shareholders of the parent company	75,506	64,633
– other equity holders	2,739	2,715
– non-controlling interests	3,859	5,200
Profit for the year	82,104	72,548

Consolidated statement of comprehensive income
for the year ended 31 December

	2022	2021
	HK\$m	HK\$m
Profit for the year	82,104	72,548
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	(13,675)	(4,009)
– fair value losses	(17,077)	(3,907)
– fair value gains transferred to the income statement	(139)	(1,276)
– expected credit (recoveries)/losses recognised in the income statement	342	(17)
– income taxes	3,199	1,191
Cash flow hedges	(1,965)	(700)
– fair value gains	5,851	7,038
– fair value gains reclassified to the income statement	(8,228)	(7,850)
– income taxes	412	112
Share of other comprehensive income/(expense) of associates and joint ventures	(1,964)	596
Exchange differences	(32,051)	3,973
Items that will not be reclassified subsequently to profit or loss:		
Property revaluation	3,863	4,771
– fair value gains	4,683	5,643
– income taxes	(820)	(872)
Equity instruments designated at fair value through other comprehensive income	865	(3,480)
– fair value gains/(losses)	868	(3,478)
– income taxes	(3)	(2)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	4,588	522
– before income taxes	5,461	631
– income taxes	(873)	(109)
Remeasurement of defined benefit asset/liability	185	724
– before income taxes	232	885
– income taxes	(47)	(161)
Other comprehensive income/(expense) for the year, net of tax	(40,154)	2,397
Total comprehensive income for the year	41,950	74,945
Attributable to:		
– ordinary shareholders of the parent company	36,360	67,148
– other equity holders	2,739	2,715
– non-controlling interests	2,851	5,082
Total comprehensive income for the year	41,950	74,945

Consolidated balance sheet

at 31 December

	2022 HK\$m	2021 HK\$m
Assets		
Cash and balances at central banks	232,740	276,857
Items in the course of collection from other banks	28,557	21,632
Hong Kong Government certificates of indebtedness	341,354	332,044
Trading assets	699,805	777,450
Derivatives	502,771	365,167
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	226,451	202,399
Reverse repurchase agreements – non-trading	927,976	803,775
Loans and advances to banks	519,024	432,247
Loans and advances to customers	3,705,149	3,840,939
Financial investments	2,221,361	2,051,575
Amounts due from Group companies	140,546	112,719
Interests in associates and joint ventures	185,898	188,485
Goodwill and intangible assets	102,419	95,181
Property, plant and equipment	130,926	129,827
Deferred tax assets	3,856	3,353
Prepayments, accrued income and other assets	355,319	269,743
Total assets	10,324,152	9,903,393
Liabilities		
Hong Kong currency notes in circulation	341,354	332,044
Items in the course of transmission to other banks	33,073	25,701
Repurchase agreements – non-trading	351,093	255,374
Deposits by banks	198,908	280,310
Customer accounts	6,113,709	6,177,182
Trading liabilities	142,453	92,723
Derivatives	551,745	355,791
Financial liabilities designated at fair value	167,743	138,965
Debt securities in issue	100,909	67,364
Retirement benefit liabilities	1,655	1,890
Amounts due to Group companies	398,705	356,233
Accruals and deferred income, other liabilities and provisions	238,726	219,206
Liabilities under insurance contracts	700,758	638,145
Current tax liabilities	6,002	2,378
Deferred tax liabilities	32,937	32,522
Subordinated liabilities	3,119	4,054
Total liabilities	9,382,889	8,979,882
Equity		
Share capital	180,181	172,335
Other equity instruments	52,386	44,615
Other reserves	109,235	151,804
Retained earnings	533,518	488,055
Total shareholders' equity	875,320	856,809
Non-controlling interests	65,943	66,702
Total equity	941,263	923,511
Total liabilities and equity	10,324,152	9,903,393

