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15 December 2025

To: the Hang Seng Bank IBC

Dear Sirs,

**(1) PROPOSAL FOR THE PRIVATISATION OF HANG SENG BANK LIMITED
BY THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF HANG SENG BANK SHARES**

INTRODUCTION

We refer to our appointment to advise the Hang Seng Bank IBC in connection with the Proposal and the Scheme, details of which are set out in the Scheme Document dated 15 December 2025, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 9 October 2025, HSBC Holdings, HSBC Asia Pacific (as the offeror) and Hang Seng Bank jointly announced that HSBC Asia Pacific has requested the Hang Seng Bank Board to put forward a proposal to the Scheme Shareholders for the privatisation of Hang Seng Bank by HSBC Asia Pacific by way of a scheme of arrangement under Section 673 of the Companies Ordinance. Because the Proposal is being implemented through the Scheme, the timetable for the posting of the Scheme Document under the Takeovers Code has been extended with consent from the SFC to accommodate the procedures of the High Court. If the Proposal and the Scheme are implemented, all the Scheme Shares (which will be all the Hang Seng Bank Shares other than the HSBC Asia Pacific Non-Scheme Shares) in issue on the Scheme Record Date will be cancelled and extinguished, in exchange for the payment by or on behalf of HSBC Asia Pacific to each Scheme Shareholder of the Scheme Consideration of HK\$155.00 (less the Dividend Adjustment Amount, if any) in cash for each Scheme Share cancelled and extinguished.

Upon the Scheme becoming binding and effective, the Scheme Shares represented by the Hang Seng Bank ADSs will also be cancelled and extinguished together with all other Scheme Shares in exchange for the Scheme Consideration (less the Dividend Adjustment



Amount, if any) per Scheme Share. In this case, the Depositary will receive the Scheme Consideration in Hong Kong dollars in respect of all Scheme Shares represented by the Hang Seng Bank ADSs following the Scheme Effective Date. Upon receipt, the Depositary will convert such funds into US dollars, and thereafter pay to the Hang Seng Bank ADS Holders as a payment in US dollars in proportion to the number of Hang Seng Bank ADSs held by such Hang Seng Bank ADSs Holders, in accordance with the Hang Seng Bank ADS Deposit Agreement. The Scheme Shares traded on the RMB counter will be treated the same as all other Scheme Shares under the terms of the Proposal, including the currency which the Scheme Consideration will be paid in, being Hong Kong dollars.

Upon the Scheme becoming binding and effective, Hang Seng Bank will become an indirect wholly-owned subsidiary of HSBC Holdings. It is intended that the listing of the Hang Seng Bank Shares on the Hong Kong Stock Exchange will be withdrawn in accordance with Rule 6.15(2) of the Hong Kong Listing Rules subject to the Scheme becoming binding and effective.

The Hang Seng Bank Board has formed the Hang Seng Bank IBC (comprising Cordelia Chung, Clement Kwok King Man, Patricia Lam Sze Wan, Lin Huey Ru and Wang Xiao Bin, all being independent non-executive directors of Hang Seng Bank) in accordance with the requirements of the Takeovers Code. The Hang Seng Bank IBC will make a recommendation (i) as to whether the Proposal and the Scheme are, or are not, fair and reasonable and (ii) as to voting. Pursuant to Rule 2.8 of the Takeovers Code, the Hang Seng Bank IBC should comprise all non-executive directors (including independent non-executive directors) of Hang Seng Bank who have no direct or indirect interest in the Proposal. Kathleen Gan Chieh Huey, David Liao Yi Chien and Catherine Zhou Rong (all being non-executive directors of Hang Seng Bank) are considered to be interested in the Proposal due to their positions in the HSBC Group and are therefore not members of the Hang Seng Bank IBC. Edward Cheng Wai Sun (being an independent non-executive director of Hang Seng Bank and the Chairman of the Hang Seng Bank Board) is also considered to be interested in the Proposal as a result of his being an independent non-executive director of HSBC Asia Pacific and is therefore not a member of the Hang Seng Bank IBC. Accordingly, the Hang Seng Bank IBC comprises all of the independent non-executive directors of Hang Seng Bank other than the Chairman of the Hang Seng Bank Board. With the approval of the Hang Seng Bank IBC, we have been appointed as the Hang Seng Bank IFA by the Hang Seng Bank Board to advise the Hang Seng Bank IBC in relation to the Proposal and the Scheme.

During the past two years, we have acted as the independent financial adviser to Hang Seng Bank in relation to certain continuing connected transactions, details of which are set out in the announcements of Hang Seng Bank dated 7 October 2024 and 29 November 2024. The past engagements were limited to providing independent advisory services to Hang Seng Bank, for which Somerley received professional fees under normal commercial terms. Accordingly, we do not consider the past engagements give rise to any conflict of interest for us in acting as the Hang Seng Bank IFA.

We are not associated with Hang Seng Bank, HSBC Holdings, HSBC Asia Pacific or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal and the Scheme. Apart from normal professional fees paid or payable to us in



connection with this appointment, no other arrangement exists whereby we will receive any fees or benefits from Hang Seng Bank, HSBC Holdings, HSBC Asia Pacific or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the executive directors and management of Hang Seng Bank, which we have assumed to be true, accurate and complete in all material respects. We have reviewed (i) published information on the Hang Seng Bank Group, including its annual reports for the years ended 31 December 2023 and 2024, and its interim report for the six months ended 30 June 2025; and (ii) other relevant information contained in the Scheme Document. We have discussed with an executive director of Hang Seng Bank (who acted on behalf of the Hang Seng Bank Board) the statements set out in the section headed “4. *Material Change*” in Appendix I to the Scheme Document that, save and except as disclosed in that section, there had been no material change in the financial or trading position or outlook of the Hang Seng Bank Group since 31 December 2024, being the date to which the latest published audited consolidated financial statements of the Hang Seng Bank Group were made up, and up to and including the Latest Practicable Date. We have also reviewed the trading performance of the Hang Seng Bank Shares on the Hong Kong Stock Exchange in recent years, and researched the ratings of Hong Kong listed peers and the terms of privatisation transactions in Hong Kong.

We have sought and received confirmation from the directors of Hang Seng Bank that all material information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information which we have received is sufficient for us to reach our opinion and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of the Hang Seng Bank Group, HSBC Holdings, HSBC Asia Pacific or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Scheme Document are true as at the Latest Practicable Date. Hang Seng Bank Shareholders will be informed as soon as possible if we become aware of any material change to such representations.

We have not considered the tax and regulatory implications as regards the Proposal and the Scheme since these depend on individual circumstances. In particular, the Code Disinterested Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.



PRINCIPAL TERMS OF THE PROPOSAL

The principal terms of the Proposal are summarised below. The Scheme Shareholders are urged to read the relevant sections in the Scheme Document and its appendices in full.

The Proposal

As stated in the section headed “2. *The Proposal*” in the Explanatory Statement as contained in the Scheme Document, if the Proposal and the Scheme are approved and implemented:

- (a) all the Scheme Shares in issue on the Scheme Record Date will be cancelled and extinguished on the Scheme Effective Date in exchange for the payment by or on behalf of HSBC Asia Pacific to each Scheme Shareholder of the Scheme Consideration of HK\$155.00 (less the Dividend Adjustment Amount, if any) in cash for each Scheme Share cancelled and extinguished;
- (b) the issued share capital of Hang Seng Bank will be reduced by the cancellation and extinguishment of the Scheme Shares in issue on the Scheme Record Date and, immediately afterwards, the issued share capital of Hang Seng Bank will be restored by the allotment and issue by Hang Seng Bank to HSBC Asia Pacific (or its nominee) of such number of new Hang Seng Bank Shares as is equal to the number of the Scheme Shares cancelled and extinguished;
- (c) Hang Seng Bank will become a wholly-owned subsidiary of HSBC Asia Pacific and therefore HSBC Holdings; and
- (d) the listing of the Hang Seng Bank Shares on the Hong Kong Stock Exchange will be withdrawn from the Hong Kong Stock Exchange.

As at the Latest Practicable Date, there were 1,872,937,536 Hang Seng Bank Shares in issue, of which 684,880,165 Hang Seng Bank Shares represented Scheme Shares and 1,188,057,371 Hang Seng Bank Shares were held beneficially by HSBC Asia Pacific.

On 10 October 2025, Hang Seng Bank declared the 2025 Third Interim Dividend of HK\$1.30 per share, which was paid to the Hang Seng Bank Shareholders on 13 November 2025. The 2025 Third Interim Dividend will not be deducted from the Scheme Consideration. All other dividends (if any) declared by Hang Seng Bank after the date of the Joint Announcement with a record date before the Scheme Effective Date will be deducted from the Scheme Consideration.

As set out in the “*Letter from the Hang Seng Bank Board*”, there is no Dividend Adjustment Amount as at the date of the Scheme Document. Hang Seng Bank does not intend to declare or pay any further dividend or other distribution or return of capital after the date of the Scheme Document and on or before 26 January 2026, being the expected Scheme Effective Date. Accordingly, it is expected that there will be no Dividend Adjustment Amount, such that the Scheme Consideration will remain HK\$155.00 per Scheme Share, if the Scheme becomes binding and effective on 26 January 2026, being the expected Scheme Effective Date.



HSBC Holdings and HSBC Asia Pacific have confirmed that there will be no increase in the Scheme Consideration and that neither HSBC Holdings nor HSBC Asia Pacific has reserved the right to do so. Shareholders and potential investors of Hang Seng Bank should be aware that, following the making of this statement, neither HSBC Holdings nor HSBC Asia Pacific will be allowed to increase the Scheme Consideration.

Basis for determining the Scheme Consideration

As set out in the section headed “3. *The Scheme*” in the Explanatory Statement as contained in the Scheme Document, the Scheme Consideration has been determined on an arm’s length basis taking into account, among other things, the recent and historical trading prices of Hang Seng Bank Shares, the publicly available financial information of Hang Seng Bank and the other privatisation transactions in Hong Kong in recent years. Please refer to our relevant analyses on the above in the sections below headed “6. *Analysis of price performance and trading liquidity of the Hang Seng Bank Shares*”, “3. *Financial information and prospects of the Hang Seng Bank Group*” and “7. *Privatisation precedents in Hong Kong*”.

Following the initial approach by HSBC to Hang Seng Bank, the parties engaged in discussions and the Scheme Consideration was arrived at after three rounds of improvement over the initial proposal from HSBC.

Conditions of the Proposal

The Proposal will be implemented, and the Scheme will become binding and effective on Hang Seng Bank and all the Scheme Shareholders, subject to the satisfaction or (if applicable) waiver of the Conditions on or before the Conditions Long Stop Date. A full set of the Conditions and the relevant details are set out in the section headed “5. *Conditions of the Proposal*” in the Explanatory Statement as contained in the Scheme Document. The main Conditions are as follows:

- (a) the approval of the Scheme at the Hang Seng Bank Court Meeting (by way of a poll) by holders of the Scheme Shares representing at least 75% of the voting rights of such holders present and voting, in person, via the Court Meeting Online Platform or by proxy, at the Hang Seng Bank Court Meeting, and the votes cast (by way of poll) against the Scheme at the Hang Seng Bank Court Meeting not exceeding 10% of the total voting rights attached to all Ordinance Disinterested Shares, provided that:
 - (i) the Scheme is approved (by way of poll) by at least 75% of the votes attaching to the Code Disinterested Shares held by the Code Disinterested Shareholders of Hang Seng Bank that are cast in person, via the Court Meeting Online Platform or by proxy at the Hang Seng Bank Court Meeting; and



- (ii) the number of votes cast (by way of poll) against the resolution to approve the Scheme at the Hang Seng Bank Court Meeting is not more than 10% of the votes attaching to all the Code Disinterested Shares held by the Code Disinterested Shareholders of Hang Seng Bank;

Based on approximately 662.3 million Code Disinterested Shares as at the Latest Practicable Date, if approximately 66.23 million Code Disinterested Shares are voted against the Scheme, the Scheme will not proceed.

- (b) the passing of a special resolution by a majority of at least 75% of the votes cast by the Hang Seng Bank Shareholders present and voting in person, via the General Meeting Online Platform or by proxy at the Hang Seng Bank General Meeting (or otherwise in accordance with the procedural requirements of section 564 of the Companies Ordinance) to approve and give effect to the Scheme, including the approval of the reduction of the issued share capital of Hang Seng Bank by cancelling and extinguishing the Scheme Shares and the allotment and issue to HSBC Asia Pacific (or its nominee) of such number of new Hang Seng Bank Shares as is equal to the number of Scheme Shares cancelled and extinguished;
- (c) the sanction of the Scheme (with or without modification) and the confirmation of the reduction of the issued share capital of Hang Seng Bank involved in the Scheme by the High Court and the registration of a copy of the order of the High Court by the Registrar of Companies under Part 2 of the Companies Ordinance;
- (d) compliance with the procedural requirements of sections 230 and 231 and sections 673 and 674 of the Companies Ordinance in so far as they relate to the effectiveness of the reduction of the issued share capital of Hang Seng Bank and the Scheme, respectively;
- (e) all Authorisations having been obtained or completed and remaining in full force and effect without modification; and
- (f) all necessary Third Party Consents having been obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the implementation of the Proposal or the business of the Hang Seng Bank Group, in each case, taken as a whole.

