HSBC Holdings plc

Report on Transition to IFRS 17 'Insurance Contracts'

Comparatives for the financial year ended 31 December 2022

Issued 2 May 2023

The financial information on which this Report is based is unaudited and has been prepared in accordance with the significant accounting policies of HSBC Holdings plc (together with its subsidiary undertakings referred to as 'HSBC' or 'the Group') as described in the *Annual Report and Accounts 2022*, and, for those policies impacted by HSBC's adoption of IFRS 17 'Insurance Contracts' within the 'Significant accounting policies' section of this Report. The financial information does not constitute financial statements prepared in accordance with International Financial Reporting Standards ('IFRSs'), is not complete and should be read in conjunction with the *Annual Report and Accounts 2022* and other reports and financial information published by HSBC.

HSBC

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Introduction

On 1 January 2023 the Group adopted IFRS 17 'Insurance Contracts' and as required by the standard applied the requirements retrospectively with comparatives restated from the transition date, 1 January 2022. This Report on Transition to IFRS 17 'Insurance Contracts' ('the Report') provides the restatement impact on the 1 January 2022 and 31 December 2022 consolidated balance sheets, income statement and financial performance of our global businesses, as well as the effect on financial targets, market guidance and key metrics. The restated comparative consolidated financial statements are prepared on the basis of the Group's significant accounting policies set out on page 7 of the Report. As comparative information prior to the transition date has not been restated, comparatives for the year ended 31 December 2021 continue to be presented on an IFRS 4 'Insurance Contracts' basis. This includes 2021 comparatives provided within the Group's Form 20F filing.

Under IFRS 17 there is no present value of in-force business ('PVIF') asset recognised. Instead, the measurement of the insurance contract liability is based on groups of insurance contracts and includes fulfilment cash flows ('FCFs'), as well as the contractual service margin ('CSM'), which represents the unearned profit. The impact of transitioning to IFRS 17 on the consolidated financial statements of the Group was a reduction to total equity of $10,459m and to tangible equity of $2,393m at 1 January 2022. In contrast to the Group's IFRS 4 accounting where profits are recognised upfront, under IFRS 17 they are deferred within the CSM which is systematically recognised in revenue as services are provided over the coverage period of groups of insurance contracts. Losses resulting from the recognition of onerous contracts are not deferred but recognised in the income statement as they arise. Further details of the impact on the balance sheet and income statement are included on pages 4 to 6 of the Report.

IFRS 17 is not expected to change the economics of the insurance business or the level of profits expected to be earned over the coverage period of the group of contracts. It has no impact on the regulatory capital of the Group as insurance subsidiaries are not included in the Group's prudential scope of consolidation; instead they are accounted for as significant investments using the equity method, and are subject to threshold deductions. In regulatory reporting, the change in equity associated with transition to IFRS 17 does not impact the Group's CET1 ratio as it is negated by a corresponding change in the deduction for significant investments because the Group exceeds the associated combined threshold test as a result of other equity holdings within the wider Group. The expected level of cash and dividend generation by insurance manufacturing subsidiaries is expected to be unaffected as this is primarily driven by the capital position of each subsidiary as determined by local insurance regulatory requirements. The Group does not expect a significant impact to the level of ongoing return on tangible equity ('RoTE'), albeit its volatility is expected to reduce compared with IFRS 4 based RoTE.

In conjunction with the implementation of IFRS 17 the Group has made use of the option to re-designate to fair value through profit or loss assets that were previously held at amortised cost asset totalling $55,050m, and assets previously held at fair value through other comprehensive income totalling $1,068m. For these re-designated assets, under their historical presentation interest income earned of $2,233m was reported in net interest income. To the extent that this interest income was shared with policyholders, the corresponding policyholder sharing obligation was previously included within the 'net insurance claims and benefits paid and movement in liabilities to policyholders' line. Following re-designation to fair value through profit or loss, gains and losses from changes in the fair value of underlying assets, together with interest income earned, are both reported within 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'. Similar to an IFRS 4 basis, IFRS 17 accounting provides for an offset. While this offset was reported within the claims line under IFRS 4, under IFRS 17 it is reported within the 'Insurance finance income/(expense)' line.

IFRS 17 provides the first internationally consistent basis for financial reporting for insurance, replacing IFRS 4 which was based on previously grandfathered local practices. Relative to previous reporting, the standard has significantly higher technical, modelling and operational complexity. The Group established a multi-year programme to oversee the implementation activities by bringing together actuarial, finance and IT teams across multiple entities and locations. The implementation included oversight from a Group Steering Committee chaired by the Group Insurance Chief Executive Officer.

IFRS 17 introduces new concepts and measures including the need to model the fulfilment cash flows and CSM which differs by measurement model and has increased disclosure requirements. Existing models used for projecting best estimate cash flows were enhanced to meet IFRS 17 requirements. Data from multiple sources including finance and actuarial systems have been integrated and new information requirements have been sourced in line with the governance framework established. An overview of the Group's transition approach and elections is provided within the Report.

Transition impacts

Group equity

The impacts to total equity and tangible equity on transition are summarised below. At transition, Group total equity reduced by $10,459m (or 5.1%), and Group tangible equity reduced by $2,393m (or 1.5%). The primary drivers of the change included: the removal of IFRS 4 based balances including the PVIF intangible asset recognised under the Group’s historical accounting convention and IFRS 4 based insurance assets and liabilities; re-designation of eligible financial assets to fair value through profit or loss in order to achieve more symmetrical accounting with the related insurance contract liabilities measured under the variable fee approach, increasing the carrying amount of assets; recognition of the contractual service margin under IFRS 17; and establishment of the remaining IFRS 17 assets and liabilities including the best estimate of future cash flows and risk adjustment. These changes are also adjusted for the effect of tax.

	At 1 Jan 2022			
	Total equity		Tangible equity	
	Insurance manufacturing operations	Group	Insurance manufacturing operations	Group
	$m	$m	$m	$m
IFRS 4 equity	**16,972**	**206,777**	**8,750**	**158,193**
Removal of PVIF	**(9,453)**	**(9,453)**		
Remeasurement effect of IFRS 9 re-designations	**4,873**	**4,873**	**4,873**	**4,873**
Contractual service margin	**(9,554)**	**(9,968)**	**(9,554)**	**(9,968)**
Removal of IFRS 4 liabilities and recording of IFRS 17 fulfilment cash flows	**1,901**	**1,901**	**1,901**	**1,901**
Tax effect	**2,120**	**2,188**	**489**	**555**
Non-controlling interests				**246**
Total movement	**(10,113)**	**(10,459)**	**(2,291)**	**(2,393)**
IFRS 17 equity	**6,859**	**196,318**	**6,459**	**155,800**

Insurance equity plus CSM net of tax amounted to $14,706m and represents a measure of our insurance manufacturing operations’ net asset value plus the future earnings from in-force business. It is calculated as the IFRS equity for insurance manufacturing operations of $6,859m plus the CSM of $9,554m less tax of $1,707m.