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

	Other reserves								Total shareholders' 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 ³			
	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 2022	172,335	44,615	488,055	64,990	3,869	153	(7,130)	89,922	856,809	66,702	923,511
Profit for the year	–	–	78,245	–	–	–	–	–	78,245	3,859	82,104
Other comprehensive income/(expense) (net of tax)	–	–	4,772	3,646	(14,774)	(1,639)	(31,351)	200	(39,146)	(1,008)	(40,154)
– debt instruments at fair value through other comprehensive income	–	–	–	–	(13,364)	–	–	–	(13,364)	(311)	(13,675)
– equity instruments designated at fair value through other comprehensive income	–	–	–	–	745	–	–	–	745	120	865
– cash flow hedges	–	–	–	–	–	(1,639)	–	–	(1,639)	(326)	(1,965)
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	4,590	–	–	–	–	–	4,590	(2)	4,588
– property revaluation	–	–	–	3,646	–	–	–	–	3,646	217	3,863
– remeasurement of defined benefit asset/liability	–	–	191	–	–	–	–	–	191	(6)	185
– share of other comprehensive income/(expense) of associates and joint ventures	–	–	(9)	–	(2,155)	–	–	200	(1,964)	–	(1,964)
– exchange differences	–	–	–	–	–	–	(31,351)	–	(31,351)	(700)	(32,051)
Total comprehensive income/(expense) for the year	–	–	83,017	3,646	(14,774)	(1,639)	(31,351)	200	39,099	2,851	41,950
Shares issued ¹	7,846	–	–	–	–	–	–	–	7,846	–	7,846
Other equity instruments issued ²	–	7,771	–	–	–	–	–	–	7,771	–	7,771
Dividends to shareholders ⁴	–	–	(34,821)	–	–	–	–	–	(34,821)	(2,845)	(37,666)
Movement in respect of share-based payment arrangements	–	–	135	–	–	–	–	(137)	(2)	13	11
Transfers and other movements ⁵	–	–	(2,868)	(3,488)	43	(1)	–	4,932	(1,382)	(778)	(2,160)
At 31 Dec 2022	180,181	52,386	533,518	65,148	(10,862)	(1,487)	(38,481)	94,917	875,320	65,943	941,263

Consolidated statement of changes in equity (continued)

for the year ended 31 December

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

1 Ordinary share capital includes preference shares which have been redeemed or bought back via payments out of distributable profits in previous years. During 2022, 3,138.4m new ordinary shares were issued at an issue price of HK\$2.5 each.

2 During 2022, an additional tier 1 capital instrument was issued amounted to US\$1,000m on which there were US\$10m issue costs.

3 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.

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

	2022 HK\$m	2021 HK\$m
Net interest income	126,852	98,113
Average interest-earning assets	7,589,538	7,173,973
	%	%
Net interest spread	1.55	1.32
Contribution from net free funds	0.12	0.05
Net interest margin	1.67	1.37

Net interest income ('NII') increased by HK\$28,739m, or 29%. Excluding the unfavourable foreign exchange impact, net interest income increased by HK\$30,715m, or 32%, primarily driven by Hong Kong with wider customer deposit spreads and higher reinvestment yields as market interest rates increased, coupled with balance sheet growth. Net interest income in Singapore also increased, reflecting the favourable impact of the higher market interest rates.

Average interest-earning assets increased by HK\$416bn, or 6%, driven by Hong Kong, from growth in financial investments and reverse repurchase agreements.

Net interest margin ('NIM') increased by 30 basis points ('bps'), with increases noted across the region, including Hong Kong, Singapore and Malaysia with higher market interest rates compared to the prior year.

As a result, the NIM at the Bank's operations in Hong Kong increased by 34 bps to 1.09%, and at Hang Seng Bank, the NIM increased by 30 bps to 1.89%.

2 Net fee income

	2022 HK\$m	2021 HK\$m
Account services	2,227	2,175
Funds under management	7,326	8,610
Cards	8,135	7,806
Credit facilities	2,846	3,146
Broking income	4,303	6,415
Imports/exports	3,132	3,056
Unit trusts	4,648	7,550
Underwriting	562	1,554
Remittances	2,892	2,813
Global custody	4,103	4,487
Insurance agency commission	1,546	1,441
Other	8,902	8,766
Fee income	50,622	57,819
Fee expense	(14,022)	(12,523)
Net fee income	36,600	45,296