Conditions (a) to (d) above are not waivable. In respect of Condition (e), other than the Authorisations described in Conditions (c) and (d) and the approval of the Hong Kong Stock Exchange for the withdrawal of the listing of Hang Seng Bank Shares from the Hong Kong Stock Exchange upon the Scheme becoming binding and effective, as at the Latest Practicable Date, neither HSBC Asia Pacific nor Hang Seng Bank was aware of any Authorisations which were required. In respect of Condition (f), as at the Latest Practicable Date, neither HSBC Asia Pacific nor Hang Seng Bank was aware of any such Third Party Consents which were required.



As at the Latest Practicable Date, none of the above Conditions have been satisfied or waived. All of the Conditions will have to be satisfied or (if applicable) waived, on or before the Conditions Long Stop Date. Otherwise the Scheme will not become binding or effective and will lapse subject to the requirements of the Takeovers Code. **If all the Conditions are satisfied or (if applicable) waived on or before the Conditions Long Stop Date, the Scheme will become binding and effective on Hang Seng Bank and all the Scheme Shareholders and the Scheme Consideration (less the Dividend Adjustment Amount, if any) per Scheme Share will be paid to the Scheme Shareholders, irrespective of whether or not such Scheme Shareholders attended or voted at the Hang Seng Bank Court Meeting and/or the Hang Seng Bank General Meeting.**

Based on the information mentioned above, we do not consider the Conditions to be unusual or onerous when compared to similar privatisations of listed companies in Hong Kong.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, HSBC Asia Pacific may only invoke any of the Conditions as a basis for not proceeding with the Proposal if the circumstances which give rise to the right to invoke such Condition are of material significance to HSBC Asia Pacific in the context of the Proposal.

In light of the time required for the preparation of the Scheme Document and the procedures of the High Court in respect of the Scheme, subject to the satisfaction (or, if applicable, waiver) of the Conditions, the Proposal is currently expected to be completed early in 2026 and the payments of the Scheme Consideration to the Scheme Shareholders will be made on or before 4 February 2026. For further information regarding upcoming timeline of the Proposal, please refer to the section headed “*Expected Timetable*” in the Scheme Document.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither HSBC Asia Pacific nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for Hang Seng Bank, except with the consent of the Executive.

Shareholders of and/or potential investors in Hang Seng Bank should be aware that the Proposal will only be implemented if all the Conditions are satisfied or (if applicable) waived on or before the Conditions Long Stop Date. Shareholders of and/or potential investors in Hang Seng Bank should therefore exercise caution when dealing in the securities of Hang Seng Bank. Persons who are in doubt as to the action they should take should consult their licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.



PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background, business and strengths of the Hang Seng Bank Group

Hang Seng Bank Group was founded in 1933 close to 100 years ago. Over the years, Hang Seng Bank Group has grown into one of the largest domestic banks in Hong Kong, offering a comprehensive set of financial services and products including banking, investment and wealth management services for individuals and businesses. According to its 2024 annual report, Hang Seng Bank Group has over 250 service outlets in Hong Kong, serving close to 4 million customers. As at 30 June 2025, the Hang Seng Bank Group recorded unaudited consolidated total assets of approximately HK\$1,822 billion, and shareholders' equity (excluding perpetual capital instruments) of approximately HK\$159 billion. On the same date, the Hang Seng Bank Group's gross loans and advances to customers amounted to approximately HK\$820 billion, with customer deposits (including structured deposits) of approximately HK\$1,300 billion.

In 1965, Hang Seng Bank became a subsidiary of HSBC following the acquisition of a 51% interest in Hang Seng Bank by HSBC. As at the Latest Practicable Date, HSBC beneficially held an approximately 63.43% interest in Hang Seng Bank as a strategic shareholding. The shares of Hang Seng Bank have been listed on the Hong Kong Stock Exchange since 1972. Apart from its listing in Hong Kong, there are outstanding Hang Seng Bank ADSs, each representing one Hang Seng Bank Share. Based on the closing price of the Hang Seng Bank Shares on the Hong Kong Stock Exchange as at the Latest Practicable Date, the market capitalisation of Hang Seng Bank was approximately HK\$286.6 billion.

According to the 2024 annual report, two major credit rating agencies, Moody's and Standard & Poor's, issued long-term bank deposit rating of Aa3 and long-term issuer credit rating of AA– respectively to Hang Seng Bank with a stable outlook. Following the publication of the Joint Announcement, Moody's and Standard & Poor's affirmed the abovementioned ratings and outlook, and Fitch Ratings, another credit rating agency, affirmed its long-term issuer default rating of AA– with a stable outlook.



The businesses of the Hang Seng Bank Group can be classified into the following operating segments, based on disclosure in its 2025 interim report:

- | | |
|--|---|
| Hong Kong Business | : The Hong Kong Business comprises Retail Banking and Wealth (“ RB&W ”) and Commercial Banking (“ CMB ”) business. |
| | RB&W offers products and services tailored to the personal banking, consumer lending, and wealth management requirements of individual customers. These include deposits, mortgage and personal loans, credit cards, insurance, investment and wealth management. |
| | CMB provides products and financial solutions to corporate, institutional, commercial, and small and medium-sized enterprises clients. These include corporate lending, trade and receivable finance, transaction banking and cash management, treasury and foreign exchange, general and key-person insurance, investment services, and corporate wealth management. |
| Insurance Manufacturing and Asset Management | : The Insurance Manufacturing and Asset Management business provides life insurance services to individual and corporate customers as well as investment management services covering retail funds and exchange traded funds to institutional and private clients. |
| Markets and Securities Services | : The Markets and Securities Services offer tailored solutions and services across foreign exchange, bullion, equities, fixed income, and securities financing. |
| Corporate Centre | : This segment represents the Hang Seng Bank Group’s holdings of premises apart from outlets dedicated for RB&W, investment properties, equity shares and subordinated debt funding as well as central support and functional costs with associated recoveries. |

Hang Seng Bank (China) Limited, a wholly-owned subsidiary of Hang Seng Bank, operates outlets in major cities in Chinese Mainland to serve Chinese Mainland customers locally and those with cross-boundary banking needs.

Apart from the above major operating segments, Hang Seng Indexes Company Limited, a wholly-owned subsidiary of Hang Seng Bank, manages and compiles the Hang Seng family of indexes including the Hang Seng Index, the main stock market index in Hong Kong, of which Hang Seng Bank is itself a constituent. This provides visibility to the Hang Seng name not only in Hong Kong but across major international financial markets.



Net interest income is the most important source of income to the Hang Seng Bank Group, amounting to approximately HK\$30.8 billion in 2024 and approximately HK\$14.3 billion for the first half of 2025. There have been some recent decreases in net interest income as a result of subdued loan demand and narrowing net interest margin, which was in turn driven by a lower market interest rate. On the other hand, management has been able to diversify income stream to non-interest income, now constituting an important part of the group's revenue mix. In particular, net fee income of the Hang Seng Bank Group (including, among others, income from securities broking, credit and debit cards and retail investment funds) on a year-on-year basis rose by approximately 8% to approximately HK\$5.3 billion in 2024, and rose by approximately 23% to approximately HK\$3.1 billion in the first half of 2025. For further analysis on the Hang Seng Bank Group's financial performance, please refer to the section below headed "3. *Financial information and prospects of the Hang Seng Bank Group*".

The businesses of the Hang Seng Bank Group are guided by its four brand values: Customer Centricity, Growth, Innovation and Sustainability. It promotes financial inclusion to meet the different needs of its customers and stay connected to the community as a homegrown bank. For example, the Hang Seng Bank Group has become the first "Green Partner" of Science and Technology Parks Corporation among banks to support the green transformation of enterprises in Hong Kong, and set up a market-first fraud protection specialist team across selected branches in 2025, according to the bank's website. It contributed approximately HK\$29 million in 2024 in community investment in relation to climate change, future skills and promoting financial literacy. Hang Seng Bank Group was one of the funding sponsors of Hang Seng School of Commerce (subsequently restructured and became The Hang Seng University of Hong Kong) established in 1980s.

2. Reasons for and benefits of the Proposal

As stated in the sections headed "9. *Intentions of HSBC Holdings and HSBC Asia Pacific in relation to the Hang Seng Bank Group*" and "10. *HSBC Holdings' and HSBC Asia Pacific's reasons for and benefits of the Proposal*" in the Explanatory Statement as contained in the Scheme Document, it is intended that post privatisation, Hang Seng Bank will retain its separate authorization as a licensed bank with its own governance, brand, distinct customer proposition and a branch network. HSBC intends to continue to invest in people and technology across both HSBC Asia Pacific and Hang Seng Bank, and expects there to be an opportunity to create greater alignment across HSBC and Hang Seng Bank that may result in better operational leverage and efficiencies. Where such alignment impacts employees, HSBC currently expects that the changes necessary to do so will be made over time, and where possible, relying on redeployment and natural turnover. Hang Seng Bank will also have the benefit of HSBC's global financial resources, capital management and market access.

The customers of Hang Seng Bank will be able to retain their bank accounts with Hang Seng Bank and have access to HSBC's product suite and global network. The Proposal is not expected to change such customers' day-to-day interactions with Hang Seng Bank.



Hang Seng Bank Shareholders will, subject to the completion of the Proposal, receive the Scheme Consideration of HK\$155.00 per Scheme Share, which represents a premium over (i) the recent market prices of the Hang Seng Bank Shares, and (ii) the highest price of the Hang Seng Bank Shares since March 2022. Further analyses on the historical price performance of the Hang Seng Bank Shares and the comparison of the level of premium offered under the Proposal with other privatisation proposals in Hong Kong are set out in the sections below headed “6. *Analysis of price performance and trading liquidity of the Hang Seng Bank Shares*” and “7. *Privatisation precedents in Hong Kong*” respectively.

Hang Seng Bank Shareholders should note that a “no increase” statement has been made in respect of the Proposal. Following the making of this statement, the Scheme Consideration will not be increased, and neither HSBC Holdings nor HSBC Asia Pacific reserves the right to do so. HSBC Asia Pacific has confirmed that it has no intention to dispose of any of its approximately 63.43% interest in Hang Seng Bank if the Proposal does not proceed. We consider it unlikely that another third party could in practice make a proposal for the Hang Seng Bank Shares, as HSBC has maintained majority voting control in Hang Seng Bank, and any such offer would not succeed without the approval of HSBC.

It was disclosed in the Joint Announcement that HSBC expects the Proposal to be accretive to its earnings per ordinary share as a result of the removal of the minority interest earnings deduction related to Hang Seng Bank Group. However, based on analysis as at 30 June 2025, there will be an expected day 1 capital impact of approximately 125 basis points and HSBC expects to restore its common equity tier 1 (“CET1”) ratio to its target operating range through a combination of organic capital generation and not initiating any further buybacks for three quarters following the date of the Joint Announcement.



3. Financial information and prospects of the Hang Seng Bank Group

(i) Operating performance

The following table sets out a summary of the consolidated income statements of the Hang Seng Bank Group for the three years ended 31 December 2022, 2023 and 2024, and for the six months ended 30 June 2024 and 2025, as extracted and summarised from the annual reports and interim report of Hang Seng Bank. Further details and other financial information of the Hang Seng Bank Group are set out in Appendix I to the Scheme Document.

	(Unaudited) For the six months ended 30 June		(Audited) For the year ended 31 December		
	2025	2024	2024	2023	2022
					(Restated) (Note 1)
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Interest income	26,681	30,826	61,277	59,439	34,782
Interest expense	(12,342)	(15,343)	(30,493)	(27,144)	(9,231)
Net interest income	14,339	15,483	30,784	32,295	25,551
Fee income	4,559	4,016	8,248	7,829	7,506
Fee expense	(1,412)	(1,452)	(2,932)	(2,909)	(2,280)
Net fee income	3,147	2,564	5,316	4,920	5,226
Net income/(loss) from financial instruments measured at fair value through profit or loss	10,716	2,822	7,681	11,330	(21,455)
Insurance finance income/ (expenses)	(9,667)	(2,000)	(5,559)	(10,805)	22,720
Insurance service results	1,357	1,187	2,271	2,049	1,660
Other income (Note 2)	1,083	375	1,044	1,033	697
Net operating income before change in expected credit losses and other credit impairment charges	20,975	20,431	41,537	40,822	34,399
Change in expected credit losses and other credit impairment charges	(4,861)	(1,500)	(4,773)	(6,248)	(7,694)
Net operating income	16,114	18,931	36,764	34,574	26,705
Operating expenses	(7,565)	(7,523)	(15,193)	(14,624)	(13,795)
Operating profit	8,549	11,396	21,558	19,946	12,899
Profit before tax	8,097	11,307	21,014	20,105	12,781
Profit for the period/year	6,876	9,888	18,369	17,838	11,272
Profit attributable to the Hang Seng Bank Shareholders	6,880	9,893	18,379	17,848	11,286
Earnings per share – basic and diluted (Note 3)	HK\$3.34	HK\$5.04	HK\$9.33	HK\$8.97	HK\$5.53
Total dividends per share	HK\$2.60	HK\$2.40	HK\$6.80	HK\$6.50	HK\$4.10



Notes:

- (1) *Hong Kong Financial Reporting Standards 17 “Insurance Contracts” is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively and comparative figures have been restated from the transition date, 1 January 2022. The above restated figures for the year ended 31 December 2022 are extracted from the 2023 annual report*
- (2) *Other income represents the sum of (i) other operating income/(loss), (ii) gains less losses from financial investments, and (iii) dividend income*
- (3) *The calculations of basic and diluted earnings per share are based on profit attributable to the Hang Seng Bank Shareholders, adjusting for the perpetual capital instrument related deductions, and the weighted average number of ordinary shares in issue, excluding own shares held*

After a solid performance in 2024, profit before tax of the Hang Seng Bank Group for the first half of 2025 declined by approximately 28.4% year-on-year. The reasons for and implications of this decline are discussed in the remaining paragraphs of this section 3.