Reported profit before tax

The impact of transition on the 2022 profit before tax for the insurance manufacturing operations and for the Group is shown below. While the profit over the life of an individual insurance contract under IFRS 17 will be unchanged from the IFRS 4 basis, its emergence will be later. The Group’s share of the investment experience and assumption changes will be absorbed by the CSM and released over time to profit or loss under the variable fee approach (‘VFA’), which represents over 90% of the Group’s life insurance contracts. Under the previous IFRS 4 reporting there was greater income statement volatility as the impact of market condition updates was immediately recognised in the income statement. For contracts measured under the general measurement model (‘GMM’), the Group’s share of the investment volatility generated by underlying assets is recorded in profit or loss as it arises. Further information about these measurement models is provided on page 8. Under IFRS 17 reported operating expenses will be lower as directly attributable costs will be incorporated in the CSM and recognised in the insurance service result over the duration of the associated insurance contracts.

Group profits under IFRS 17 in the table below include the following key components:

- Ongoing revenue is recognised for the release over time of the CSM associated with the in-force business, which was released at a rate of approximately 9% during 2022.
- Onerous contract losses are recorded for loss making contracts, and include offsets for any reversals of previously recorded losses. Onerous contract losses of $186m were recorded in the year, primarily for some contracts in our mainland China, Singapore and Hong Kong businesses.
- Net investment result represents fair value gains or losses on underlying assets and interest income on shareholder funds, less the IFRS 17 insurance finance expense.
- Profit before tax includes a reduction to reported operating expenses of $629m as directly attributable costs are incorporated in the CSM and insurance service result.
- Group reported profit before tax under IFRS 17 of $17,058m was $470m lower than under IFRS 4. This exceeded the reduction to insurance manufacturing operations profit before tax of $420m, to $607m. The additional reduction of $50m to profit before tax at Group level arose on consolidation because of the inclusion of a wider range of cash flows including those arising from distribution of insurance policies within our Group banking operations.

2022	Insurance manufacturing operations $m	Group $m
Profit before tax under IFRS 17	607	17,058
– *of which:*		
CSM unwind	*896*	*932*
onerous contracts	*(132)*	*(186)*
insurance net investment result	*213*	*213*
all other revenue	*213*	*48,800*
operating expenses	*(583)*	*(32,701)*
Profit before tax under IFRS 4	1,027	17,528
– *of which:*		
market condition update	*(988)*	*(988)*
pricing update	*294*	*294*
all other revenue	*2,639*	*51,552*
operating expenses	*(918)*	*(33,330)*

Impact on key Group metrics

Key financial metrics

	For the year ended 2022	
Reported results	**IFRS 17 basis**	**IFRS 4**
Reported profit before tax ($m)	17,058	17,528
Reported profit after tax ($m)	16,249	16,670
Cost efficiency ratio (%)	64.6	64.4
Net interest margin (%)	1.42	1.48
Basic earnings per share ($)	0.72	0.75
Diluted earnings per share ($)	0.72	0.74
Alternative performance measures		
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers (%)	0.36	0.36
Return on average ordinary shareholders' equity (%)	9.0	8.7
Return on average tangible equity (%)	10.0	9.9

	At 31 December 2022	
Balance sheet	**IFRS 17 basis**	**IFRS 4**
Total assets ($m)	2,949,286	2,966,530
Net loans and advances to customers ($m)	923,561	924,854
Customer accounts ($m)	1,570,303	1,570,303
Average interest-earning assets ($m)	2,143,754	2,203,639
Loans and advances to customers as % of customer accounts (%)	58.8	58.9
Total shareholders' equity ($m)	177,833	187,484
Tangible ordinary shareholders' equity ($m)	146,927	149,355
Net asset value per ordinary share at period end ($)	8.01	8.50
Tangible net asset value per ordinary share at period end ($)	7.44	7.57
Capital, leverage and liquidity		
Common equity tier 1 capital ratio (%)[1]	14.2	14.2
Risk-weighted assets ($m)[1,2]	839,720	839,720
Total capital ratio (%)[1,2]	19.3	19.3
Leverage ratio (%)[1,2]	5.8	5.8
High-quality liquid assets (liquidity value) ($bn)[2,3]	647	647
Liquidity coverage ratio (%)[2,3]	132	132
Net stable funding ratio (%)[2,3]	136	136
Share count		
Period end basic number of $0.50 ordinary share outstanding (millions)	19,739	19,739
Period end basic number of $0.50 ordinary share outstanding and dilutive potential ordinary shares (millions)	19,876	19,876
Average basic number of $0.50 ordinary share outstanding (millions)	19,849	19,849

1 *Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation in force at the time. These include the regulatory transitional arrangements for IFRS 9 'Financial Instruments'. Leverage ratios are reported based on the disclosure rules in force at that time, and include claims on central banks. Current period leverage metrics exclude central bank claims in accordance with the UK leverage rules that were implemented on 1 January 2022. References to EU regulations and directives (including technical standards) should, as applicable, be read as references to the UK's version of such regulation or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, and as may be subsequently amended under UK law.*

2 *Regulatory numbers and ratios are as presented at the date of reporting. Small changes may exist between these numbers and ratios and those subsequently submitted in regulatory filings. Where differences are significant, we will restate in subsequent periods.*

3 *The liquidity coverage ratio is based on the average value of the preceding 12 months. The net stable funding ratio is based on the average value of four preceding quarters.*

Transition impact on the Group consolidated balance sheet at 1 January 2022

	IFRS 4	Removal of PVIF and IFRS 4	Remeasure-ment effect of IFRS 9 re-designations	IFRS 17 fulfilment cash flows	IFRS 17 CSM	Tax effect	IFRS 17	Total movements
	$m	$m	$m	$m	$m	$m	$m	$m
Assets								
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	49,804		60,991				110,795	60,991
Loans and advances to banks	83,136		(569)				82,567	(569)
Loans and advances to customers	1,045,814		(1,280)				1,044,534	(1,280)
Financial investments	446,274		(54,269)				392,005	(54,269)
Goodwill and intangible assets	20,622	(9,453)					11,169	(9,453)
Deferred tax assets	4,624					808	5,432	808
All other assets	1,307,665	(4,468)		4,198	(105)		1,307,290	(375)
Total assets	2,957,939	(13,921)	4,873	4,198	(105)	808	2,953,792	(4,147)
Liabilities and equity								
Liabilities								
Insurance contract liabilities	112,745	(112,745)		109,393	9,914		119,307	6,562
Deferred tax liabilities	4,673					(1,380)	3,293	(1,380)
All other liabilities	2,633,744	79		1,102	(51)		2,634,874	1,130
Total liabilities	2,751,162	(112,666)		110,495	9,863	(1,380)	2,757,474	6,312
Total shareholders’ equity	198,250	92,737	4,558	(99,631)	(8,847)	1,948	189,015	(9,235)
Non-controlling interests	8,527	6,008	315	(6,666)	(1,121)	240	7,303	(1,224)
Total equity	206,777	98,745	4,873	(106,297)	(9,968)	2,188	196,318	(10,459)
Total liabilities and equity	2,957,939	(13,921)	4,873	4,198	(105)	808	2,953,792	(4,147)

Transition drivers

Removal of PVIF and IFRS 4 balances

The PVIF intangible asset of $9,453m previously reported under IFRS 4 within ‘Goodwill and intangible assets’ arose from the upfront recognition of future profits associated with in force insurance contracts. PVIF is no longer reported following the transition to IFRS 17, as future profits are deferred as unearned revenue within the CSM. Other IFRS 4 insurance assets (shown above within ‘all other assets’) and insurance contract liabilities are removed on transition, to be replaced with IFRS 17 equivalents.