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

	2022 HK\$m	2021 HK\$m
Net income/(expense) arising on:		
Net trading activities	43,138	29,888
Other instruments managed on a fair value basis	(1,464)	(1,529)
Net income from financial instruments held for trading or managed on a fair value basis	41,674	28,359
Financial assets held to meet liabilities under insurance and investment contracts	(15,075)	17,837
Liabilities to customers under investment contracts	1,881	343
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	(13,194)	18,180
Change in fair value of designated debt issued and related derivatives ¹	(703)	(639)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	34	(25)
Year ended 31 Dec	27,811	45,875

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

	2022 HK\$m	2021 HK\$m
Movement in present value of in-force insurance business	(256)	(1,294)
Gains/(losses) on investment properties	(133)	277
Losses on disposal of property, plant and equipment and assets held for sale	(42)	(54)
Gain on acquisition of subsidiary ¹	665	–
Gains on disposal of subsidiaries, associates and business portfolios	4	4
Rental income from investment properties	437	393
Dividend income	233	198
Other	2,873	2,509
Year ended 31 Dec	3,781	2,033

¹ Includes a gain of HK\$665m from the acquisition of AXA Insurance Pte Limited. Details are included in Note 18 'Business acquisitions'.

5 Insurance manufacturing

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

	2022 HK\$m	2021 HK\$m
Insurance manufacturing operations¹		
Net interest income	17,701	16,527
Net fee expense	(4,272)	(3,617)
Net income/(expense) from financial instruments measured at fair value	(14,599)	18,036
Net insurance premium income	80,839	62,135
Change in present value of in-force long-term insurance business	(256)	(1,294)
Other operating income	887	719
Total operating income	80,300	92,506
Net insurance claims and benefits paid and movement in liabilities to policyholders	(70,170)	(76,361)
Net operating income before change in expected credit losses and other credit impairment charges	10,130	16,145
Change in expected credit losses and other credit impairment charges	(36)	(216)
Net operating income	10,094	15,929
Total operating expenses	(5,798)	(3,464)
Operating profit	4,296	12,465
Share of profit in associates and joint ventures	139	137
Profit before tax	4,435	12,602
Annualised new business premiums of insurance manufacturing operations	15,420	19,136
Distribution income earned by the group's bank channels	4,437	4,135

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

Profit before tax from insurance manufacturing operations decreased by HK\$8,167m, or 65%, driven by unfavourable equity markets in the year compared to favourable markets in 2021, partially offset by higher new business volumes.

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 decreased, mainly from losses on the equity portfolio held to support insurance and investment contracts in Hong Kong, due to the unfavourable equity market performances.

Net insurance premium income increased from higher sales volumes mainly in Hong Kong which included a higher proportion of single premium business in its product mix, and in Singapore following the acquisition of AXA Singapore during 2022.

The favourable movement of HK\$1,038m in PVIF compared to 2021 reflected increases in Hong Kong from the value of new business written and the one-off gain from a pricing update for policyholder funds held on deposit to reflect the cost of provision of these services. This was partly offset by the adverse assumption changes and experience variances in Hong Kong and Singapore, primarily due to interest rates movements.

To the extent losses 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 claims and benefits paid and movement in liabilities to policyholders decreased by HK\$6,191m, or 8%, primarily due to a decline in returns on financial assets supporting contracts where the policyholder is subject to part or all of the investment risk, mainly in Hong Kong. This was partially offset by higher new business volumes in Hong Kong.

Annualised new business premiums ('ANP') decreased by HK\$3,716m, or 19%, mainly in Hong Kong due to a change in product mix towards single premium new business, partially offset by higher ANP from business growth in mainland China and the inclusion of the results of AXA Singapore.

6 Change in expected credit losses and other credit impairment charges

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

	2022	2021
	HK\$m	HK\$m
Loans and advances to banks and customers	15,503	7,055
– new allowances net of allowance releases	16,383	8,065
– recoveries of amounts previously written off	(880)	(1,010)
Loan commitments and guarantees	409	(683)
Other financial assets	453	167
Year ended 31 Dec	16,365	6,539

Change in expected credit losses as a percentage of average gross customer advances was 0.40% for 2022 (2021: 0.18%).