Net interest income

Interest income is mainly generated from interest-earning assets, including loans and advances to customers, financial investments and interbank placements. Interest expense is mainly related to interest payable on customer deposits. Details of the Hang Seng Bank Group’s net interest income by business segments and the respective percentage contribution to total net interest income, for the three years ended 31 December 2022, 2023 and 2024, are set out in the table below.

	(Audited)					
	For the year ended 31 December					
	2024		2023		2022	
	HK\$ million	%	HK\$ million	%	HK\$ million	%
					(Restated)	
Wealth and Personal Banking	16,972	55.1%	17,324	53.6%	12,914	50.6%
Commercial Banking	8,762	28.5%	9,364	29.0%	8,021	31.4%
Global Banking	2,698	8.8%	2,709	8.4%	2,533	9.9%
Global Markets	1,804	5.9%	1,162	3.6%	1,535	6.0%
Others	548	1.7%	1,736	5.4%	548	2.1%
Total net interest income	30,784	100.0%	32,295	100.0%	25,551	100.0%
Average interest-earning assets	1,396,927		1,406,183		1,462,548	
Net interest spread	1.78%		1.89%		1.62%	
Net interest margin	2.20%		2.30%		1.75%	



As shown in the table above, the Wealth and Personal Banking and Commercial Banking segments represented the two largest contributors to the Hang Seng Bank Group's net interest income, in aggregate accounting for over 80% of the total. Net interest income grew by approximately 26.4% year-on-year to approximately HK\$32.3 billion in 2023, mainly driven by higher contributions from both Wealth and Personal Banking and Commercial Banking, with a 55-basis-point net interest margin improvement from approximately 1.75% in 2022 to approximately 2.30% in 2023 amid the higher interest rate environment, partly offset by a 4% decline in average interest-earning assets. In 2024, net interest income decreased by approximately 4.7% year-on-year to approximately HK\$30.8 billion, mainly due to the 10-basis-point narrowing of net interest margin to approximately 2.20% and the subdued new loan demand during the year, partly offset by higher average balances in financial investments and interbank placements.

We note that the Wealth and Personal Banking segment is contributing an increasing proportion of net interest income, while the Commercial Banking segment is contributing a smaller proportion, as commercial customers tended to accelerate loan repayments and had less appetite for loan drawdowns under the high interest rate environment.

Effective from 1 January 2025, Hang Seng Bank Group has adjusted its operating and reportable segments into (i) Hong Kong Business, (ii) Insurance Manufacturing and Asset Management, and (iii) Markets and Securities Services, together with Corporate Centre, as described in the section above headed "*1. Background, business and strengths of the Hang Seng Bank Group*". In the first half of 2025, about 98% of net interest income was contributed from Hong Kong Business. This amount decreased by approximately 5.4% year-on-year to approximately HK\$14.0 billion, mainly due to the reduction in average gross customer loans and a lower market interest rate during the period, in particular the lower Hong Kong Interbank Offered Rate ("**HIBOR**") observed from May 2025. During the same period, the average interest-earning assets amounted to approximately HK\$1,456.5 billion, compared with approximately HK\$1,362.2 billion in the first half of 2024. The net interest spread was 1.67% and the net interest margin was 1.99%, representing year-on-year decreases of approximately 16 basis points and 30 basis points respectively.

Net fee income

Fee income is mainly generated from the provision of various services, including card services, investment services (such as securities broking and related services and retail investment funds), account services and credit facilities fees. Fee expense mainly includes card fees, processing and interchange fees. Details of the Hang Seng Bank Group's fee income by type of service and respective percentage contribution to gross fee income for the three years ended 31 December 2022, 2023 and 2024, and for the six months ended 30 June 2024 and 2025, are set out in the table below.



	(Unaudited)				(Audited)					
	For the six months ended 30 June				For the year ended 31 December					
	2025		2024		2024		2023		2022	
	HK\$ million	%	HK\$ million	%	HK\$ million	%	HK\$ million	%	(Restated) HK\$ million	%
Securities broking and related services	1,084	23.8%	676	16.8%	1,526	18.5%	1,277	16.3%	1,435	19.1%
Retail investment funds	781	17.1%	630	15.7%	1,350	16.4%	968	12.4%	926	12.3%
Cards	1,446	31.7%	1,522	37.9%	3,063	37.1%	3,107	39.7%	2,608	34.7%
Other	1,248	27.4%	1,188	29.6%	2,309	28.0%	2,477	31.6%	2,537	33.9%
Fee income	4,559	100.0%	4,016	100.0%	8,248	100.0%	7,829	100.0%	7,506	100.0%
Fee expense	(1,412)		(1,452)		(2,932)		(2,909)		(2,280)	
Net fee income	3,147		2,564		5,316		4,920		5,226	

A rising net fee income trend was seen in recent years due to diversification into non-interest income streams and growth in the targeted customer base. Net fee income decreased by approximately 5.9% year-on-year to approximately HK\$4.9 billion in 2023 despite an increase in gross fee income, mainly due to higher processing and interchange fees, along with higher cash dollar awards to customer to stimulate card service income. Net fee income increased by approximately 8.0% year-on-year to approximately HK\$5.3 billion in 2024. This was mainly due to the growth in income from retail investment funds, reflecting strong fund sales, and growth in securities broking related services, reflecting higher stock turnover during the year. In the first half of 2025, net fee income continued to increase and reached approximately HK\$3.1 billion, again driven by the continued rise in income from securities broking related services and retail investment funds, supported by higher customer transaction volume and the improved Hong Kong stock market performance.

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

Net income/(loss) from financial instruments measured at fair value through profit or loss (“FVTPL”) mainly included (i) net fair value changes arising from the assets and liabilities held to meet liabilities under insurance contracts and (ii) net trading income, net income/(loss) from financial instruments designated at FVTPL, and changes in fair value of other financial instruments mandatorily measured at FVTPL. For item (i) above, given a substantial part of the insurance businesses is accounted for under the variable fee approach, the relevant insurance business-related investment returns and fair value changes would be absorbed in the associated insurance contract liabilities through insurance finance income/(expenses), a separate line item in the income statement, so as to reflect the attribution to policyholders.

Excluding the impact from the insurance business, net trading income, net income/(loss) from financial instruments designated at FVTPL, and changes in fair value of other financial instruments mandatorily measured at FVTPL together decreased by approximately HK\$632 million to a loss of approximately HK\$148 million in 2023, mainly due to higher interest expenses on structured deposits and certificates of deposits issued in response to rising interest rates during the period.



It improved to a gain of approximately HK\$1,044 million in 2024, mainly reflecting the higher revenue from derivatives products coupled with enhanced net interest income from trading positions and higher foreign exchange revenue generated from increased client activities. In the first half of 2025, increased revenue from funding swap transactions and foreign exchange, and reduced interest expenses on structured products, together led to a gain of approximately HK\$1,658 million.

Insurance service results

Insurance service results, which represent the net result of insurance revenue (in exchange for provision of insurance coverage and other services, excluding investment components) and insurance service expense (incurred claims and other service expenses, excluding investment components), increased by approximately 23.4% year-on-year to approximately HK\$2.0 billion in 2023, and further increased by approximately 10.8% year-on-year to approximately HK\$2.3 billion in 2024. The growth continued in the first half of 2025, with insurance service results amounting to approximately HK\$1.4 billion, representing an increase of approximately 14.3% year-on-year. The increases in 2024 and the first half of 2025 mainly reflected the higher release of Contractual Services Margin¹ (“CSM”) due to a growth of CSM balances as a result of new business growth and favourable economic variances.

Change in expected credit losses and other credit impairment charges

Change in expected credit losses and other credit impairment (“ECL”) charges decreased in 2023 mainly as a result of decline in loan balances due to subdued credit demand and higher customer repayments, partly offset by the higher provisions on exposures related to the commercial real estate (“CRE”) sector in Chinese Mainland². ECL charges further decreased in 2024, mainly due to the reduction in the Chinese Mainland CRE exposure. However, ECL charges increased by approximately 2.2 times year-on-year to approximately HK\$4.9 billion in the first half of 2025, mainly reflecting exposures related to CRE sector in Hong Kong, as a result of an increase in allowances for new defaults, asset quality credit migration, over-supply in non-residential properties, as well as updates to the models used for ECL calculations. Please refer to the sub-section below headed “(ii) *Financial position*” for a further analysis on the Hang Seng Bank Group’s loans and advances to customers.

¹ Represents the unearned profit in insurance contracts expected to be earned over the coverage period of the relevant insurance contracts.

² Represents the Hang Seng Bank Group’s total exposure to borrowers where the ultimate parent is based in Chinese Mainland, as well as all CRE exposures booked on Chinese Mainland balance sheets.



Operating expenses

Operating expenses mainly included general and administrative expenses, staff costs, depreciation and amortisation expenses. Operating expenses increased by approximately 6.0% year-on-year to approximately HK\$14.6 billion in 2023, mainly driven by higher general and administrative expenses resulted from a rise in processing service fees, and continued investment in technology to enhance the service experience for customers and digital capabilities, partly offset by a decrease in staff costs. In 2024, operating expenses increased by approximately 3.9% year-on-year to approximately HK\$15.2 billion, mainly due to the higher amortisation of intangible assets, staff costs and IT-related costs. In the first half of 2025, operating expenses remained flat as compared to the same period of 2024.

The following table sets out the cost efficiency ratios of the Hang Seng Bank Group for the three years ended 31 December 2022, 2023 and 2024, and for the six months ended 30 June 2024 and 2025:

	For the six months ended 30 June		For the year ended 31 December		
	2025	2024	2024	2023	2022
Cost efficiency ratios (<i>Note</i>)	36.1%	36.8%	36.6%	35.8%	40.1%

Note: Based on dividing operating expenses by net operating income before change in expected credit losses and other credit impairment charges

In 2023, the Hang Seng Bank Group's cost efficiency ratio improved by 4.3 percentage points to approximately 35.8%, from approximately 40.1% in 2022. This was mainly due to the higher revenue in a higher interest rate environment and strict cost discipline during the year, as discussed above. The cost efficiency ratio increased slightly to approximately 36.6% in 2024, but fell to approximately 36.1% in the first half of 2025, mainly reflecting the Hang Seng Bank Group's focus on effectively managing operating expenses.

Profit attributable to the Hang Seng Bank Shareholders

Profit attributable to the Hang Seng Bank Shareholders is primarily affected by the movements of net interest income, non-interest income, ECL charges and operating expenses as explained above. Profit continued to grow in 2023 and 2024, with an attributable profit of approximately HK\$18.4 billion in 2024, translating to earnings per share of approximately HK\$9.33 (after excluding distributions to holders of perpetual capital instruments). For the first half of 2025, the Hang Seng Bank Group recorded an attributable profit of approximately HK\$6.9 billion (or earnings per share of approximately HK\$3.34, after excluding distributions to holders of perpetual capital instruments), a decrease of approximately 30.5% compared to approximately HK\$9.9 billion in the same period of 2024, mainly due to the increased ECL charges as discussed above.



Dividend

Total dividends per share declared and paid to the Hang Seng Bank Shareholders were HK\$4.10, HK\$6.50, HK\$6.80 and HK\$2.60 for each of the three years ended 31 December 2022, 2023 and 2024, and the six months ended 30 June 2025. The dividend pay-out ratios during the periods under review were approximately 74.1%, 72.5%, 72.9% and 77.8% respectively.

On 10 October 2025, the Hang Seng Bank Board declared the 2025 Third Interim Dividend of HK\$1.30 per share, which was paid to the Hang Seng Bank Shareholders on 13 November 2025. The 2025 Third Interim Dividend will not be deducted from the Scheme Consideration.