IFRS 9 asset re-designation

Loans and receivables and debt securities supporting policyholder liabilities of $55,050m were re-designated from an amortised cost classification to fair value through profit and loss, and $1,068m from fair value through other comprehensive income to fair value through profit or loss. The re-designations were made in order to more closely align the asset accounting with the valuation of the associated insurance liabilities. The re-designation of amortised cost assets generated a net increase to assets of $4,873m because the new fair value measurement on transition was higher than the previous amortised cost carrying amount.

Recognition of the IFRS 17 fulfilment cash flows

The measurement of the insurance contracts liabilities under IFRS 17 is based on groups of insurance contracts and includes a liability for fulfilling the contractual obligations associated with the insurance contract, such as premiums, expenses, insurance benefits and claims including policy holder returns and the cost of guarantees. These are recorded within the fulfilment cash flow component of the insurance contract liability, together with the risk adjustment.

Recognition of the IFRS 17 CSM

The CSM is a component of the insurance contract liability and represents the future unearned profit associated with insurance contracts which will be released to the P&L over the insurance coverage period.

Tax effect

The removal of deferred tax liabilities primarily results from the removal of the associated PVIF intangible, and new deferred tax assets are reported, where appropriate, on temporary differences between the new IFRS 17 accounting balances and their associated tax bases.

Transition impact on the reported Group consolidated income statement for the year ended 31 December 2022

	IFRS 4	Removal of PVIF and IFRS 4	Remeasure-ment effect of IFRS 9 re-designations	Insurance finance income/ expense	IFRS 17 CSM	Onerous contracts	Experience variance and other	Attribut-able expenses	Tax effect	IFRS 17
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	32,610		(2,233)	—	—	—	—	—	—	30,377
Net fee income	11,451		—	—	—	—	—	319	—	11,770
Net income from financial instruments held for trading or managed on a fair value basis	10,469		(191)							10,278
Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	(3,394)		(10,437)							(13,831)
Changes in fair value of designated debt and related derivatives	(77)									(77)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	226									226
Gains less losses from financial investments instruments	(3)		—							(3)
Net insurance premium income	12,825	(12,825)								—
Insurance finance income/(expense)	—			13,799						13,799
Insurance service result	—		—	—	965	(186)	30	—	—	809
– insurance revenue	—				965		1,012			1,977
– insurance service expense	—					(186)	(982)			(1,168)
Other operating income/(loss)	(2,511)	(265)		48			—			(2,728)
Total operating income	61,596	(13,090)	(12,861)	13,847	965	(186)	30	319	—	50,620
Net insurance claims and benefits paid and movement in liabilities to policyholders	(9,869)	9,869								—
Net operating income before change in expected credit losses and other credit impairment charges	51,727	(3,221)	(12,861)	13,847	965	(186)	30	319	—	50,620
Change in expected credit losses and other credit impairment charges	(3,592)		8							(3,584)
Net operating income	48,135	(3,221)	(12,853)	13,847	965	(186)	30	319	—	47,036
Total operating expenses	(33,330)		—	—	—	—	—	629	—	(32,701)
Operating profit	14,805	(3,221)	(12,853)	13,847	965	(186)	30	948	—	14,335
Share of profit in associates and joint ventures	2,723									2,723
Profit before tax	17,528	(3,221)	(12,853)	13,847	965	(186)	30	948	—	17,058
Tax expense	(858)								49	(809)
Profit for the year	16,670	(3,221)	(12,853)	13,847	965	(186)	30	948	49	16,249

Transition drivers

Removal of IFRS 4 based revenue items

As a result of the removal of the PVIF intangible asset, the associated revenue of $265m that was previously reported within Other operating income is no longer reported under IFRS 17. This includes the removal of the value of new business and changes to in-force book PVIF from valuation adjustments and experience variances.

On the implementation of IFRS 17 new income statement line items associated with insurance contract accounting were introduced. Consequently, the previously reported IFRS 4 line items 'Net insurance premium income', and 'Net insurance claims and benefits paid and movement in liabilities to policyholders' were also removed.

IFRS 9 re-designations

Following the re-designation of financial assets supporting policyholder liabilities to fair value through profit or loss classification, the related income statement reporting also changed. Under our previous IFRS 4 based reporting convention, these assets generated interest income of $2,233m which was reported in net interest income. To the extent that this interest income was shared with policyholders, the corresponding policyholder sharing obligation was previously included within the 'net insurance claims and benefits paid and movement in liabilities to policyholders' line.

Following re-designation to fair value through profit or loss, gains and losses from changes in the fair value of underlying assets, together with interest income earned, are both reported within 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'. Similar to an IFRS 4 basis, IFRS 17 accounting provides for an offset. While this offset was reported within the claims line under IFRS 4, under IFRS 17 it is reported within the 'Insurance finance income/(expense)' line described below.

Introduction of IFRS 17 income statement line items

Insurance finance income/(expense)

Insurance finance income/(expense) of $13,799m represents the change in the carrying amount of insurance contracts arising from the effect of, and changes in, the time value of money and financial risk. For VFA contracts, which represent more than 90% of HSBC's insurance contracts, the insurance finance income/(expense) includes the changes in the fair value of underlying items (excluding additions and withdrawals). It therefore has an offsetting impact to investment income earned on underlying assets supporting insurance contracts. This includes an offsetting impact to the gains and losses on assets re-designated on transition to fair value through profit or loss, and which is now included in 'Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'.

CSM

Revenue is recognised for the release of the CSM associated with the in-force business, which was allocated at a rate of approximately 9% during 2022. The CSM release is largely impacted by the constant measure allocation approach for investment services, but may vary over time primarily due to changes in the total amount of CSM reported on the balance sheet from factors such as new business written, changes to levels of actual returns earned on underlying assets, or changes to assumptions.

Onerous contracts

Losses on onerous contracts are taken to the income statement as incurred.

Experience variance and other

Experience variance and other revenue represents the expected expenses, claims and amortisation of acquisition cash flows which are reported as part of the insurance service revenue. This is offset with the actual expenses and claims incurred in the period and recovery of acquisition cash flows.

Attributable expenses

Directly attributable expenses are the costs associated with originating and fulfilling an identified portfolio of insurance contracts. These costs include distribution fees paid to third parties as part of originating insurance contracts together with appropriate allocations of fixed and variable overheads which are included within the fulfilment cash flows and are no longer shown on the operating expenses line.

Significant accounting policies

Basis of preparation

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020 and December 2021. Following the amendments, IFRS 17 has been effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively, with comparatives restated from 1 January 2022. IFRS 17 has been adopted in its entirety for use in the UK while it has been adopted by the EU subject to certain optional exemptions which the Group has not adopted as the Group applies the UK requirements.

Summary of significant accounting policies

The following policies will substantially replace Section 1.2(j) 'Insurance contracts' in the financial statements of the Group's *Annual Report and Accounts 2022*.

Insurance contracts

IFRS 17 sets out the requirements that the Group applies in accounting for insurance contracts it issues, reinsurance contracts it holds and investment contracts with discretionary participation features.

An insurance contract is a contract under which the Group accepts significant insurance risk from another party by agreeing to compensate that party if it is adversely affected by a specified uncertain future event.

Aggregation of insurance contracts

Individual insurance contracts that are managed together and subject to similar risks are identified as a portfolio.

