INDEPENDENT AUDITOR'S REPORT

To the Members of Hang Seng Bank Limited

(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of Hang Seng Bank Limited (the 'Bank') and its subsidiaries (together, the 'Group'), which are set out on pages 178 to 253, comprise:

- the consolidated balance sheet as at 31 December 2022;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes[1] to the consolidated financial statements, which include significant accounting policies and other explanatory information.

[1] Certain required disclosures as described in Note 1(b) have been presented elsewhere in the Annual Report 2022, rather than in the notes to the consolidated financial statements. These are cross-referenced from the consolidated financial statements and are identified as audited.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ('HKFRSs') issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA') and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ('HKSAs') issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ('the Code'), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Allowances for expected credit losses ('ECL') on loans and advances to customers;
- The present value of in-force long-term insurance business ('PVIF') and liabilities under non-linked life insurance contracts; and
- Impact of adoption of HKFRS 17 *'Insurance Contracts'*.

Key Audit Matters continued

Allowances for expected credit losses ('ECL') on loans and advances to customers

Nature of the Key Audit Matter

As at 31 December 2022, the Group recorded allowances for ECL on loans and advances to customers of HK$13,394m.

The determination of the ECL on non-credit impaired loans and advances to customers requires the use of complex credit risk methodologies that are applied in models using the Group's historic experience of the correlations between defaults and losses, borrower creditworthiness, segmentation of customers or portfolios and economic conditions.

It also requires the determination of assumptions which involve estimation uncertainty. The assumptions that we focused our audit on ECL for those non-credit impaired loans and advances to customers include those with greater levels of management judgement and for which variations have the most significant impact on ECL on loans and advances to customers. Specifically, these included economic scenarios and their likelihood, as well as customer risk ratings. Likewise, there is inherent uncertainty with the consensus economic forecast data from external economists.

Impacts from the COVID-19 infection rates in Asia, particularly in mainland China, ongoing developments related to the mainland China Commercial Real Estate sector, the geopolitical landscape and certain other current macroeconomic conditions impact the inherent risk and estimation uncertainty involved in determining the ECL on loans and advances to customers.

Management judgemental adjustments to ECL on non-credit impaired loans and advances to customers therefore continue to be made. This includes judgemental adjustments to the ECL for unsecured offshore mainland China Commercial Real Estate exposures.

The above ongoing developments has also resulted in significant credit impaired corporate exposures related to the unsecured offshore mainland China Commercial Real Estate sector. The assumptions with the most significant impact here are those applied in estimating the recoverability of these exposures.

Matters discussed with the Audit Committee

We discussed the appropriateness of the methodologies, their application, significant assumptions and related disclosures with the Audit Committee, giving consideration to the current macroeconomic conditions. This included economic scenarios and their likelihood, management judgemental adjustments made to derive the ECL on loans and advances to customers, and future recoverability of certain significant credit impaired wholesale exposures. We further discussed certain controls over the process in determining ECL on loans and advances to customers.

How our audit addressed the Key Audit Matter

We tested controls in place over the methodologies, their application, significant assumptions and data used to determine the ECL on loans and advances to customers. These included controls over:

- Model development, validation and monitoring;
- Approval of economic scenarios;
- Approval of the probability weightings assigned to economic scenarios;
- Assigning customer risk ratings;
- Approval of management judgemental adjustments; and
- Review of input and assumptions applied in estimating the recoverability of credit-impaired wholesale exposures.

Key Audit Matters continued

Allowances for expected credit losses ('ECL') on loans and advances to customers continued

How our audit addressed the Key Audit Matter continued

We performed substantive audit procedures over the compliance of ECL methodologies with the requirements of HKFRS 9. We engaged professionals with experience in ECL modelling to assess the appropriateness of methodologies and related models, and for a sample of those models, we independently reperformed the modelling for certain aspects of the ECL calculation.

We further performed the following to assess the significant assumptions and data:

- We challenged the appropriateness of the significant assumptions;
- We involved our economic experts in assessing the reasonableness of the severity and likelihood of certain economic scenarios;
- We tested a sample of customer risk ratings assigned to wholesale exposures; and
- We have independently assessed other significant assumptions and obtained corroborating evidence.

For a sample of management judgemental adjustments and credit-impaired wholesale exposures, we challenged the appropriateness of these and assessed the ECL determined.

We further considered whether the judgements made in selecting the significant assumptions, as well as determining the management judgemental adjustments and credit-impaired wholesale exposures, would give rise to indicators of possible management bias.

We assessed the adequacy of the disclosures in relation to ECL on loans and advances to customers made in the consolidated financial statements in the context of the applicable financial reporting framework.

Relevant references in the Annual Report 2022

- Management Discussion and Analysis – Risk, (a) Credit Risk, pages 61-90
- Note 2 on the consolidated financial statements: Significant accounting policies, (j) Impairment of amortised cost and FVOCI financial assets, pages 191-195
- Note 11 on the consolidated financial statements: Change in expected credit losses and other credit impairment charges, page 203
- Note 27 (a) on the consolidated financial statements: Loans and advances to customers, page 218

Key Audit Matters continued

The present value of in-force long-term insurance business ('PVIF') and liabilities under non-linked life insurance contracts

Nature of the Key Audit Matter

As at 31 December 2022, the Group has recorded an asset for PVIF of HK$20,620m and liabilities under non-linked life insurance contracts of HK$165,536m.