Hang Seng Bank has confirmed that as at the date of the Scheme Document, there is no Dividend Adjustment Amount, and Hang Seng Bank does not intend to declare or pay any further dividend or other distribution or return of capital after the date of the Scheme Document and on or before 26 January 2026, being the expected Scheme Effective Date.

Share buy-back

During the year 2024, Hang Seng Bank announced and completed a share buy-back programme of up to HK\$3.0 billion. As announced in its 2025 interim results, Hang Seng Bank initiated a share buy-back programme of up to HK\$3.0 billion, expected to be complete by end of January 2026. Such buy-back programme has ceased with immediate effect from the publication of the Joint Announcement and such cessation will continue during the offer period in compliance with the restrictions under the Takeovers Code.

(ii) Financial position

The following table sets out a summary of the consolidated statement of financial position of the Hang Seng Bank Group as at 31 December 2022, 2023 and 2024, and as at 30 June 2025, as extracted and summarised from the annual reports and interim report of Hang Seng Bank. Further details and other financial information of the Hang Seng Bank Group are set out in Appendix I to the Scheme Document.



	(Unaudited)		(Audited)	
	As at 30 June		As at 31 December	
	2025	2024	2023	2022
				(Restated)
				(Note 1)
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
ASSETS				
Cash and balances at central banks	9,720	10,433	10,564	17,609
Financial assets mandatorily measured at fair value through profit or loss	189,498	164,557	156,872	152,957
Placings with and advances to banks	85,228	76,221	83,756	62,203
Loans and advances to customers	803,356	819,136	860,406	931,334
Financial investments	526,380	541,155	405,792	480,698
Investment properties	10,732	11,220	12,000	11,998
Premises, plant and equipment	23,749	24,943	27,075	27,498
Other assets (Note 2)	173,017	147,531	135,629	170,149
Total assets	1,821,680	1,795,196	1,692,094	1,854,446
LIABILITIES				
Current, savings and other deposit accounts	1,273,909	1,238,224	1,153,062	1,249,486
Structured deposits reported as financial liabilities designated at fair value	26,077	28,797	27,549	37,138
Other financial liabilities designated at fair value	10,310	9,839	18,084	9,171
Insurance contract liabilities	214,954	188,481	167,264	152,374
Subordinated liabilities	21,272	27,475	27,491	27,479
Other liabilities (Note 3)	104,449	132,816	130,460	218,800
Total liabilities	1,650,971	1,625,632	1,523,910	1,694,448
Total shareholders' equity	170,670	169,522	168,131	159,933
Net asset value per Hang Seng Bank Share (Note 4)	HK\$84.52	HK\$83.91	HK\$81.80	HK\$77.51

Notes:

- (1) Hong Kong Financial Reporting Standards 17 "Insurance Contracts" is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively and comparative figures have been restated from the transition date, 1 January 2022. The above restated figures for the year ended 31 December 2022 are extracted from the 2023 annual report
- (2) Represents the sum of (i) trading assets, (ii) derivative financial instruments, (iii) reverse repurchase agreements – non-trading, (iv) interest in an associate, (v) intangible assets, and (vi) other sundry assets
- (3) Represents the sum of (i) deposits from banks, (ii) trading liabilities, (iii) derivative financial instruments, (iv) repurchase agreements – non-trading, (v) certificates of deposit in issue, (vi) current and deferred tax liabilities, and (vii) other sundry liabilities
- (4) Net asset value per Hang Seng Bank Share is calculated by dividing total shareholders' equity (excluding perpetual capital instruments) by the number of shares in issue as at the end of the respective period/year



Loans and advances to customers

As at 30 June 2025, loans and advances to customers, net of allowance for ECL, amounted to approximately HK\$803.4 billion, the largest item in the total assets of the Hang Seng Bank Group, accounting for approximately 44.1% of total assets. Details of the Hang Seng Bank Group's gross loans and advances to customers, by stage distribution (see notes below) and industry, and the associated allowance for ECL, as at 31 December 2024 and 30 June 2025, are set out in the table below.

	Gross carrying/nominal amount					Allowance for ECL					Net balance
	Stage 1 HK\$ million (Note 1)	Stage 2 HK\$ million (Note 2)	Stage 3 HK\$ million (Note 3)	POCI HK\$ million (Note 4)	Total HK\$ million	Stage 1 HK\$ million (Note 1)	Stage 2 HK\$ million (Note 2)	Stage 3 HK\$ million (Note 3)	POCI HK\$ million (Note 4)	Total HK\$ million	HK\$ million
As at 30 June 2025											
Loans and advances to customers											
– personal	368,810	14,282	1,410	–	384,502	(346)	(901)	(235)	–	(1,482)	383,020
– corporate and commercial	246,209	108,784	53,264	147	408,404	(300)	(2,843)	(11,602)	(79)	(14,824)	393,580
– non-bank financial institutions	24,418	2,385	–	–	26,803	(37)	(10)	–	–	(47)	26,756
	639,437	125,451	54,674	147	819,709	(683)	(3,754)	(11,837)	(79)	(16,353)	803,356
% of total	78.01%	15.30%	6.67%	0.02%							
NPL: 6.69%											
As at 31 December 2024											
Loans and advances to customers											
– personal	373,719	11,418	1,220	–	386,357	(355)	(922)	(209)	–	(1,486)	384,871
– corporate and commercial	298,586	63,184	49,602	142	411,514	(291)	(1,550)	(9,555)	(54)	(11,450)	400,064
– non-bank financial institutions	34,173	65	–	–	34,238	(37)	–	–	–	(37)	34,201
	706,478	74,667	50,822	142	832,109	(683)	(2,472)	(9,764)	(54)	(12,973)	819,136
% of total	84.90%	8.97%	6.11%	0.01%							
NPL: 6.12%											

Notes:

- (1) Stage 1: these financial assets are unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised
- (2) Stage 2: a significant increase in credit risk has been experienced on these financial assets since initial recognition for which a lifetime ECL is recognised
- (3) Stage 3: there is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised
- (4) Purchased or originated credit-impaired ("POCI"): financial assets that are purchased or originated at a deep discount are seen to reflect the incurred credit losses on which a lifetime ECL is recognised
- (5) Subject to rounding differences

In terms of gross loans and advances to customers as at 30 June 2025 by industry, approximately 49.8% were corporate and commercial loans and advances, mainly relating to real estate, trade finance, manufacturing, information technology and other sectors, and approximately 46.9% were loans and advances to individuals, mainly for residential properties. Comparing the positions between the end of



June 2025 and December 2024, a majority of the decline in the balance of gross loans and advances related to the reduction in lending for real estate sector during the first half of 2025, reflecting the Hang Seng Bank Group's de-risking measures. In particular, lending to Hong Kong CRE sector and Chinese Mainland CRE sector reduced by approximately 5% and 12% respectively, from approximately HK\$130.5 billion and HK\$18.0 billion as at 31 December 2024 to approximately HK\$123.8 billion and HK\$15.9 billion as at 30 June 2025 respectively.

Credit risk and ECL allowance

In terms of credit risk of loans and advances by stage distribution, we note negative credit migration in the first half of 2025. Gross loans and advances classified in Stage 2 increased from approximately HK\$74.7 billion (or approximately 8.97% of total) as at 31 December 2024 to approximately HK\$125.5 billion (or approximately 15.30% of total) as at 30 June 2025. Non-performing loans ("NPL", which include loans and advances classified as Stage 3 and POCI) as a percentage of total gross loans and advances increased from approximately 6.12% (or approximately HK\$51.0 billion) as at 31 December 2024 to approximately 6.69% (or approximately HK\$54.8 billion) as at 30 June 2025. The increase was primarily due to ongoing credit pressure in the real estate sector. We further note that the increase in ECL charges in the first half of 2025 was mainly contributed by the Hong Kong CRE sector. Set out below are the gross loans and advances in the Hong Kong CRE sector by stage distribution as at 31 December 2024 and 30 June 2025:

	As at 30 June 2025		As at 31 December 2024	
	HK\$ million	%	HK\$ million	%
Gross loans and advances to customers by stage				
Stage 1	31,957	25.8%	81,274	62.3%
Stage 2	66,851	54.0%	29,438	22.5%
Stage 3	25,012	20.2%	19,806	15.2%
Total	123,820		130,518	
Allowance for ECL	4,194		1,654	

During the first half of 2025, there was negative migration in the loan portfolio of the Hong Kong CRE sector as a result of ongoing market challenges, in particular that loans classified as Stage 2 rose from approximately HK\$29.4 billion as at 31 December 2024 to approximately HK\$66.9 billion as at 30 June 2025. Loans classified as Stage 3, considered to be NPL, amounted to approximately HK\$25.0 billion and constituted approximately 20.2% of the Hong Kong CRE portfolio as at 30 June 2025. ECL allowance made to the portfolio increased from



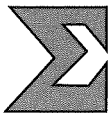
approximately HK\$1.7 billion as at 31 December 2024 to approximately HK\$4.2 billion as at 30 June 2025, out of which approximately HK\$2.7 billion was related to loans classified as Stage 3.

Among the Hong Kong CRE sector loan portfolio as at 30 June 2025, (i) approximately 37%³ was unsecured, typically granted to strong, listed Hong Kong CRE developers, which commonly are members of conglomerate groups with diverse cashflows, and (ii) approximately 63%³ was secured by collateral. For secured loans and advances in the Hong Kong CRE sector considered to be NPL, the weighted average loan-to-value ratio was approximately 71%³. The NPL coverage for the Hong Kong CRE portfolio, representing the sum of ECL allowance made and the value of collateral (subject to the limit of individual loans and advances) was slightly above 100% as at 30 June 2025.

In setting ECL, which involves the use of judgement and estimation, the Hang Seng Bank Group consistently follows HSBC's credit risk policies and practices, which are well established. A centralised impairment engine performs ECL calculations subject to a number of validation checks. Four economic scenarios (namely Central, Upside, Downside and Downside 2) are applied to credit risk models to estimate future credit losses, and probability-weight the results to determine an ECL estimate. In this respect, we understand that Hang Seng Bank Group has continued to follow a globally consistent methodology developed by HSBC for the application of forward economic guidance into the calculation of ECL for wholesale and retail credit risk. Based on our discussions with Hang Seng Bank, the relevant macroeconomic variables (including GDP growth, unemployment rate and house prices) underlying the four economic scenarios have been formulated with reference to a pool of external forecasts and estimates, specifically for the purpose of ECL calculation. In addition, adjustments based on management's judgment are made to the ECL calculations to reflect, for example, late breaking events and limitations to the model and data. We have reviewed the relevant sections in the 2024 annual reports and 2025 interim reports of Hang Seng Bank and HSBC, and note that the above macroeconomic variables used by Hang Seng Bank Group for each scenario, as well as the weighting applied to each scenario, are consistent with those used by HSBC.

We note from the Independent Auditor's Report contained in the 2024 annual report that ECL allowance on loans and advances to customers has been stated as one of the key audit matters identified, and note the procedures taken by Hang Seng Bank's auditor. We further note that Hang Seng Bank Group's 2025 unaudited interim condensed consolidated financial statements, which have been reviewed by its auditor, included disclosures of financial information relating to distribution of financial instruments (of which the Hang Seng Bank Group's loans and advances form part) by credit quality and stage distribution.

³ Based on total limits (including off balance sheet commitments) of approximately HK\$148 billion as at 30 June 2025.



As the increase in ECL charges in the first half of 2025 was mainly contributed by the Hong Kong CRE sector, we have also obtained information regarding the past levels of NPL coverages for the Hong Kong CRE portfolio. We note that the NPL coverage percentages for the Hong Kong CRE portfolio as at 30 June 2024, 31 December 2024 and 30 June 2025 were not materially different.

Property interests

As at 30 June 2025, the Hang Seng Bank Group recorded premises, plant and equipment of approximately HK\$23.7 billion and investment properties of approximately HK\$10.7 billion, in aggregate accounting for approximately 1.9% of total assets. These property interests, which were measured at valuation assessed by an independent professional valuer, mainly represented (i) properties held for rental income, and (ii) branches and offices held for own use. There are no properties still held at cost, all have been professionally revalued in the balance sheet.

Customer deposits

As at 30 June 2025, the Hang Seng Bank Group recorded customer deposits, comprising current, savings and other deposit accounts and structured deposits reported as financial liabilities designated at fair value, of approximately HK\$1,300.0 billion, representing an increase of approximately 2.6% from approximately HK\$1,267.0 billion as at 31 December 2024. The increase reflects the growth of Hang Seng Bank Group's customer base. Coupled with the decrease in customer loans and advances (net of allowances for ECL), the advances-to-deposits ratio decreased from approximately 64.7% as at 31 December 2024 to approximately 61.8% as at 30 June 2025. This represents, in our view, a highly stable and relatively low cost funding basis. The elevated commercial surplus was deployed to high quality liquid assets with lower yields.

Other major assets and liabilities

The other major assets of the Hang Seng Bank Group as at 30 June 2025 were mainly financial investments and trading assets, primarily comprising treasury bills, other debt securities and investment funds. There were no overdue financial investments as at 30 June 2025. The Hang Seng Bank Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations.