Contracts that are managed together usually belong to the same product group, and have similar characteristics such as being subject to a similar pricing framework or similar product management, and are issued by the same legal entity. If a contract is exposed to more than one risk, the dominant risk of the contract is used to assess whether the contract features similar risks.

Each portfolio is further separated by the contracts' expected profitability. The portfolios are split by their profitability into: (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and (iii) the remaining contracts. These profitability groups are then divided by issue date, with most contracts the Group issues after the transition date being grouped into calendar quarter cohorts.

The groups of insurance contracts are established at initial recognition without subsequent reassessment, and form the unit of account at which the contracts are measured.

The measurement of the insurance contract liability is based on groups of insurance contracts and will include fulfilment cash flows, as well as the CSM, which represents the unearned profit.

Fulfilment cash flows

The fulfilment cash flows comprise:

- best estimates of future cash flows;
- an adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows; and
- a risk adjustment for non-financial risk.

Best estimates of future cash flows

These cash flows include amounts expected to be collected from premiums and payouts for claims, benefits and expenses, and are projected using a range of scenarios and assumptions based on the Group's demographic and operating experience along with external mortality data where the Group's own experience data is not sufficiently large in size to be credible.

Adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows

The estimates of future cash flows are adjusted to reflect the time value of money and the financial risks to derive an expected present value. The Group generally makes use of stochastic modelling techniques in the estimation for products with options and guarantees.

A bottom-up approach is used to determine the discount rate to be applied to a given set of expected future cash flows. This is derived as the sum of the risk-free yield and an illiquidity premium. The risk-free yield is determined based on observable market data, where such markets are considered to be deep, liquid and transparent. When information is not available, management judgement is applied to determine the appropriate risk-free yield. Illiquidity premiums reflect the liquidity characteristics of the associated insurance contracts.

Risk adjustment for non-financial risk

The risk adjustment reflects the compensation required for bearing the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. It is calculated as a 75th percentile level of stress over a one year period. The level of the stress is determined with reference to external regulatory stresses and internal economic capital stresses.

The Group does not disaggregate changes in the risk adjustment between insurance service result (comprising insurance revenue and insurance service expense) and insurance finance income or expenses. All changes are included in insurance service result.

Measurement models

The majority of contracts issued by the Group are accounted for under the VFA measurement model, which is mandatory to apply upon meeting the following eligibility criteria at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the Group expects to pay to the policyholder a substantial share of the fair value returns on the underlying items. The Group considers that a substantial share is a majority of returns; and
- the Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The Group considers that a substantial proportion is a majority proportion of change on a present value probability-weight average of all scenarios.

For the measurement of VFA contracts:

- the risk mitigation option is used for a number of economic offsets against the instruments that meet specific requirements; and
- the other comprehensive income ('OCI') option is used to a limited extent.

The remaining contracts issued are accounted for under the GMM.

The reinsurance contracts held are measured separately under the GMM.

CSM and coverage units

The CSM represents the unearned profit and results in no income or expense at initial recognition when the group of contracts are profitable. The CSM is adjusted at each subsequent reporting period for changes in fulfilment cash flows relating to future service (e.g. changes in non-economic assumptions, including mortality and morbidity rates). For initial recognition of onerous groups of contracts and when groups of contracts become onerous subsequently, losses are recognised in insurance service expense immediately.

For groups of contracts measured using the VFA, changes in the Group's share of the underlying items, and economic experience and economic assumption changes adjust the CSM, whereas these changes do not adjust the CSM under the GMM, but are recognised in profit or loss as they arise. However, under the risk mitigation option for VFA contracts, the changes in the fulfilment cash flows and the changes in the Group's share in the fair value return on underlying items that the instruments mitigate are not adjusted in CSM but recognised in profit or loss.

The CSM is systematically recognised in insurance revenue to reflect the insurance contract services provided, based on the coverage units of the group of contracts. Coverage units are determined by the quantity of benefits and the expected coverage period of the contracts.

The Group identifies the quantity of the benefits provided as follows:

- For insurance coverage - based on the expected net policyholder insurance benefit at each period after allowance for decrements, where net policyholder insurance benefit refers to the amount of sum assured less the fund value or surrender value.
- For investment services (including both investment-return service and investment-related service) - based on a constant measure basis which reflects the provision of access for the policyholder to the facility.

For contracts that provide both insurance coverage and investment services, coverage units are weighted according to the expected present value of the future cash outflows for each service.

Presentation

The amounts presented in the income statement under IFRS 17 include:

- insurance revenue that reflects the consideration to which the Group expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components).
- insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.
- insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein.

For VFA contracts, changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses. The OCI option is applied to some VFA contracts where the underlying items held by the Group are not accounted for at fair value through profit or loss. Under this option, only the amount that matches income or expenses recognised in profit or loss on underlying items is included in finance income or expenses for these insurance contracts, and hence results in the elimination of accounting mismatches. The remaining amount of finance income or expenses for these insurance contracts issued for the period is recognised in OCI.

The Group elected to re-calculate its results each period on a year-to-date basis, thereby re-calculating the results for periods already disclosed.

In measuring multi-currency groups of contracts, the Group considers its groups of contracts (including the CSM) as being denominated in a single currency. Changes in exchange rates between the currency of the cash flows and the currency of each group of contracts are treated as changes in financial risk. Changes in exchange rates between the currency of each group of contracts and the functional currency are treated as exchange differences.

Key assumptions and judgements

Transition classification

The standard is applied retrospectively using a fully retrospective approach ('FRA') as if it had always existed unless it is impracticable to so, in which case either a modified retrospective approach ('MRA') or a fair value approach ('FVA') can be selected. Impracticability assessments are performed based on the requirements of IFRS 17 and consider the availability of data and systems and the requirement not to apply hindsight within the measurement. Following the completion of impracticability assessments, the Group applied the following approaches:

- FRA is applied to new business from 2018 onwards for Hong Kong insurance. For Hang Seng, France, Singapore and UK insurance businesses, FRA is applied from 2019 onwards. For other markets, FRA is applied from 2020 onwards. FRA contributes to 27% of the CSM at the transition date.
- MRA has only been applied in France prior to 2019. This contributes 8% of the CSM at the transition date.
- Except for France, the FVA is applied for all other business when FRA is not practicable to be applied. The FVA approach contributes to 65% of the CSM balance at the transition date.

Determination of the fair value of insurance contract liabilities on transition

Under the FVA approach required by IFRS 17, the valuation of insurance liabilities on transition is based on the requirements of IFRS 13 'Fair Value Measurement'. This requires consideration of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Under the FVA, the CSM is calculated as the difference between what a market participant would demand for assuming the unexpired risk associated with insurance contracts, including required profit, and the future cash flows committed to under the contract (the fulfilment cash flows - determined using IFRS 17 principles).

There is judgement involved in determining an appropriate fair value, as there is a lack of observable data for actual transactions for closed book insurance businesses and a range of possible modelling approaches. In determining the fair value the Group considered the estimated profit margin that a market participant would demand in return for assuming the insurance liabilities, and the discount rate that would be applied within the IFRS 13 calculation. The approach for setting these included the following:

- The discount rate was derived with an allowance for an illiquidity premium that takes into account the level of 'matching' between the Group's assets and related liabilities, utilising local regulatory frameworks.
- A profit margin was determined considering the level of capital that a market participant would be required to hold under the local regulatory framework, and the associated cost of capital.