7 Employee compensation and benefits

	2022	2021
	HK\$m	HK\$m
Wages and salaries	37,053	35,736
Social security costs	1,384	1,344
Post-employment benefits	2,225	2,181
Year ended 31 Dec	40,662	39,261

8 General and administrative expenses

	2022	2021
	HK\$m	HK\$m
Premises and equipment	2,956	2,867
Marketing and advertising expenses	2,622	2,417
Other administrative expenses	48,971	47,043
Year ended 31 Dec	54,549	52,327

9 Depreciation and impairment of property, plant and equipment

	2022	2021
	HK\$m	HK\$m
Owned property, plant and equipment	6,569	6,019
Other right-of-use assets	2,588	2,872
Year ended 31 Dec	9,157	8,891

10 Associates and joint ventures

At 31 December 2022, 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' on the *Annual Report and Accounts 2022* for further details). As set out in that note, in future periods, the value in use may increase or decrease depending on the effect of changes to model inputs. It is expected that the carrying amount will continue to increase due to retained profits earned by BoCom. Impairment, if determined, would be recognised in the income statement. The impact on group's common equity tier 1 ratio is expected to be minimal in the event of an impairment, as the adverse impact on common equity tier 1 capital from the impairment would be partly offset by the favourable impact from a lower carrying amount. The group would continue to recognise its share of BoCom's profit or loss, but the carrying amount would be reduced to equal the value in use, with a corresponding reduction in the income statement. An impairment review would continue to be performed at each subsequent reporting period, with the carrying amount and income adjusted accordingly.

11 Dividends

Dividends to shareholders of the parent company

	2022		2021	
	HK\$ per share	HK\$m	HK\$ per share	HK\$m
Dividends paid on ordinary shares				
In respect of previous year:				
– fourth interim dividend	0.23	10,584	0.47	21,665
In respect of current year:				
– first interim dividend paid	0.17	7,761	0.26	12,211
– second interim dividend paid	0.12	5,887	0.24	11,153
– third interim dividend paid	0.16	7,850	0.24	11,361
Total	0.68	32,082	1.21	56,390
Distributions on other equity instruments		2,739		2,715
Dividends to shareholders		34,821		59,105

On 14 February 2023, the Directors declared a fourth interim dividend in respect of the financial year ended 31 December 2022 of HK\$0.27 per ordinary share (HK\$13,500m) (2021: HK\$0.23 per ordinary share (HK\$10,584m)). No liability was recorded in the financial statements in respect of the fourth interim dividend for 2022.

Total coupons on other equity instruments

	2022	2021
	HK\$m	HK\$m
US\$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.510%)	460	456
US\$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.030%)	426	422
US\$1,000m Fixed rate perpetual subordinated loan (interest rate fixed at 6.090%)	477	474
US\$1,200m Fixed rate perpetual subordinated loan (interest rate fixed at 6.172%)	580	576
US\$600m Fixed rate perpetual subordinated loan (interest rate fixed at 5.910%)	278	275
US\$1,100m Fixed rate perpetual subordinated loan (interest rate fixed at 6.000%)	518	512
Total	2,739	2,715

12 Loans and advances to customers

	2022	2021
	HK\$m	HK\$m
Gross loans and advances to customers	3,745,113	3,872,956
Expected credit loss allowances	(39,964)	(32,017)
At 31 Dec	3,705,149	3,840,939

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

	2022	2021
	HK\$m	HK\$m
Residential mortgages	1,177,614	1,167,487
Credit card advances	92,023	89,005
Other personal	255,747	275,819
Total personal	1,525,384	1,532,311
Real estate	570,370	635,217
Wholesale and retail trade	377,359	428,785
Manufacturing	372,060	410,033
Transportation and storage	106,172	111,388
Other	490,791	471,988
Total corporate and commercial	1,916,752	2,057,411
Non-bank financial institutions	302,977	283,234
At 31 Dec	3,745,113	3,872,956
By geography¹		
Hong Kong	2,332,813	2,447,799
Rest of Asia Pacific	1,412,300	1,425,157

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\$128bn, or 3%. Excluding the unfavourable foreign exchange translation effects of HK\$90bn, gross loans and advances to customers decreased by HK\$38bn. This was driven by a decrease in corporate and commercial lending of HK\$88bn, primarily in Hong Kong, partly offset by increases in Australia, Japan and mainland China. The residential mortgage book increased by HK\$35bn, mainly in Hong Kong and Australia, coupled with increases in lending to non-bank financial institutions of HK\$29bn mainly in Korea, Hong Kong and India.