The other major liabilities of the Hang Seng Bank Group as at 30 June 2025 were mainly insurance contract liabilities (including life direct participating contracts and life other contracts, which were measured as the total of fulfilment cash flows and CSM) and subordinated loans due between the period from November 2027 and June 2030. As at 30 June 2025, the Hang Seng Bank Group had subordinated liabilities and additional tier 1 capital instruments (i.e. perpetual capital instruments) of approximately HK\$21.3 billion and HK\$11.6 billion respectively. Such balances remained stable as at 30 September 2025 at approximately



HK\$21.2 billion and HK\$11.6 billion respectively, as set out in the section headed “3. *Indebtedness statement*” in Appendix I to the Scheme Document. The Hang Seng Bank Group has no defaults of principal, interest or other breaches with respect to its debt instruments.

Total shareholders’ equity and net asset value per share

As at 30 June 2025, total shareholders’ equity of the Hang Seng Bank Group was approximately HK\$170.7 billion, including the carrying amount of perpetual capital instruments of approximately HK\$11.6 billion. Excluding the perpetual capital instruments, net asset value per Hang Seng Bank Share was approximately HK\$84.52 as at 30 June 2025.

Capital and liquidity ratios

The following table sets out the capital ratios, liquidity coverage ratios and the net stable funding ratios of the Hang Seng Bank Group on a consolidated basis calculated in accordance with the Banking (Capital) Rules and the Banking (Liquidity) Rules, as at or for the quarters ended 31 December 2024, 30 June 2025 and 30 September 2025:

	As at / For the quarter ended		
	30 September 2025	30 June 2025	31 December 2024
Capital ratios (<i>Note 1</i>)			
– CET1 capital ratio	22.1%	21.3%	17.7%
– Tier 1 capital ratio	24.3%	23.3%	19.4%
– Total capital ratio	25.9%	24.9%	20.8%
Liquidity ratios			
– Average liquidity coverage ratio for the latest quarter (<i>Note 2</i>)	331.8%	335.0%	335.2%
– Net stable funding ratio	176.4%	182.6%	181.0%

Notes:

- (1) Regulatory capital ratios as at 30 June 2025 and 30 September 2025 are calculated based on the Basel III Final Reform package which was implemented in Hong Kong on 1 January 2025. Prior period ratios have not been restated
- (2) Average liquidity coverage ratios for the latest quarter are based on the simple average values of all working days in the reporting periods for the quarters ended 31 December 2024, 30 June 2025 and 30 September 2025

The capital base of the Hang Seng Bank Group remained strong as at 30 June 2025 and 30 September 2025. The improvements compared with the position as at 31 December 2024 were mainly due to the movement of risk-weighted assets as a result of the change in modelling and methodology primarily driven by the



implementation of Basel III Final Reform package. The liquidity coverage ratio and net stable funding position of the Hang Seng Bank Group also remained stable and strong. All capital ratios and liquidity ratios were well above the relevant regulatory requirements.

We have also reviewed the latest regulatory disclosures by the Hong Kong Banking Peers (as defined below), and note that the latest capital ratios of the Hang Seng Bank Group as disclosed above are largely in line with those of the Hong Kong Banking Peers. As to the liquidity coverage ratio and net stable funding ratio, the Hang Seng Bank Group has the highest ratios when compared to the Hong Kong Banking Peers which made relevant disclosure in their latest regulatory disclosures.

(iii) Prospects

The Hong Kong banking sector has demonstrated resilience amid global uncertainties, particularly from US trade policies and tariffs, which have introduced headwinds for Asia-Pacific economies. According to the Half-Yearly Monetary and Financial Stability Report published by Hong Kong Monetary Authority (the “HKMA”) in September 2025 (the “HKMA Report”), Hong Kong authorised institutions, which are deposit-taking institutions licenced by the HKMA, benefited from the accommodative monetary environment, with the HKD Monetary Base stable at approximately HK\$2,014 billion as at the end of August 2025 and total deposits rising by approximately 7.8% in the first seven months of 2025. During the first half of 2025, total bank credit returned to positive growth, and markets operated smoothly despite volatility in fund flows. However, challenges persist from global trade tensions and potential inflation concerns in the US, prompting a cautious Federal Reserve System stance. In May 2025, short-term HIBOR went down dramatically, caused by eased liquidity conditions amid the expansion of the aggregate balance of the banking system. From late June 2025 to the end of September 2025, following the triggering of the weak-side convertibility undertaking of Hong Kong’s linked exchange rate system, an event that resulted in a reduction in the aggregate balance of the banking system, HIBOR levels gradually rose back to approximately 3% to 4%. Between September and December 2025, the US federal funds target rate was lowered thrice by a total of 0.75% to a range of 3.50% to 3.75%. Due to the Hong Kong dollar’s peg to the US dollar, the HKMA correspondingly adjusted the Base Rate downward by a total of 0.75%, in the same direction as the US federal funds target rate. As at the Latest Practicable Date, the one-month and three-month HIBOR were approximately 3.04% and 3.03% respectively, according to the website of The Hong Kong Association of Banks, and the Base Rate was 4.00%, according to the website of HKMA.

According to the same source, the CRE sector in Hong Kong remains under pressure. The average monthly Hong Kong CRE transaction volumes increased to 368 units in the first seven months of 2025, up from 291 units in the second half of 2024, but prices and rentals for offices, retail, and factories continued to decline. The oversupply of Hong Kong CRE, high interest rates, and shifting



consumption patterns exacerbated the downward trend in the value of Hong Kong CRE, though government measures like relaxed loan-to-value ratios and the Hostels in the City Scheme offered some support.

Considering the backdrop mentioned above, the net interest income and net interest margin of Hang Seng Bank Group are likely to face ongoing pressure in the near term, driven by the narrowing net interest spread and the uncertain external economic outlook. On the other hand, growth momentum in wealth management and insurance businesses of Hang Seng Bank Group is expected to persist, buoyed by buoyant capital markets and net inflows via Southbound Stock Connect, as noted in the HKMA Report. This diversification could offset some net interest income challenges, with Hong Kong's financial hub status attracting talent and investments. Additionally, Hang Seng Bank Group's high capital ratio positions it well to continue to support its customers, and provide a buffer against economic volatility and enabling sustained shareholder returns.

In our view, Hang Seng Bank Group exhibits underlying strength through diversified revenue streams, robust capital buffers, and alignment with Hong Kong's resilient financial system. However, its prospects are subject to a range of risks, including external factors beyond its control such as US tariffs, interest rate fluctuations, and Hong Kong CRE market weaknesses. Going forward, we consider that Hang Seng Bank Group's performance will largely depend on Hong Kong's general economic growth, the stabilisation of Hong Kong CRE market and geopolitical landscape, with potential upside from government initiatives and inbound investments.

4. Peer comparison

As set out in the section above headed "*1. Background, business and strengths of the Hang Seng Bank Group*", the Hang Seng Bank Group is principally engaged in banking businesses in Hong Kong. To assess the fairness and reasonableness of the Scheme Consideration, we have researched and analysed the following licensed banking groups listed on the Main Board of the Hong Kong Stock Exchange that have a business similar to Hang Seng Bank Group, deriving over 50% of their revenue from banking businesses in Hong Kong, according to their latest published full year financial statements. Based on the above selection criteria, three appropriate peers, namely BOC Hong Kong (Holdings) Limited (stock code: 2388) ("**BOCHK**"), The Bank of East Asia, Limited (stock code: 23) ("**BEA**") and Dah Sing Banking Group Limited (stock code: 2356) ("**DSB**") (collectively, the "**Hong Kong Banking Peers**") have been identified according to our research on website of the Hong Kong Stock Exchange. In our view, the Hong Kong Banking Peers represent an exhaustive list based on the above selection criteria.



Among the three Hong Kong Banking Peers, we consider BOCHK to be a reasonably close comparable to Hang Seng Bank in terms of market capitalisation (before the publication of the Joint Announcement) and revenue scale. Therefore, we have put a greater emphasis on trading multiples of BOCHK, relative to the other two peers.

For the purpose of analysing the Scheme Consideration against the valuation of the Hong Kong Banking Peers, we have adopted the price-to-book (“P/B”) ratio and price-to-earnings (“P/E”) ratio, which are two commonly used valuation benchmarks for companies in the banking sector. In addition, we have included dividend yield in our analysis as follows:

Name of licensed banking groups (Note 1)	Market capitalisation as at the Latest Practicable Date (Note 2) HK\$ billion	P/B ratio (Note 3) times	2024 P/E ratio (Note 4) times	Trailing- twelve- month P/E ratio ("TMM") (Note 5) times	2024 dividend yield (Note 6)
BOCHK	402.2	1.2	10.5	10.0	5.2%
BEA	35.1	0.3	8.8	7.9	5.2%
DSB	15.5	0.4	7.7	7.0	6.0%
Hang Seng Bank					
– as at the Last Trading Day	222.9	1.4	12.6	15.5	5.7%
– at the Scheme Consideration	290.3	1.8	16.4	20.2	4.4%

Source: Hong Kong Banking Peers’ filings published on the website of the Hong Kong Stock Exchange and Bloomberg

Notes:

- (1) We considered Dah Sing Financial Holdings Limited (stock code: 440) (“Dah Sing Financial Holdings”) to be a Hong Kong Banking Peer as it meets the above selection criteria. However, we note that the banking business of Dah Sing Financial Holdings is principally derived from its controlling interest in DSB, which is already included as one of the Hong Kong Banking Peers. To avoid duplication, we have excluded Dah Sing Financial Holdings from the above table and the analysis below
- (2) In respect of the Hong Kong Banking Peers, the market capitalisations as at the Latest Practicable Date are based on the product of their respective number of issued shares (excluding treasury shares (if any)) as set out in their respective monthly return for the month ended 30 November 2025 and their respective closing price per share as quoted on the Hong Kong Stock Exchange as at the Latest Practicable Date. In respect of Hang Seng Bank, the implied market capitalisation is based on the 1,872,937,536 Hang Seng Bank Shares in issue as at the Latest Practicable Date and the closing price of HK\$119.00 as at the Last Trading Day and the Scheme Consideration of HK\$155.00 per share (where appropriate)



- (3) *The P/B ratios are calculated by dividing their respective market capitalisation by their respective consolidated net asset value attributable to the shareholders (excluding perpetual capital instruments and additional capital instruments (if any)) as at 30 June 2025, as extracted from their respective 2025 interim reports*
- (4) *The 2024 P/E ratios are calculated by dividing their respective market capitalisation by their respective consolidated profit attributable to the shareholders (excluding distributions or coupon payments for perpetual capital instruments and additional capital instruments (if any)) for the year 2024, as extracted from their respective 2024 annual reports*
- (5) *The TTM P/E ratios are calculated by dividing their respective market capitalisation by their respective consolidated profit attributable to the shareholders (excluding distributions and coupon payments for perpetual capital instruments and additional capital instruments (if any)) for the trailing-twelve-months ended 30 June 2025, as extracted from their respective 2024 annual reports and 2025 interim reports*
- (6) *In respect of the Hong Kong Banking Peers, the 2024 dividend yields are calculated by dividing their respective dividend for the year 2024, as extracted from their respective 2024 annual reports, by their respective closing price per share as quoted on the Hong Kong Stock Exchange as at the Latest Practicable Date. In respect of Hang Seng Bank, the 2024 dividend yields are calculated by dividing dividend of HK\$6.80 per share for the year 2024 by the closing price of HK\$119.00 per the Hang Seng Bank Share as at the Last Trading Day and the Scheme Consideration of HK\$155.00 per share (where appropriate)*

As set out in the table above, the P/B ratios of the Hong Kong Banking Peers ranged from approximately 0.3 times to 1.2 times, with an average and a median of approximately 0.6 times and 0.4 times respectively. The P/E ratios of the Hong Kong Banking Peers ranged from approximately 7.0 times to 10.5 times, with an average and a median of approximately 9.0 times and 8.8 times, based on 2024 earnings, and approximately 8.3 times and 7.9 times, based on earnings for the trailing twelve months ended 30 June 2025.

As represented by the Scheme Consideration, Hang Seng Bank's P/B ratio of approximately 1.8 times, based on net asset value as of the end of June 2025, and P/E ratios of approximately 16.4 and 20.2 times, based on earnings for the year 2024 and the trailing twelve months ended 30 June 2025 respectively, are higher than those of all Hong Kong Banking Peers.

As explained above, we consider BOCHK to be a reasonably close comparable to Hang Seng Bank in terms of market capitalisation and revenue scale. As shown in the table above, the 2024 P/E ratio of BOCHK is close to that of Hang Seng Bank before the Joint Announcement. Concerning the TTM P/E ratio, we note the decrease in profit of the Hang Seng Bank Group in the first half of 2025 as affected by the higher ECL charges (while BOCHK group recorded a year-on-year increase in profit during the same period despite an increase in ECL charges) resulted in the Hang Seng Bank Group having a relatively higher TTM P/E ratio. Overall, we note that the P/B ratio, 2024 P/E ratio and TTM P/E ratio as represented by the Scheme Consideration are all higher than those of BOCHK.