These assumptions were set taking into account the assumptions that a hypothetical market participant operating in each local jurisdiction would consider.

Coverage units

The Group's approach to the determination of coverage units is set out in 'Significant accounting policies' on page 8. Significant judgement was involved in the determination of the approach that most faithfully represents the nature of our business and the benefits that are ascribed to the policyholder over the duration of insurance contracts, as the standard does not specify a required basis for determination of coverage units. This judgement is most significant for investment services, which constitute the most material element of service for most of our contracts. The Group determined that the coverage unit basis that best reflects the provision of investment services is the availability of the facility over time. The quantity of benefit selected is therefore a constant measure.

Discount rates

The discount rate methodology is a fundamental assumption underpinning the IFRS 17 reporting. While IFRS 17 does not specify the actual methodology of setting the discount rate, it requires that the methodology should be market consistent, set based on the liability characteristics, and that only financial risk should be allowed for in the discount rate. The Group has elected to apply a bottom up approach where risk-free rates are adjusted for an illiquidity premium as set out in our Significant accounting policy on page 7. In setting the risk-free rate the Group uses a market observable approach where either swaps or government bond yields are used as the reference instruments. This selection depends on factors such as information availability, term structure, and currency.

In setting the illiquidity premium the Group determines a market consistent spread of a reference portfolio, applied when the illiquidity of the cash flows are clearly identifiable. Therefore, the illiquidity premium varies by the level at which assets are managed and the illiquidity characteristics of the liabilities. The blended average of discount rates used within our most material manufacturing entities are as follows:

	Hong Kong		Hang Seng		France
At 31 December 2022	**HKD**	**USD**	**HKD**	**USD**	**EUR**
rate 10Y (%)	**4.56**	**4.59**	**4.70**	**4.80**	**3.66**
rate 20Y (%)	**4.63**	**4.96**	**4.76**	**5.17**	**3.33**
At 1 January 2022					
rate 10Y (%)	2.17	2.23	2.32	2.44	0.52
rate 20Y (%)	2.60	2.70	2.75	2.91	0.77

Expenses

IFRS 17 requires the determination of whether cash flows are directly attributable to the acquisition or fulfilment of insurance contracts. Insurance acquisition cash flows are included in the measurement of a group of insurance contracts only if they are directly attributable to the individual contracts in a group, or to the group itself, or the portfolio of insurance contracts to which the group belongs. When estimating fulfilment cash flows, the Group also allocates fixed and variable overheads cash flows directly attributable to the fulfilment of insurance contracts. Judgement is involved in identifying and allocating costs and this determination has been informed by time study assessments which consider factors such as the allocation of frontline staff costs related to distribution including salaries, commissions and bonuses, and associated overhead allocations. Assessments are also performed to determine the amount of maintenance costs such as claims handling, policy administration and associated overheads.

Transition process

Data and modelling

Applying IFRS 17 involves using a significantly increased volume of data than IFRS 4, and at a more granular level, to support fulfilment cash flow and CSM calculations. This includes policy level data sourced from business policy administration systems, accounting actuals data such as expense information and assumption and cash flow projections necessary to generate expected fulfilment cash flow and economic scenario information. Assumptions were sourced for all historical years for which the FRA was applied. Where these assumptions were already developed for the purposes of historical IFRS 4 calculations this information was used, while any assumptions newly required and unique to the IFRS 17 application were established and reviewed in accordance with the IFRS 17 governance framework. For the MRA, historical data used included cash-flows or margins to roll backwards to policy inception which was then rolled forwards as the IFRS 17 accounting was applied.

The IFRS 17 process made use of information available from pre-existing cash flow models in most geographies, and taking into account IFRS 17 specific requirements for the determination of fulfilment cash flows. This included factors such as the application of the IFRS 17 contract boundary and level of aggregation which forms the basis for the IFRS 17 unit of account. Unlike the FRA, separate cash flow models were not applied for the MRA calculation due to the application of the roll back and forward approach for the assessment of the liability.

The complexity and inputs to cash flow models vary and are dependent on the size of the portfolio, the type of business being sold and the sophistication of the market concerned. The models are operated in accordance with the Group’s model governance processes and significant newly developed models have been subject to independent review by the Group’s Independent Model Review function.

Implementation

As part of the implementation a Global Design Authority was established to oversee design decisions with the aim of standardising the designs across entities. The Group developed a central IFRS 17 CSM platform for IFRS 17 modelling and for the generation of accounting entries and disclosure information. The output from the CSM process is used by markets as a basis to support their input into the Group’s consolidated insurance external reporting and disclosures. A Technical Review Committee was formed with oversight by the Group’s accounting policy department, with participation by actuarial, finance and the business. It was responsible for overseeing the development of IFRS 17 accounting policies and standards.

Governance

The Group operated review and challenge sessions at local and Group levels with participation by representatives from the ‘Three lines of defence’ to approve the transition results. Group results were overseen by a Group Transition Assumption and Control Committee chaired by the Global Insurance Chief Financial Officer and the Group Finance Controller. In order to effectively manage global consistency on assumption setting, methodology, process and controls, an IFRS 17 transition production framework and a transition control framework were implemented. The Group’s insurance manufacturing entities operated local Financial Reporting Committees, with responsibility for review and approval of assumptions and judgements. The transition process was overseen by a Steering Committee chaired by the Group Insurance Chief Executive Officer and was subject to second line of defence and Group Internal Audit assurance reviews.

IFRS 17 core financial information

Group's consolidated income statement for the year ended 31 December 2022

Consolidated income statement for the year ended 31 December 2022

	IFRS 17	IFRS 4
	2022	2022
	$m	$m
Net interest income	30,377	32,610
– interest income	52,826	55,059
– interest expense	(22,449)	(22,449)
Net fee income	11,770	11,451
– fee income	15,124	15,213
– fee expense	(3,354)	(3,762)
Net income from financial instruments held for trading or managed on a fair value basis	10,278	10,469
Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	(13,831)	(3,394)
Changes in fair value of designated debt and related derivatives	(77)	(77)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	226	226
Gains less losses from financial investments	(3)	(3)
Net insurance premium income	—	12,825
Insurance finance income	13,799	—
Insurance service result	809	—
– Insurance revenue	1,977	—
– Insurance service expense	(1,168)	—
Impairment loss relating to the planned sale of our retail banking operations in France	(2,378)	(2,378)
Other operating loss	(350)	(133)
Total operating income	**50,620**	**61,596**
Net insurance claims and benefits paid and movement in liabilities to policyholders	—	(9,869)
Net operating income before change in expected credit losses and other credit impairment charges	**50,620**	**51,727**
Change in expected credit losses and other credit impairment charges	(3,584)	(3,592)
Net operating income	**47,036**	**48,135**
Employee compensation and benefits	(18,003)	(18,366)
General and administrative expenses	(10,848)	(11,091)
Depreciation and impairment of property, plant and equipment and right-of-use assets	(2,149)	(2,157)
Amortisation and impairment of intangible assets	(1,701)	(1,716)
Total operating expenses	**(32,701)**	**(33,330)**
Operating profit	**14,335**	**14,805**
Share of profit in associates and joint ventures	2,723	2,723
Profit before tax	**17,058**	**17,528**
Tax expense	(809)	(858)
Profit for the year	**16,249**	**16,670**
Attributable to:		
– ordinary shareholders of the parent company	14,346	14,822
– other equity holders	1,213	1,213
– non-controlling interests	690	635
Profit for the year	**16,249**	**16,670**
	$	$
Basic earnings per share	0.72	0.75
Diluted earnings per share	0.72	0.74