The determination of these balances requires the use of complex actuarial methodologies that are applied in models and involves judgement about future outcomes. Specifically, judgement is required in deriving the economic and non-economic assumptions. These assumptions are subject to estimation uncertainty, both for the PVIF asset and the liabilities under non-linked life insurance contracts.

Matters discussed with the Audit Committee

We discussed the appropriateness of the methodologies, their application, significant assumptions and related disclosures with the Audit Committee. In relation to assumptions, we focused on those for which variations had the most significant impact on the valuation of PVIF and liabilities under non-linked life insurance contracts carrying value.

How our audit addressed the Key Audit Matter

We tested controls in place over the methodologies, their application, significant assumptions and data for the PVIF asset and the liabilities under non-linked life insurance contracts. Specifically, these included controls over:

- policy data reconciliations from the policyholder administration system to the actuarial valuation system;
- assumptions setting;
- review and determination of methodologies used, and its application in models; and
- results aggregation and analysis processes.

With the assistance of our actuarial experts, we performed the following audit procedures to assess the methodologies used, their application, significant assumptions, data and disclosures:

- We assessed the appropriateness of the methodologies used, their application and the mathematical accuracy of the calculations;
- We challenged the appropriateness of the judgements made in selecting significant assumptions and, where relevant, their inter-relationships. We have independently assessed these assumptions and obtained relevant corroborating evidence. We further considered whether the judgements made in selecting the significant assumptions would give rise to indicators of possible management bias;
- We performed substantive audit procedures over critical data used in the determination of these balances to ensure these are relevant and reliable; and
- We assessed the adequacy of the disclosures in relation to the asset for PVIF and liabilities under non-linked life insurance contracts made in the consolidated financial statements in the context of the applicable financial reporting framework.

Relevant references in the Annual Report 2022

- Management Discussion and Analysis – Risk, (i) Insurance manufacturing operation risk, pages 115-122
- Note 2 on the consolidated financial statements: Significant accounting policies, (t) Insurance contracts, pages 198-199
- Note 33 on the consolidated financial statements: Intangible assets, pages 226-227
- Note 40 on the consolidated financial statements: Liabilities under insurance contracts, page 229

Key Audit Matters continued

Impact of adoption of HKFRS 17 *'Insurance Contracts'*

Nature of the Key Audit Matter

HKFRS 17 *'Insurance contracts'* sets out the requirements that an entity should apply in accounting for insurance contracts it issues, reinsurance it holds and investment contracts with discretionary participating features it issues. The Group is required to adopt the standard retrospectively from 1 January 2023, with comparatives restated from 1 January 2022. As part of the transition to HKFRS 17, the Group intends to apply the option under HKFRS 9 to re-designate holdings of financial assets held to support insurance liabilities currently measured at amortised cost, to fair value under HKFRS 9. The Group has estimated and disclosed that the adoption will reduce the opening total equity as at 1 January 2022 by HK$25.2bn. In the consolidated financial statements it is disclosed that this estimate is based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change.

This is a new and complex standard and determining the impact as at 1 January 2022 requires judgement and interpretation in its implementation. This includes the selection of accounting policies and the use of complex actuarial methodologies that are applied in models and overlay adjustments to models. The selection and application of appropriate methodology requires significant professional judgement. It also requires the determination of assumptions which involve estimation uncertainty.

Matters discussed with the Audit Committee

We discussed the appropriateness of the accounting policies, methodologies, their application, significant assumptions and the disclosures related to the impact of the coming adoption of HKFRS 17 with the Audit Committee.

How our audit addressed the Key Audit Matter

We tested controls in place over accounting policies, methodologies, their application, significant assumptions and data used in determining the estimated reduction of the opening total equity as at 1 January 2022. Specifically, these included controls over:

- Selection and approval of the accounting policies;
- Policy data reconciliations from the policyholder administration systems to the actuarial valuation models;
- Assumption setting; and
- Review and determination of methodologies used, and their application in the models, including model development, validation and monitoring.

With the assistance of our actuarial professionals, we performed the following substantive audit procedures to assess the accounting policies, methodologies, their application, significant assumptions, data and disclosures:

- We assessed the accounting policies with the requirements in HKFRS 17;
- We assessed the appropriateness of the methodologies used, their application in models and overlay adjustments to models and the mathematical accuracy of the calculations;
- We challenged the appropriateness of the judgements made in selecting significant assumptions and, where relevant, their interrelationships. We have independently assessed these assumptions and obtained relevant corroborating evidence. We further considered whether the judgements made in selecting the significant assumption would give risk to indicators of susceptibility to management bias;
- We performed substantive audit procedures over critical data used to ensure these are relevant and reliable;
- We performed substantive audit procedures over the re-designation of financial assets held to support insurance liabilities; and
- We assessed the adequacy of the disclosures in the context of the applicable financial reporting framework.

Relevant references in the Annual Report 2022

Note 1(d) on the consolidated financial statements: Future Accounting Developments, HKFRS17 *'Insurance Contracts'*, pages 186-187

Other Information

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the Annual Report 2022 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Banking Disclosure Statement for the year ended 31 December 2022, which is expected to be made available to us after the date of this auditor's report. The other information does not include the specific information presented therein that is identified as being an integral part of the consolidated financial statements and, therefore, covered by our audit opinion on the consolidated financial statements.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Banking Disclosure Statement for the year ended 31 December 2022, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements continued

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Poon, Raymond Tak-cheong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong , 21 February 2023