As there may be Scheme Shareholders who have been holding the Hang Seng Bank Shares for long-term investment purpose and have been enjoying the regular dividend payments from Hang Seng Bank, we have also analysed the Scheme Consideration in terms of dividend yield. Based on the closing price of the Hang Seng Bank Shares as at the Last Trading Day, the dividend yield of Hang Seng Bank for the year 2024 was approximately 5.7%, which is within the range and not materially different from the yields of the Hong Kong Banking Peers ranging from approximately 5.2% to approximately 6.0%, based on total dividends for the year 2024. The dividend yield as represented by the Scheme Consideration, being approximately 4.4%, is lower than (i) the above dividend yield of Hang Seng Bank of approximately 5.7% as at the Last Trading Day, and (ii) those of all Hong Kong Banking Peers. On this basis, if the Proposal is successful, Scheme Shareholders who place a high priority on dividend yield may consider reinvesting the Scheme Consideration into the Hong Kong Banking Peers to enjoy an enhanced dividend yield.

Based on the above, we consider the Scheme Consideration to be favourable when compared to the prevailing trading multiples of Hong Kong Banking Peers.

5. Break-up value or Sum-of-the-Parts

We have also considered an assessment of the Scheme Consideration by reference to the break-up value of the Hang Seng Bank Group, also referred to as Sum-of-the-Parts. The insurance business, for example, may have a significant value on a standalone basis, although we understand the sale of insurance products may be specifically linked to the Hang Seng Bank Group's branch network and staff.

In our view, this method of analysis is most suitable for conglomerate groups where a number of businesses are majority owned by a holding company but are essentially run and accounted for separately, and sometimes separately listed. However, unlike a conglomerate where businesses can be fairly easily separated and sold, and this is regularly done, the Hang Seng Bank Group's businesses are closely integrated, drawing on the branch network and an overlapping customer base. There is also extensive sharing of administrative and other services among members of the Hang Seng Bank Group, and a degree of integration with HSBC which would likely cause dis-economies in the event of a sale to a third party.

In addition, neither HSBC nor the Hang Seng Bank Group's management are, as far as we are aware, contemplating any such break up, so a valuation on this basis becomes an academic exercise only and not a practical outcome for the Hang Seng Bank Shareholders.

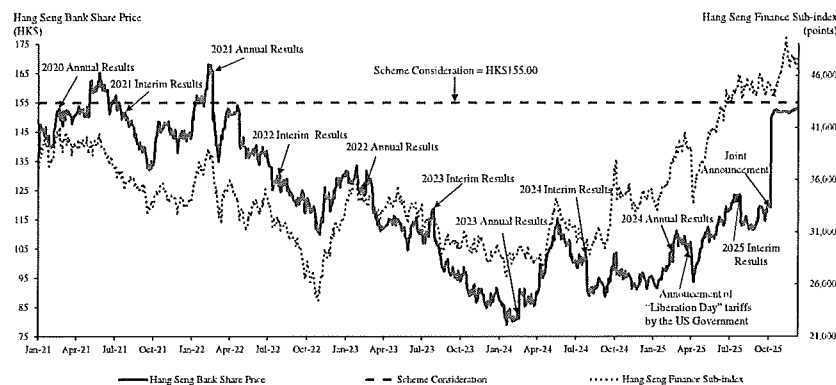
Based on the above, we do not consider this method appropriate for an integrated group like the Hang Seng Bank Group, and we have not given it weight in arriving at our opinion and recommendation expressed below.



6. Analysis of price performance and trading liquidity of the Hang Seng Bank Shares

(i) Historical price performance of the Hang Seng Bank Shares

Set out below is the movement of the daily closing prices of the Hang Seng Bank Shares quoted on the Hong Kong Stock Exchange during the period from January 2021 to the Latest Practicable Date (the “Review Period”), and comparisons between the historical price performance of the Hang Seng Bank Shares and (a) the Scheme Consideration of HK\$155.00 and (b) the movement of Hang Seng Finance Sub-index during the Review Period:



Source: Bloomberg

As shown in the above chart, save for approximately 60 trading days in mid-2021 and early 2022 in aggregate, the Hang Seng Bank Shares have been trading consistently below the Scheme Consideration of HK\$155.00 during the Review Period.

During 2021, the prices of the Hang Seng Bank Shares fluctuated between HK\$132.10 and HK\$165.20. After reaching a high of HK\$168.00 on 11 February 2022, prices broadly trended downward between March 2022 and early 2024. During this period, the US federal funds target rate rose from 0.25% to 0.50% in March 2022 to 5.25% to 5.50% by July 2023. The HKMA adjusted the Base Rate upward, in the same direction as the US federal funds target rate. Generally speaking, during this period, the movements of both the Hang Seng Bank Shares and Hang Seng Finance Sub-index were largely in line. However, the Hang Seng Finance Sub-index started to outperform the Hang Seng Bank Shares following publication of the bank's 2023 interim results.



After dipping to a low of HK\$79.25 on 22 January 2024, prices rebounded after publication of the bank's 2023 annual results on 21 February 2024, which indicated positive signals such as widening of net interest margin, increase in profit and de-risking of the Chinese Mainland CRE sector. The prices generally moved upward during the second quarter of 2024, in particular after the bank announced its HK\$3 billion share buy-back program on 9 April 2024.

On 31 July 2024 (during the noon publication window), the bank announced its 2024 interim results, with profit largely comparable to the first half of 2023. The Hang Seng Bank Shares trended down after the announcement, fluctuating between approximately HK\$90 and HK\$110 during the remainder of 2024 and the first quarter of 2025. While the prices were temporarily affected (along with the market as a whole) by the announcement of "Liberation Day" tariffs by the US Government, it largely recovered to the price level before such announcement by end of April 2025, and has mostly stayed above the HK\$110 level since June 2025.

On 30 July 2025 (during the noon publication window), the bank announced its 2025 interim results, showing a year-on-year decrease of approximately 30.5% profit attributable to shareholders, mainly due to the increased ECL allowance for the Hong Kong CRE sector. At the same time, the bank announced the second HK\$3 billion share buy-back program. The price of the Hang Seng Bank Shares then fluctuated within a narrow range and closed at HK\$119.00 on the Last Trading Day.

The Joint Announcement, including the Scheme Consideration of HK\$155.00 per share, was published on 9 October 2025 (before trading hours). The share price surged by approximately 25.9% after the Joint Announcement and closed at HK\$149.80 on the same day. Since then, the Hang Seng Bank Shares' price has been determined largely by the Scheme Consideration of HK\$155.00. At the Latest Practicable Date, the share price closed at HK\$153.00, representing a discount of approximately 1.3% to the Scheme Consideration.

As we consider that the price of the shares is currently determined largely by the terms of the Proposal, if the Proposal fails, other things being equal, there is a likelihood of the share price returning to the levels prevailing before the publication of the Joint Announcement.



(ii) *Trading liquidity of the Hang Seng Bank Shares*

Set out in the table below are the average daily trading volumes of the Hang Seng Bank Shares and the percentages of such average daily trading volumes to the issued share capital of Hang Seng Bank and the public float of Hang Seng Bank during the period from January 2024 up to the Latest Practicable Date:

	Average daily trading volumes of the Hang Seng Bank Shares	Percentage of average daily trading volumes of to the issued share capital of Hang Sang Bank (Note 2)	Percentage of average daily trading volumes to public float of Hang Seng Bank (Note 3)
2024			
January	1,463,371	0.1%	0.2%
February	2,237,852	0.1%	0.3%
March	2,114,323	0.1%	0.3%
April	2,864,907	0.2%	0.4%
May	2,553,093	0.1%	0.4%
June	2,214,059	0.1%	0.3%
July	1,832,293	0.1%	0.3%
August	2,645,698	0.1%	0.4%
September	3,195,361	0.2%	0.5%
October	2,491,044	0.1%	0.4%
November	1,512,546	0.1%	0.2%
December	1,818,306	0.1%	0.3%
2025			
January	1,724,849	0.1%	0.3%
February	4,021,808	0.2%	0.6%
March	2,403,704	0.1%	0.4%
April	2,393,751	0.1%	0.3%
May	1,901,150	0.1%	0.3%
June	1,777,997	0.1%	0.3%
July	2,180,690	0.1%	0.3%
August	2,125,564	0.1%	0.3%
September	2,625,583	0.1%	0.4%
October	6,126,863	0.3%	0.9%
November	1,923,005	0.1%	0.3%
From 1 December up to the Latest Practicable Date	1,133,138	0.1%	0.2%

Notes:

- (1) *Sourced from the Hong Kong Stock Exchange and Hang Seng Bank*
- (2) *Calculated by dividing the average daily trading volumes of the Hang Seng Bank Shares by the issued share capital of Hang Seng Bank at the end of each month or at the Latest Practicable Date, as applicable*
- (3) *Calculated by dividing the average daily trading volumes of the Hang Seng Bank Shares by the public float of Hang Seng Bank at the end of each month or at the Latest Practicable Date, as applicable*



As shown in the table above, the average daily trading volumes of the Hang Seng Bank Shares represented approximately 0.1% to 0.3% of the issued share capital of Hang Seng Bank, equivalent to approximately 0.2% to 0.9% of the Hang Seng Bank Shares constituting the public float of Hang Seng Bank. Broadly speaking, and taking into account the dollar values of the trading volumes, the Hang Seng Bank Shares, in our opinion, have been reasonably actively traded during the above review period, with an average daily trading volumes of approximately 2.4 million Hang Seng Bank Shares.

Upon the Scheme becoming binding and effective, the Code Disinterested Shareholders will realise their holdings in Hang Seng Bank at a fixed cash price (i.e. the Scheme Consideration of HK\$155.00), which represents premiums over the recent average closing prices prior to the Joint Announcement and the most recently published net asset value per share, as discussed in section below.

(iii) Comparison of value

The Scheme Consideration of HK\$155.00 per Scheme Share represents:

- (a) a premium of approximately 30.3% over the closing price of HK\$119.00 per Hang Seng Bank Share as quoted on the Hong Kong Stock Exchange on 8 October 2025, being the Last Trading Day;
- (b) a premium of approximately 29.7% over the average closing price of HK\$119.48 per Hang Seng Bank Share as quoted on the Hong Kong Stock Exchange over the last 5 trading days up to and including Last Trading Day;
- (c) a premium of approximately 33.1% over the average closing price of approximately HK\$116.49 per Hang Seng Bank Share as quoted on the Hong Kong Stock Exchange over the last 30 trading days up to and including the Last Trading Day;
- (d) a premium of approximately 32.8% over the average closing price of approximately HK\$116.71 per Hang Seng Bank Share as quoted on the Hong Kong Stock Exchange over the last 60 trading days up to and including the Last Trading Day;
- (e) a premium of approximately 33.0% over the average closing price of approximately HK\$116.58 per Hang Seng Bank Share as quoted on the Hong Kong Stock Exchange over the last 90 trading days up to and including the Last Trading Day;
- (f) a premium of approximately 34.4% over the average closing price of approximately HK\$115.35 per Hang Seng Bank Share as quoted on the Hong Kong Stock Exchange over the last 49 trading days during the period from the date of Hang Seng Bank's 2025 interim results announcement up to and including the Last Trading Day;



- (g) a premium of approximately 18.3% relative to the highest price target of HK\$131.00 per Hang Seng Bank Share and a premium of approximately 41.6% relative to the median price target of HK\$109.50⁴ per Hang Seng Bank Share issued by research analysts covering Hang Seng Bank after its interim results announcement for the six months ended 30 June 2025; and
- (h) a premium of approximately 83.4% over the unaudited consolidated net asset value (excluding perpetual capital instruments) attributable to Hang Seng Bank Shareholders of approximately HK\$84.52 per Hang Seng Bank Share as at 30 June 2025, as set out at the foot of the table in section above headed “3(ii) *Financial information and prospects of the Hang Seng Bank Group – Financial Position*”.

The Scheme Consideration of HK\$155.00 per Scheme Share represents a premium of approximately 1.3% over the closing price of HK\$153.00 per Hang Seng Bank Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date. As explained above, we consider the market prices of the Hang Seng Bank Shares following the Joint Announcement have been largely determined by the Scheme Consideration.

In summary, the Scheme Consideration per Scheme Share represents premiums in a fairly narrow range of approximately 29.7% to 34.4% over the average closing prices of the Hang Seng Bank Shares for different periods of up to the last 90 trading days prior to publication of the Joint Announcement. The Scheme Consideration also represents premiums of approximately 18.3% and 41.6% relative to the highest and median price targets issued by research analysts covering Hang Seng Bank following its 2025 interim results announcement, and a premium of approximately 83.4% over Hang Seng Bank’s net asset value per share as at 30 June 2025.