Group's consolidated balance sheet as at transition date and at 31 December 2022

Consolidated balance sheet

	IFRS 17		IFRS 4	
	31 Dec 2022 $m	1 Jan 2022 $m	**31 Dec 2022 $m**	31 Dec 2021 $m
Assets				
Cash and balances at central banks	**327,002**	403,018	**327,002**	403,018
Items in the course of collection from other banks	**7,297**	4,136	**7,297**	4,136
Hong Kong Government certificates of indebtedness	**43,787**	42,578	**43,787**	42,578
Trading assets	**218,093**	248,842	**218,093**	248,842
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**100,101**	110,795	**45,063**	49,804
Derivatives	**284,159**	196,882	**284,146**	196,882
Loans and advances to banks	**104,475**	82,567	**104,882**	83,136
Loans and advances to customers	**923,561**	1,044,534	**924,854**	1,045,814
Reverse repurchase agreements – non-trading	**253,754**	241,648	**253,754**	241,648
Financial investments	**364,726**	392,005	**425,564**	446,274
Assets held for sale	**115,919**	3,411	**115,919**	3,411
Prepayments, accrued income and other assets	**156,149**	136,196	**156,866**	136,571
Current tax assets	**1,230**	970	**1,230**	970
Interests in associates and joint ventures	**29,254**	29,609	**29,254**	29,609
Goodwill and intangible assets	**11,419**	11,169	**21,321**	20,622
Deferred tax assets	**8,360**	5,432	**7,498**	4,624
Total assets	**2,949,286**	2,953,792	**2,966,530**	2,957,939
Liabilities and equity				
Liabilities				
Hong Kong currency notes in circulation	**43,787**	42,578	**43,787**	42,578
Deposits by banks	**66,722**	101,152	**66,722**	101,152
Customer accounts	**1,570,303**	1,710,574	**1,570,303**	1,710,574
Repurchase agreements – non-trading	**127,747**	126,670	**127,747**	126,670
Items in the course of transmission to other banks	**7,864**	5,214	**7,864**	5,214
Trading liabilities	**72,353**	84,904	**72,353**	84,904
Financial liabilities designated at fair value	**127,321**	145,503	**127,327**	145,502
Derivatives	**285,762**	191,064	**285,764**	191,064
Debt securities in issue	**78,149**	78,557	**78,149**	78,557
Liabilities of disposal groups held for sale	**114,597**	9,005	**114,597**	9,005
Accruals, deferred income and other liabilities	**134,313**	115,900	**133,240**	114,773
Current tax liabilities	**1,135**	699	**1,135**	698
Insurance contract liabilities	**108,816**	119,307	**114,844**	112,745
Provisions	**1,958**	2,566	**1,958**	2,566
Deferred tax liabilities	**972**	3,294	**2,422**	4,673
Subordinated liabilities	**22,290**	20,487	**22,290**	20,487
Total liabilities	**2,764,089**	2,757,474	**2,770,502**	2,751,162
Equity				
Called up share capital	**10,147**	10,316	**10,147**	10,316
Share premium account	**14,664**	14,602	**14,664**	14,602
Other equity instruments	**19,746**	22,414	**19,746**	22,414
Other reserves	**(9,133)**	6,447	**(9,141)**	6,460
Retained earnings	**142,409**	135,236	**152,068**	144,458
Total shareholders' equity	**177,833**	189,015	**187,484**	198,250
Non-controlling interests	**7,364**	7,303	**8,544**	8,527
Total equity	**185,197**	196,318	**196,028**	206,777
Total liabilities and equity	**2,949,286**	2,953,792	**2,966,530**	2,957,939

Distribution of results by global business and legal entity

Distribution of results by global business

	Year ended 31 December 2022	
	IFRS 17	IFRS 4
	$m	$m
Revenue		
Wealth and Personal Banking	**21,103**	**22,197**
Commercial Banking[1]	**16,494**	**16,565**
Global Banking and Markets[1]	**14,899**	**14,899**
Corporate Centre	**(1,876)**	**(1,934)**
Total	**50,620**	**51,727**
Profit before tax		
Wealth and Personal Banking	**5,588**	**6,040**
Commercial Banking[1]	**7,593**	**7,627**
Global Banking and Markets[1]	**4,919**	**4,919**
Corporate Centre	**(1,042)**	**(1,058)**
Total	**17,058**	**17,528**

1 *We conducted an internal review of customer requirements to those global businesses best suited to service their respective needs within our markets in Latin America resulting in the transfer of a portfolio of customers from GBM to CMB during the period. IFRS4 data have been represented accordingly.*

Distribution of results by legal entity

	Year ended 31 December 2022	
	IFRS 17	IFRS 4
	$m	$m
Revenue		
HSBC UK Bank plc	**9,771**	**9,771**
HSBC Bank plc	**5,421**	**5,846**
The Hongkong and Shanghai Banking Corporation Limited	**25,642**	**26,266**
HSBC Bank Middle East Limited	**1,743**	**1,743**
HSBC North America Holdings Inc.	**4,163**	**4,163**
HSBC Bank Canada	**1,954**	**1,954**
Grupo Financiero HSBC, S.A. de C.V.	**2,713**	**2,748**
Other trading entities[1]	**3,503**	**3,565**
– *of which: Other Middle East entities (including Oman, Türkiye, Egypt, Saudi Arabia)*	***1,247***	***1,247***
– *of which: Saudi Awwal Bank*	**—**	**—**
Holding companies, shared service centres and intra-group eliminations	**(4,290)**	**(4,329)**
Total	**50,620**	**51,727**
Profit before tax		
HSBC UK Bank plc	**4,487**	**4,487**
HSBC Bank plc	**(1,395)**	**(1,096)**
The Hongkong and Shanghai Banking Corporation Limited	**12,899**	**13,016**
HSBC Bank Middle East Limited	**728**	**728**
HSBC North America Holdings Inc.	**705**	**705**
HSBC Bank Canada	**832**	**832**
Grupo Financiero HSBC, S.A. de C.V.	**583**	**611**
Other trading entities[1]	**1,432**	**1,458**
– *of which: Other Middle East entities (including Oman, Türkiye, Egypt, Saudi Arabia)*	***655***	***655***
– *of which: Saudi Awwal Bank*	***342***	***342***
Holding companies, shared service centres and intra-group eliminations	**(3,213)**	**(3,213)**
Total	**17,058**	**17,528**

1 *Other trading entities includes the results of entities located in Oman, Türkiye, Egypt and Saudi Arabia (including our share of the results of Saudi Awwal Bank) which do not consolidate into HSBC Bank Middle East Limited.*

WPB business performance by business unit

The following table provides the IFRS 4 and IFRS 17 WPB management view of business unit results on a reported basis. Under IFRS 17, the previously presented 'Insurance Manufacturing options' segment has been replaced with the 'Life Insurance' segment which combines insurance manufacturing operations, Wealth insurance distribution, and IFRS 17 consolidation related adjustments. Wealth insurance distribution has been reclassified from the investment distribution to the life insurance business unit for the purposes both IFRS 17 and IFRS 4 based results.