13 Financial investments

	2022 HK\$m	2021 HK\$m
Financial investments measured at fair value through other comprehensive income	1,246,652	1,549,011
– treasury and other eligible bills	612,990	653,245
– debt securities	626,537	888,664
– equity securities	7,125	7,102
Debt instruments measured at amortised cost	974,709	502,564
– treasury and other eligible bills	135,216	6,900
– debt securities	839,493	495,664
At 31 Dec	2,221,361	2,051,575

14 Customer accounts

Customer accounts by country/territory

	2022 HK\$m	2021 HK\$m
Hong Kong	4,229,531	4,284,719
Singapore	479,241	448,976
Mainland China	443,954	462,187
Australia	222,222	220,233
India	176,466	191,116
Malaysia	124,792	128,673
Taiwan	119,400	120,744
Indonesia	45,529	46,938
Other	272,574	273,596
At 31 Dec	6,113,709	6,177,182

15 Contingent liabilities, contractual commitments and guarantees

	2022 HK\$m	2021 HK\$m
Guarantees and contingent liabilities	398,007	379,443
Commitments	3,191,864	2,945,560
At 31 Dec	3,589,871	3,325,003

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

16 Capital

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

Capital ratios

	2022 %	2021 %
Common equity tier 1 capital ratio	15.3	15.4
Tier 1 capital ratio	16.9	16.8
Total capital ratio	18.8	18.7

Total regulatory capital and RWAs

	2022 HK\$m	2021 HK\$m
Common equity tier 1 capital	491,562	484,654
Additional tier 1 capital	54,010	46,047
Tier 2 capital	61,740	59,777
Total regulatory capital	607,312	590,478
RWAs	3,222,168	3,156,553

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 2022*.

Standards adopted during the year ended 31 December 2022

There were no new accounting standards or interpretations that had a significant effect on the group in 2022. Accounting policies have been consistently applied to all the years presented, unless otherwise stated.

Future accounting development

HKFRS 17 'Insurance Contracts' is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively, with comparatives restated from 1 January 2022. The standard sets out the requirements that the group will apply in accounting for insurance contracts it issues, reinsurance contracts it holds, and investment contracts with discretionary participation features. Further details are available in Note 1 'Basis of preparation and significant accounting policies' on the *Annual Report and Accounts 2022*.

18 Business acquisitions

The following acquisitions form part of our strategy to become a market leader in Asian wealth management:

- On 28 January 2022, HSBC Insurance (Asia-Pacific) Holdings Limited, a subsidiary of the group, notified the shareholders of Canara HSBC Life Insurance Company Limited ('Canara HSBC') of its intention to increase its shareholding in Canara HSBC up to 49%. The group currently has a 26% shareholding which is accounted for as an associate. Any increase in shareholding is subject to agreement with other shareholders in Canara HSBC, as well as internal and regulatory approvals. Established in 2008, Canara HSBC is a life insurance company based in India.
- On 11 February 2022, HSBC Insurance (Asia-Pacific) Holdings Limited completed the acquisition of 100% of AXA Insurance Pte Limited ('AXA Singapore') for HK\$4.1bn. A gain on acquisition of HK\$665m was recorded, reflecting the excess of the fair value of net assets acquired (gross assets of HK\$35.6bn and gross liabilities of HK\$30.8bn) over the acquisition price. The legal integration of AXA Singapore with HSBC's pre-existing insurance operations in the country concluded on 1 February 2023.
- On 6 April 2022, the Bank announced it had increased its shareholding in HSBC Qianhai Securities Limited, a partially-owned subsidiary, from 51% to 90%.
- On 23 June 2022, HSBC Insurance (Asia) Limited, a subsidiary of the group, acquired the remaining 50% equity interest in HSBC Life Insurance Company Limited. Headquartered in Shanghai, HSBC Life Insurance Company Limited offers a comprehensive range of insurance solutions covering annuity, whole life, critical illness and unit-linked insurance products.

19 Events after the balance sheet date

There have been no events after the balance sheet date that would require disclosure in the consolidated financial statements.

20 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 2022, which were approved by the Board of Directors on 21 February 2023 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 2022*, 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.

21 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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