7. Privatisation precedents in Hong Kong

(i) General Privatisation Precedents

To further assess the fairness and reasonableness of the Scheme Consideration, we have researched and compared the Proposal with all successful cash privatisations involving companies listed on the Main Board of the Hong Kong Stock Exchange by an offeror, who together with parties acting in concert with it, owned a controlling interest (30% or more) in the offeree, or by way of a buy-back offer, announced and completed since July 2023 and up to the date immediately prior to the Latest Practicable Date, where the offeree had an implied value (on a 100%

⁴ Based on the research analysts’ target prices from Bloomberg as of 8 October 2025, including DBS Bank (24 September 2025), Citi (31 July 2025), China International Capital Corporation (31 July 2025), J.P. Morgan (30 July 2025) and Morningstar (30 July 2025), but excluding BofA Securities (12 September 2025) and Goldman Sachs (30 July 2025) (each being a joint financial adviser to HSBC Holdings and HSBC Asia Pacific) and Morgan Stanley (13 August 2025) (being the financial adviser to Hang Seng Bank).



basis) of at least HK\$10.0 billion (the “**General Privatisation Precedents**”). In our view, the General Privatisation Precedents represent an exhaustive list identified from website of the Hong Kong Stock Exchange, based on the above selection criteria. The companies listed below have a range of principal activities, market capitalisation, financial performance and position as compared to Hang Seng Bank Group. In addition, the reasons behind the privatisation proposals may vary and some aspects of pricing may be industry-specific. Nevertheless, we consider that the General Privatisation Precedents, involving substantial companies listed on the Main Board of the Hong Kong Stock Exchange, can provide evidence of the recent market trend of the pricing and the level of premium over historical market prices expected by investors for this type of transaction in the Hong Kong equity capital market, so providing a benchmark for the Scheme Shareholders when evaluating the premium provided in the Proposal.

The table below illustrates the premiums/(discounts) represented by the cancellation consideration/offer price over/to (i) the respective last full trading day share closing price, (ii) the respective last 5, 30, 60 and 90 full trading days average share closing prices, and (iii) the latest published / adjusted net asset value per share, in respect of the privatisation proposals:

Date of the initial Rule 3.5/3.7 announcement	Name of company (Previous stock code)	Implied value (Note 1) HK\$ billion	Premiums/(discounts) of cancellation consideration/offer price over/ to the closing price/average closing price per share					Premiums/ (discounts) of cancellation consideration/offer price over/to the latest published/ adjusted net asset value per share (Note 3)
			on the last full trading day (Note 2)	over the last 5 full trading days (Note 2)	over the last 30 full trading days (Note 2)	over the last 60 full trading days (Note 2)	over the last 90 full trading days (Note 2)	
26 August 2025	Shengjing Bank Co., Ltd. (2066) (“Shengjing Bank”)	14.1	40.4%	42.3%	26.5%	34.0%	42.2%	(84.0%)
12 August 2025	Kangji Medical Holdings Limited (9997)	11.2	21.7%	23.7%	20.0%	23.5%	24.0%	293.6%
7 July 2024	Canvest Environmental Protection Group Company Limited (1381)	12.0	20.7%	17.8%	20.8%	21.8%	21.8%	21.6%
13 May 2024	FSR Group I Limited (1821) (Note 4)	55.2	55.7%	58.2%	54.0%	40.8%	35.0%	(1.2%)
29 April 2024	L’Occitane International S.A. (973) (Note 5)	50.1	30.8%	36.1%	49.9%	60.8%	60.5%	598.2%
28 March 2024	SciClone Pharmaceuticals (Holdings) Limited (6600)	11.8	33.9%	36.0%	47.5%	47.9%	48.7%	228.1%
26 January 2024	Bank of Jinzhou Co., Ltd. (416) (“Bank of Jinzhou”)	19.3	0.0%	(0.6%)	0.3%	15.4%	34.8%	(71.9%)
28 November 2023	CIMC Vehicles (Group) Co., Ltd. (1839)	15.1	16.5%	17.9%	25.4%	19.1%	15.9%	(7.0%)
6 October 2023	Haitong International Securities Group Limited (665) (“Haitong International”)	12.8	114.1%	111.1%	126.4%	122.2%	124.5%	(39.3%)
All General Privatisation Precedents		Maximum	114.1%	111.1%	126.4%	122.2%	124.5%	598.2%
		Minimum	0.0%	(0.6%)	0.3%	15.4%	15.9%	(84.0%)
		Average	37.1%	38.1%	41.2%	42.8%	45.3%	104.2%
		Median	30.8%	36.0%	26.5%	34.0%	35.0%	(1.2%)
General Privatisation Precedents excluding outliers (Bank of Jinzhou and Haitong International)		Average	31.4%	33.1%	34.9%	35.4%	35.4%	
		Median	30.8%	36.0%	26.5%	34.0%	35.0%	
9 October 2025	Hang Seng Bank as represented by the Proposal	290.3	30.3%	29.7%	33.1%	32.8%	33.0%	83.4%

Source: Bloomberg and website of the Hong Kong Stock Exchange



Notes:

- (1) *The relevant implied value (on a 100% basis) is calculated based on the product of the number of the respective ordinary shares in issue (excluding treasury shares (if any)) and the respective cancellation consideration (under the cash alternative)/offer price*
- (2) *The relevant premiums/(discounts) are calculated based on the respective closing price/average closing price per share up to and including the last full trading day of the shares prior to the publication of the initial Rule 3.5 announcement or the initial Rule 3.7 announcement (where applicable)*
- (3) *The relevant premiums/(discounts) are calculated based on the cancellation consideration/offer price over/to the latest published net asset value per share (or adjusted net asset value per share, if available), as disclosed in the respective offer/scheme document. Net asset value per Hang Seng Bank Share is calculated by dividing total shareholders' equity (excluding perpetual capital instruments) by the number of shares in issue as at the end of June 2025*
- (4) *The relevant premiums of ESR Group Limited are calculated based on the cancellation price under the cash alternative and the closing price/average closing price per share up to the date of the non-binding offer submitted by the offeror to ESR Group Limited, as disclosed in its scheme document*
- (5) *The relevant premiums of L'Occitane International S.A. are calculated based on the cancellation price under the cash alternative*
- (6) *The principal businesses of the companies under the General Privatisation Precedents, sourced from Bloomberg, are as follows:*

<i>Name of company</i>	<i>Principal business</i>
<i>Shengjing Bank</i>	<i>mainly provides banking services</i>
<i>Kangji Medical Holdings Limited</i>	<i>mainly produces and sells medical devices</i>
<i>Canvest Environmental Protection Group Company Limited</i>	<i>mainly provides waste management services</i>
<i>ESR Group Limited</i>	<i>mainly provides real estate private equity fund management, real estate investment trust, and other services</i>
<i>L'Occitane International S.A.</i>	<i>mainly provides personal care goods</i>
<i>SciClone Pharmaceuticals (Holdings) Limited</i>	<i>mainly develops, produces and sells oncology drug, infectious diseases drugs, and other products</i>
<i>Bank of Jinzhou</i>	<i>mainly provides banking services</i>
<i>CIMC Vehicles (Group) Co., Ltd.</i>	<i>mainly produces trailers and other equipment</i>
<i>Haitong International</i>	<i>mainly provides brokerage and retail margin financing, corporate finance, investment management, fixed income, currency and commodities as well as structured financing products</i>

- (7) *Subject to rounding differences*



We note that there is a wide range of premiums offered under the General Privatisation Precedents. Relatively high, low or variable premiums over market prices can be observed, for example in the cases of Bank of Jinzhou, involving a discount of approximately 0.6% to a premium of approximately 34.8% over the market prices, and Haitong International, involving substantial premiums ranging from approximately 111.1% to 126.4%. Excluding Bank of Jinzhou and Haitong International as outliers, the average premiums of the General Privatisation Precedents over the (average) closing prices on the last full trading day and for the last 5 to 90 full trading days up to and including the last full trading day would range from approximately 31.4% to 35.4%, close to the median premiums of the General Privatisation Precedents ranging from approximately 26.5% to 36.0%.

The premiums represented by the Scheme Consideration of HK\$155.00 per Scheme Share over the (average) closing price of the Hang Seng Bank Shares on the Last Trading Day, and for the last 5 to 90 trading days up to and including the Last Trading Day, range from approximately 29.7% to 33.1%. In our view, these premiums are well within the rather wide range set out above and are not materially different from the majority of the median premiums and the average premiums of the General Privatisation Precedents, after excluding the abovementioned outliers.

The premiums/discounts of the General Privatisation Precedents over/to their respective net asset value also represent a wide range, with an average premium over net asset value of approximately 104.2% and median discount to net asset value of approximately 1.2%. As discussed previously, the companies listed in the table above may have different principal activities, and therefore may vary from having asset-heavy to asset-light models, resulting in different levels of premium over, or discount to, net asset values. We note that two of the General Privatisation Precedents, being Shengjing Bank and Bank of Jinzhou, engage in banking business. Although we have included these two precedents as General Privatisation Precedents, we have excluded them from our analysis of the privatisation of licensed banking groups in the sub-section below headed “(ii) *Banking Privatisation Precedents*” as unlike the Hang Seng Bank Group, the principal place of businesses of Shengjing Bank and Bank of Jinzhou are in the Chinese Mainland. We further note that the discounts to net asset values of the Shengjing Bank and Bank of Jinzhou cases were approximately 84% and 72%, translating to implied P/B ratios of approximately 0.16 times and 0.28 times respectively.

It may be noted that the implied value (on a 100% basis) in the present Proposal of approximately HK\$290.3 billion, which based on our research is the largest privatisation proposal in the history of the Hong Kong equity capital market, is far greater in dollar terms than all the General Privatisation Precedents, ranging from approximately HK\$11.2 billion to HK\$55.2 billion as set out above. We consider that in the case of a very large privatisation proposal by value, the percentage premium may not be expected to be at the high end of the range.



(ii) *Banking Privatisation Precedents*

We have also researched and compared the Proposal with all successful privatisation proposals involving Hong Kong licensed banking groups listed on the Main Board of the Hong Kong Stock Exchange by their respective majority shareholders, which were announced and completed since January 2010 and up to the date immediately prior to the Latest Practicable Date (the “**Banking Privatisation Precedents**”). Under the Proposal and the Banking Privatisation Precedents, the relevant offeror was already the majority shareholder of the licensed banking group before the respective privatisation proposal, resulting in the acquisition of minority interests. These transactions represent like-for-like direct comparisons with the Proposal, as opposed to the takeover of the licensed banking group by a third party where a control premium would normally apply. In our view, the Banking Privatisation Precedents represent an exhaustive list identified from website of the Hong Kong Stock Exchange, based on the above selection criteria.

The licensed banking groups listed below had scales of operation smaller than that of the Hang Seng Bank Group, and the business environment and market conditions under the three Banking Privatisation Precedents were different compared to those that the Hang Seng Bank Group is now facing, as explained below. Nevertheless, we consider that the Banking Privatisation Precedents, all of which involve licensed banking groups previously listed on the Main Board of the Hong Kong Stock Exchange, can provide useful perspectives including the level of premium over historical market prices offered, as well as the transaction multiples for privatisations involving licensed banking groups in the Hong Kong equity capital market, so providing a reference for the Scheme Shareholders when evaluating the Proposal.

The table below illustrates the premiums represented by the cancellation consideration over the respective last full trading day share closing price and the respective last 5, 30, 60 and 90 full trading days average share closing prices in respect of the privatisation proposals:

Date of the initial Rule 3.5/3.7 announcement	Name of licensed banking group (Previous stock code)	Premiums of cancellation consideration over the closing price/ average closing price per share					
		Implied value	on the last full trading day	for the last 5 full trading days	for the last 30 full trading days	for the last 60 full trading days	for the last 90 full trading days
		(Note 1)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	(Note 2)
		HK\$ billion					
10 August 2010	Industrial and Commercial Bank of China (Asia) Limited (349) (“ICBC (Asia)”)	39.8	27.8%	34.6%	41.2%	47.9%	48.8%
19 January 2011	Fubon Bank (Hong Kong) Limited (636) (“Fubon Bank (Hong Kong)”) (Note 3)	6.1	37.6%	41.8%	43.2%	41.0%	39.3%



Date of the initial Rule 3.5/3.7 announcement	Name of licensed banking group (Previous stock code)	Premiums of cancellation consideration over the closing price/ average closing price per share					
		Implied value (Note 1) HK\$ billion	on the last full trading day (Note 2)	for the last 5 full trading days (Note 2)	for the last 30 full trading days (Note 2)	for the last 60 full trading days (Note 2)	for the last 90 full trading days (Note 2)
18 May 2021	Chong Hing Bank Limited (1111) ("Chong Hing Bank") (Note 4)	20.2	97.0%	101.2%	107.3%	109.8%	113.5%
		Average	54.1%	59.2%	63.9%	66.2%	67.2%
		Median	37.6%	41.8%	43.2%	47.9%	48.8%
9 October 2025	Hang Seng Bank as represented by the Proposal	290.3	30.3%	29.7%	33.1%	32.8%	33.0%

Source: Bloomberg and website of the Hong Kong Stock Exchange

Notes:

- (1) The relevant implied value (on a 100% basis) is calculated based on the product of the number of the respective ordinary shares in issue (excluding treasury shares (if any)) and the respective cancellation consideration
- (2) The relevant premiums are calculated based on the respective closing price/average closing price per ordinary share up to and including the last full trading day of the shares prior to the publication of the initial Rule 3.5 announcement or the initial Rule 3.7 announcement (where applicable)
- (3) The relevant premiums of Fubon Bank (Hong Kong) are calculated based on the revised offer price of HK\$5.20 per scheme share, as disclosed in its scheme document
- (4) Apart from the above privatisation of Chong Hing Bank in 2021, we note that Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu"), through its subsidiary, made a voluntary cash partial offer (the "Yue Xiu Partial Offer") in 2014 to acquire a maximum of 75% equity interest of Chong Hing Bank. As Yue Xiu was not a shareholder of Chong Hing Bank before the Yue Xiu Partial Offer, and the Yue Xiu Partial Offer did not result in privatisation of Chong Hing Bank, the Yue Xiu Partial Offer was not included as a Banking Privatisation Precedent
- (5) Subject to rounding differences

Based on the table above, the average premiums and median premiums represented by the cancellation consideration of the Banking Privatisation Precedents over the (average) closing price on the last full trading day, and for last 5, 30, 60 and 90 full trading days range from approximately 54.1% to 67.2% and approximately 37.6% to 48.8% respectively.