	IFRS 17 basis	IFRS 4 basis
	2022	2022
Management view of reported basis	$m	$m
Wealth	6,943	8,030
– investment distribution	2,476	2,476
– Global Private Banking	1,978	1,978
net interest income	946	946
non-interest income	1,032	1,032
– Life insurance	1,356	2,443
– Asset management	1,133	1,133
Personal Banking	15,911	15,911
– net interest	14,610	14,610
– non-interest income	1,301	1,301
Other	(1,751)	(1,744)
Net operating income[1]	21,103	22,197

The following table shows WPB reported results by business unit.

WPB - summary reported basis

		Consist of			
	Total WPB	Banking operations	Life insurance	Global private banking	Asset management
	$m	$m	$m	$m	$m
2022 IFRS 17 basis					
Net operating income before change in expected credit losses and other credit impairment charges[1]	21,103	16,636	1,356	1,978	1,133
– net interest income	16,078	14,802	336	946	(6)
– net fee income	5,303	3,261	159	776	1,107
– other income	(278)	(1,427)	861	256	32
ECL	(1,129)	(1,114)	(9)	(5)	(1)
Net operating income	19,974	15,522	1,347	1,973	1,132
Total operating expenses	(14,415)	(11,351)	(764)	(1,448)	(852)
Operating profit	5,559	4,171	583	525	280
Share of profit in associates and joint ventures	29	11	18	—	—
Profit before tax	5,588	4,182	601	525	280
2022 IFRS 4 basis					
Net operating income before change in expected credit losses and other credit impairment charges[1]	22,197	16,643	2,443	1,978	1,133
– net interest income	18,148	14,802	2,406	946	(6)
– net fee income/(expense)	5,030	3,261	(114)	776	1,107
– other income	(981)	(1,420)	151	256	32
ECL	(1,137)	(1,114)	(17)	(5)	(1)
Net operating income	21,060	15,529	2,426	1,973	1,132
Total operating expenses	(15,054)	(11,358)	(1,396)	(1,448)	(852)
Operating profit	6,011	4,171	1,035	525	280
Share of profit in associates and joint ventures	29	11	18	—	—
Profit before tax	6,040	4,182	1,053	525	280

1 *Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.*

Insurance result for the year ending 31 December 2022

The following table provides an analysis of the Life insurance reported income statement under IFRS 17. It includes income earned by our insurance manufacturing operations, as well as income earned and costs incurred within our wealth distribution channels and consolidation and intercompany elimination entries.

	IFRS 17		
	Insurance Manufacturing WPB	Wealth insurance & other[1]	Life insurance
	$m	$m	$m
Net interest income	336	—	336
Net fee income/ (expense)	(32)	191	159
Other income	854	7	861
– insurance service result	827	(23)	804
– net investment returns (excluding net interest income)	(139)	1	(138)
– other	166	29	195
Net operating income before change in expected credit losses and other credit impairment charges	**1,158**	**198**	**1,356**
ECL	(9)	—	(9)
Net operating income	**1,149**	**198**	**1,347**
Total operating expenses	(586)	(178)	(764)
Operating profit	**563**	**20**	**583**
Share of profit in associates and joint ventures	18	—	18
Profit before tax	**581**	**20**	**601**

1 *Wealth Insurance and other includes fee income earned and operating expenses incurred within our Wealth distribution channels. It also includes the IFRS 17 consolidation entries arising from transactions between our insurance manufacturing operations and Wealth distribution channels, and with the wider Group.*

The following table shows the reported summary income statement for the Group's insurance manufacturing operations under IFRS 17 and as they had previously been presented under IFRS 4.

	IFRS 17		IFRS 4	
	WPB	All global businesses	WPB	All global businesses
	$m	$m	$m	$m
Net interest income	336	361	2,405	2,595
Net fee expense	(32)	(17)	(701)	(723)
Other income	854	837	149	73
– insurance service result	827	841	—	—
– net investment returns (excluding net interest income)	(139)	(148)	—	—
– other	166	144	149	73
Net operating income before change in expected credit losses and other credit impairment charges	**1,158**	**1,181**	**1,853**	**1,945**
ECL	(9)	(9)	(17)	(18)
Net operating income	**1,149**	**1,172**	**1,836**	**1,927**
Total operating expenses	(586)	(583)	(879)	(918)
Operating profit	**563**	**589**	**957**	**1,009**
Share of profit in associates and joint ventures	18	18	18	18
Profit before tax	**581**	**607**	**975**	**1,027**

Movements in carrying amounts - Analysis by measurement component

	Insurance contracts - Life direct participating and investment discretionary participating contracts					Insurance contracts - Life Other contracts				
	2022					2022				
		Contractual service margin					Contractual service margin			
	Estimates of present value of future cash flows and risk adjustment	Contracts under fair value approach	Contracts under modified retros-pective approach	Other contracts	Total	Estimates of present value of future cash flows and risk adjustment	Contract under fair value approach	Contracts under modified retros-pective approach	Other contracts	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Opening assets	—	—	—	—	—	(236)	57	—	63	(116)
Opening liabilities	105,861	5,823	704	2,883	115,271	3,532	331	26	147	4,036
Net opening balance 01 Jan 2022	105,861	5,823	704	2,883	115,271	3,296	388	26	210	3,920
Changes in the statement of profit or loss and OCI										
Changes that relate to current services										
CSM recognised for services provided		(297)	(69)	(415)	(781)		(69)	(6)	(76)	(151)
Change in risk adjustment for non-financial risk for risk expired	(17)				(17)	(17)				(17)
Experience adjustments	(37)				(37)	2				2
Changes that relate to future services										
Contracts initially recognised in the year	(1,092)			1,101	9	(117)			117	—
Changes in estimates that adjust the CSM	820	(1,349)	208	321	—	(7)	23	—	(16)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	84				84	86				86
Changes that relate to past services										
Adjustments to liabilities for incurred claims	2				2	11				11
Insurance service result	(240)	(1,646)	139	1,007	(740)	(42)	(46)	(6)	25	(69)
Net finance expenses from insurance contracts	(16,023)	(10)	—	(1)	(16,034)	(169)	7	—	6	(156)
Effect of movements in exchange rates and other	(2,084)	(16)	(51)	(25)	(2,176)	(74)	(17)	(2)	—	(93)
Total changes in the statement of profit or loss and OCI	(18,347)	(1,672)	88	981	(18,950)	(285)	(56)	(8)	31	(318)
Cash flows										
Premiums received	12,740				12,740	882				882
Claims, other insurance service expenses paid (including investment components) and other cash flows	(5,783)				(5,783)	(880)				(880)
Insurance acquisition cash flows	(423)				(423)	(162)				(162)
Total cash flows	6,534	—	—	—	6,534	(160)	—	—	—	(160)
Acquisition of subsidiaries and other movements	2,108	216	—	(39)	2,285	3	79	—	16	98
Net closing balance 31 Dec 2022	96,156	4,367	792	3,825	105,140	2,854	411	18	257	3,540
Closing assets	(18)	3	—	10	(5)	(308)	86	—	91	(131)
Closing liabilities	96,174	4,364	792	3,815	105,145	3,162	325	18	166	3,671
Net closing balance 31 Dec 2022	96,156	4,367	792	3,825	105,140	2,854	411	18	257	3,540

Alternative performance measures

Use of alternative performance measures

Our reported results are prepared in accordance with IFRSs as detailed in our financial statements starting on page 324 of our *Annual Report and Accounts 2022.* We use a combination of reported and alternative performance measures, including those derived from our reported results that eliminate factors that distort period-on-period comparisons. These are considered alternative performance measures (non-GAAP financial measures). On 1 January 2023 HSBC adopted IFRS 17 'Insurance Contracts' and as required by the standard applied the requirements retrospectively with comparatives restated from the transition date, 1 January 2022. As a result of transition, comparatives which had previously been published under IFRS 4 'Insurance Contracts' have been restated below.