We observe that the implied values (on a 100% basis) of the relevant licensed banking groups involved in the three Banking Privatisation Precedents, ranging from approximately HK\$6.1 billion to HK\$39.8 billion as set out above, are relatively small compared to Hang Seng Bank as represented by the Proposal. While the premiums represented by the Scheme Consideration of HK\$155.00 per Scheme Share over the (average) closing price of the Hang Seng Bank Shares on



the Last Trading Day, and for different periods of up to the last 5 to 90 trading days before the Joint Announcement, are generally lower than the abovementioned premiums observed under the three Banking Privatisation Precedents, we consider it important to consider the different market conditions when these transactions took place, particularly ICBC (Asia) which was over 15 years ago, when the ratings of Hong Kong listed banks were generally higher. For instance, the average P/B ratios of each of the Hong Kong Banking Peers during the period of from 1 January 2010 to 26 July 2010, being the last full trading day before the announcement of the privatisation of ICBC (Asia), ranged from approximately 1.1 times to 1.8 times, higher than their P/B ratios as at the Latest Practicable Date, which ranged from approximately 0.3 times to 1.2 times. As another example, the Chong Hing Bank privatisation (announced in May 2021) while involving premiums of close to, or more than, 100% over the then market prices of the shares of Chong Hing Bank, took place in particularly difficult conditions. At that time, Hong Kong was negatively affected by the COVID-19 pandemic, with the gross domestic product decreasing by approximately 6.1% in real terms in 2020 compared with 2019. These conditions resulted in the relatively low market prices, in our opinion, so resulting in a relatively high premium. We also note that the P/B ratio of Chong Hing Bank as represented by its privatisation proposal is below 1.0 times, as analysed below.

We consider that one of the most commonly used measures to assess the valuation of banking groups is the P/B ratio. The table below illustrates the P/B ratio, the P/E ratio, and dividend yields represented by the cancellation consideration of the Banking Privatisation Precedents:

Name of licensed banking group	Implied value (Note 1) HK\$ billion	P/B (Note 2) times	Latest financial year P/E	TTM P/E	Dividend yield
			(Note 3) times	(Note 4) times	(Note 5) %
ICBC (Asia)	39.8	2.1	15.8	14.1	2.9%
Fubon Bank (Hong Kong) (Note 6)	6.1	1.5	33.3	33.3	1.0%
Chong Hing Bank	20.2	0.9	15.5	15.5	1.6%
	<i>Average</i>	<i>1.5</i>	<i>21.5</i>	<i>21.0</i>	<i>1.8%</i>
	<i>Median</i>	<i>1.5</i>	<i>15.8</i>	<i>15.5</i>	<i>1.6%</i>
Hang Seng Bank as represented by the Proposal	290.3	1.8	16.4	20.2	4.4%

Notes:

- (1) *The relevant implied value (on a 100% basis) is calculated based on the product of the number of the respective ordinary shares in issue (excluding treasury shares (if any)) and the respective cancellation consideration*
- (2) *The P/B ratios are calculated by dividing the implied value by the then respective latest published consolidated net asset value attributable to the ordinary shareholders (excluding preference shares and perpetual capital instruments (if any)), as available and extracted from the respective scheme document*



- (3) *The latest financial year P/E ratios are calculated by dividing the implied value by the respective consolidated profit attributable to the ordinary shareholders (excluding distributions or payments for preference shares and perpetual capital instruments (if any)), for the then latest financial year, as available and extracted from the respective scheme document*
- (4) *The TTM P/E ratios are calculated by dividing the implied value by the respective consolidated profit attributable to the ordinary shareholders (excluding distributions or payments for preference shares and perpetual capital instruments (if any)), for the then trailing twelve months, as available and extracted from the respective scheme document*
- (5) *The dividend yields are calculated by the sum of interim and final dividend in respect of the then latest financial year, as available and extracted from the respective scheme document*
- (6) *The relevant premiums of Fubon Bank (Hong Kong) are calculated based on the revised offer price of HK\$5.20 per scheme share, as disclosed in its scheme document*

The P/B ratio as represented by the Proposal, being approximately 1.8 times, compares favourably to those offered under the Fubon Bank (Hong Kong) and Chong Hing Bank privatisations, being approximately 1.5 times and 0.9 times respectively, but is lower than the approximately 2.1 times represented by the ICBC (Asia) privatisation.

The P/E ratios as represented by the Proposal, being approximately 16.4 times and 20.2 times, are similar to, or higher than, those of the ICBC (Asia) and Chong Hing Bank privatisations, ranging from approximately 14.1 times and 15.8 times, but lower than that of the Fubon Bank (Hong Kong) privatisation, being approximately 33.3 times.

Overall, in our opinion, the pricing of the Proposal are not out of line with the Banking Privatisation Precedents cited above, bearing in mind the much greater size of the Proposal, the lapse of time and changes in market conditions.

DISCUSSION

As explained above in Section 1 of the '*Principal factors and reasons considered*', in our view, Hang Seng Bank Group is a well-established and prudently managed banking group with its own unique identity, staff, customer base and history. Although it suffered some setbacks in the first half of 2025, with profit before tax declining 28% year-on-year, based on our analysis of financial position in Section 3(ii) above, it has a 'fortress' balance sheet with CET1 ratio of 22.1% as at 30 September 2025. This is a higher percentage than HSBC and strong enough in our opinion to weather comfortably the demanding banking environment outlined in the Hang Seng Bank 2025 interim report and to manage future risks. This is far from a rescue situation.

We have taken these strengths into account when coming to a conclusion that the Scheme Consideration is fair and reasonable. We understand that the Scheme Consideration was improved over three rounds of negotiation. Having made a 'no increase' statement without reservation, HSBC Asia Pacific, as the offeror, cannot now increase the Scheme Consideration.



HSBC Asia Pacific is a wholly-owned subsidiary of HSBC Holdings, itself a listed public company with a wide shareholder base. HSBC has announced, for example, that it will forego share buy-backs, a popular feature for shareholders, for three quarters to restore its own CET1 ratio after financing the Scheme. On this basis, we believe HSBC has put forward its best reasonable offer and is not taking advantage of conditions or timing to make a 'low ball' proposal. HSBC has also stated in the Scheme Document that it intends to respect the legacy of Hang Seng Bank. While it expects there to be an opportunity to create greater alignment across HSBC and Hang Seng Bank, the changes necessary to effect such alignment will be made over time.

The Scheme Consideration of HK\$155.00 per Scheme Share is in our opinion fair and reasonable on a fundamental basis as explained in more detail above, representing in summary:

- (i) a price-to-book ratio of 1.8 times, based on the net asset value at 30 June 2025 of HK\$84.52 per share;
- (ii) a price-to-earnings ratio of 20.2 times the trailing 12 months earnings; and
- (iii) a dividend yield of 4.4%.

When compared to the Hong Kong Banking Peers, in particular BOCHK, which we consider a reasonably close comparable, these metrics are favourable to Scheme Shareholders, as set out in Section 4 above.

As mentioned in Section 5 above, we have also considered a Sum-of-the-Parts analysis. We consider this type of analysis is usually more appropriate for a conglomerate structure than for a closely-integrated group, such as Hang Seng Bank Group. Although we have run an internal exercise, we have not given it weight in arriving at our opinion and recommendation below.

A chart setting out the share price since 2021 is set out in Section 6 above. A range of premiums is set out in Section 6(iii). We consider that the premium of 34.4% over the average closing price measured over the period from the Hang Seng Bank 2025 interim results announcement to the Last Trading Day is the most representative of the financial advantage of the Proposal to Scheme Shareholders and takes into account the future prospects of Hang Seng Bank Group as far as they are known at present. We note that in our view the Hang Seng Bank Shares were reasonably actively traded during this period and that the market price during this period was broadly in line with analysts' targets. This implies that other things being equal, the market price of the Hang Seng Bank Shares is likely to fall back to the levels prevailing before the Last Trading Day if the Proposal fails. If the Proposal does fail, under the Takeovers Code restrictions, HSBC and its concert parties will not normally be able to put forward a similar proposal for at least 12 months.

We also note that the premium of 34.4% lies within the range of premiums reflected in recent successful privatisations in Hong Kong. The P/B ratio implied by the Scheme Consideration is also higher than two, but below one, of the most recent Hong Kong



banking privatisations. In our opinion, the pricing of the Proposal are not out of the line with the Banking Privatisation Precedents, bearing in mind the much greater size of the Proposal, the lapse of the time and the changes in market conditions.

Since 31 December 2024, the date to which the 2024 published audited accounts were made up, the Hang Seng Bank Board has issued the detailed interim report for the first half of 2025 and the quarterly Banking Disclosure Statements up to 30 September 2025. The Hang Seng Bank Board has also made a 'material change statement' (see Appendix I) to which Scheme Shareholders attention is drawn. After discussion with the Hang Seng Bank Board and our own due diligence, we concur with that statement. On this basis, although the Scheme Document is dated relatively late in the financial year 2025, we consider that sufficient information is available to Scheme Shareholders to enable them to make a fully informed decision.

Of course, it is one thing to have, on the face of it, an attractive opportunity to sell and another thing to wish to sell at all. We recognise that in addition to Scheme Shareholders who support the Scheme, there may be Scheme Shareholders who do not wish to give up their shareholdings. If all the Conditions, including the necessary shareholder approval levels and the sanction of the Scheme by the High Court, are satisfied or (if applicable) waived on or before the Conditions Long Stop Date, the Scheme will become binding and effective on Hang Seng Bank and all Scheme Shareholders, irrespective of whether or not such Scheme Shareholders attended or voted at the Hang Seng Bank Court Meeting and/or the Hang Seng Bank General Meeting.

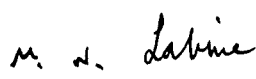
However, such shareholder approval levels are, in our view, demanding and will reflect a strong majority view of Scheme Shareholders if achieved (the approximately 1,188 million Hang Seng Bank Shares held beneficially by HSBC Asia Pacific (along with certain other minor holdings) will not be voted at the Hang Seng Bank Court Meeting). Hang Seng Bank has already been a subsidiary of HSBC for many years and, in our opinion, bearing in mind today's fast-changing banking environment and technology, the Proposal, if approved, may offer advantages to the Hang Seng Bank Group and its staff. Because of the premium embedded in the Scheme Consideration, barring unforeseen circumstances, Scheme Shareholders should be able, in principle, to reinvest the proceeds in shares of the Hong Kong Banking Peers on terms which will be accretive to them by reference to price-to-book ratio, price-to-earnings ratio and dividend yield, or potentially in shares of HSBC following completion of the Scheme if Scheme Shareholders are positive about HSBC Group's future prospects. For these reasons, Scheme Shareholders will benefit if the Proposal is successful, as compared to the position if the Proposal is not successful, as in the latter case Scheme Shareholders remain shareholders of Hang Seng Bank but will not be entitled to receive the Scheme Consideration.

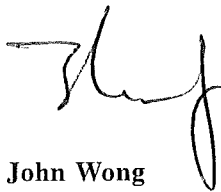


OPINION AND RECOMMENDATION

Based on the above principal factors and reasons, we consider the Proposal and the Scheme are fair and reasonable so far as the Code Disinterested Shareholders are concerned. Accordingly, we advise the Hang Seng Bank IBC to recommend, and we ourselves recommend, the Code Disinterested Shareholders to vote in favour of the relevant resolutions to be proposed at the Hang Seng Bank Court Meeting and the Hang Seng Bank General Meeting to approve and implement the Proposal and the Scheme.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED


M. N. Sabine
Chairman


John Wong
Director

Mr. M. N. Sabine is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over forty years of experience in the corporate finance industry.

Mr. John Wong is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited. He has over fifteen years of experience in the corporate finance industry.