Return on average ordinary shareholders' equity and return on average tangible equity

	For the year ended 2022	
	IFRS 17 basis	IFRS 4 basis
	$m	$m
Profit		
Profit attributable to the ordinary shareholders of the parent company	14,346	14,822
Impairment of goodwill and other intangible assets (net of tax)	535	531
Increase in PVIF (net of tax)	—	(264)
Profit attributable to the ordinary shareholders, excluding goodwill, PVIF and other intangible assets impairment	14,881	15,089
Equity		
Average ordinary shareholders' equity	159,061	170,796
Effect of goodwill, PVIF and other intangibles (net of deferred tax)	(10,786)	(17,935)
Average tangible equity	148,275	152,861
Ratio	%	%
Return on average ordinary shareholders' equity	9.0	8.7
Return on tangible equity	10.0	9.9

Net asset value and tangible net asset value per ordinary share

	For the year ended 2022	
	IFRS 17 basis	IFRS 4 basis
	$m	$m
Total shareholders' equity	177,833	187,484
Preference shares and other equity instruments	(19,746)	(19,746)
Total ordinary shareholders' equity	158,087	167,738
Goodwill, PVIF and intangible assets (net of deferred tax)	(11,160)	(18,383)
Tangible ordinary shareholders' equity	146,927	149,355
Basic number of $0.50 ordinary shares outstanding	19,739	19,739
Value per share	$	$
Net asset value per ordinary share	8.01	8.50
Tangible net asset value per ordinary share	7.44	7.57

Expected credit losses and other credit impairment charges as % of average gross loans and advances to customers

	For the year ended 2022	
	IFRS 17 basis	IFRS 4 basis
	$m	$m
Expected credit losses and other credit impairment charges	(3,584)	(3,592)
Currency translation		
Constant currency	(3,584)	(3,592)
Average gross loans and advances to customers	1,014,148	1,015,445
Currency translation	(13,291)	(13,325)
Constant currency	1,000,857	1,002,120
Ratios	%	%
Expected credit losses and other credit impairment charges as % of average gross loans and advances to customers	0.36	0.36

Cautionary statement regarding forward-looking statements

The Report on Transition to IFRS 17 'Insurance Contracts' contains certain forward-looking statements with respect to HSBC's financial condition, results of operations and business.

Statements that are not historical facts, including statements about HSBC's beliefs and expectations, are forward-looking statements. Words such as 'may', 'will', 'should', 'expects', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', or the negative thereof, other variations thereon or similar expressions are intended to identify forward-looking statements. These statements are based on current plans, information, data, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements. Written and/or oral forward-looking statements may also be made in the periodic reports to the US Securities and Exchange Commission, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC's Directors, officers or employees to third parties, including financial analysts. Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward- looking statement. These include, but are not limited to:

a. changes in general economic conditions in the markets in which we operate, such as new, continuing or deepening recessions, prolonged inflationary pressures and fluctuations in employment and creditworthy customers beyond those factored into consensus forecasts (including, without limitation, as a result of the Russia Ukraine war and, to a lesser extent, the Covid-19 pandemic); the Russia-Ukraine war and the Covid-19 pandemic and their impact on global economies and the markets where HSBC operates, which could have a material adverse effect on (among other things) our financial condition, results of operations, prospects, liquidity, capital position and credit ratings; deviations from the market and economic assumptions that form the basis for our ECL measurements (including, without limitation, as a result of the Russia Ukraine war, inflationary pressures and the Covid-19 pandemic); potential changes in HSBC's dividend policy; changes in foreign exchange rates and interest rates, including the accounting impact resulting from financial reporting in respect of hyperinflationary economies; volatility in equity markets; lack of liquidity in wholesale funding or capital markets, which may affect our ability to meet our obligations under financing facilities or to fund new loans, investments and businesses; geopolitical tensions or diplomatic developments producing social instability or legal uncertainty, such as the Russia-Ukraine war (including the continuation and escalation thereof) and the related imposition of sanctions and trade restrictions, supply chain restrictions and disruptions, sustained increases in energy prices and key commodities, claims of human rights violations, diplomatic tensions, including between China and the US, the UK, the EU, India and other countries, and developments in Hong Kong and Taiwan, alongside other potential areas of tension, which may adversely affect HSBC by creating regulatory, reputational and market risks; the efficacy of government, customer, and HSBC's actions in managing and mitigating ESG risks, in particular climate risk, nature-related risks and human rights risks, and in supporting the global transition to net zero carbon emissions, each of which can impact HSBC both directly and indirectly through our customers and which may result in potential financial and non-financial impacts; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks' policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding status of public or private defined benefit pensions; societal shifts in customer financing and investment needs, including consumer perception as to the continuing availability of credit; exposure to counterparty risk, including third parties using us as a conduit for illegal activities without our knowledge; the discontinuation of certain key Ibors and the development of near risk-free benchmark rates, as well as the transition of legacy Ibor contracts to near risk-free benchmark rates, which exposes HSBC to material execution risks, including in relation to the effectiveness of its Ibor remediation strategy, and increases some financial and non-financial risks; and price competition in the market segments we serve;

b. changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which we operate and the consequences thereof (including, without limitation, actions taken as a result of the impact of the Russia-Ukraine war on inflation and as a result of the Covid-19 pandemic); initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks, which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; changes to tax laws and tax rates applicable to HSBC, including the imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; the UK's relationship with the EU, which continues to be characterised by uncertainty and political disagreement, particularly with respect to the regulation of financial services, despite the signing of the Trade and Cooperation Agreement between the UK and the EU; changes in UK macroeconomic and fiscal policy as a result of the change in UK government leadership, which may result in fluctuations in the value of the pound sterling; general changes in government policy that may significantly influence investor decisions; the costs, effects and outcomes of regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies; and

c. factors specific to HSBC, including our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques); our ability to achieve our financial, investment, capital and ESG targets, commitments and ambitions (including with respect to the commitments set forth in our thermal coal phase-out policy and our energy policy and our targets to reduce our on-balance sheet financed emissions in eight high-emitting sectors), which may result in our failure to achieve any of the expected benefits of our strategic priorities; model limitations or failure, including, without limitation, the impact that high inflationary pressures, rising interest rates and the consequences of the Covid-19 pandemic have had on the performance and usage of financial models, which may require us to hold additional capital, incur losses and/or use compensating controls, such as judgemental post-model adjustments, to address model limitations; changes to the judgements, estimates and assumptions we base our financial statements on; changes in our ability to meet the requirements of regulatory stress tests; a reduction in the credit ratings assigned to us or any of our subsidiaries, which could increase the cost or decrease the availability of our funding and affect our liquidity position and net interest margin; changes to the reliability and security of our data management, data privacy, information and technology infrastructure, including threats from cyber-attacks, which may impact our ability to service clients and may result in financial loss, business disruption and/or loss of customer services and data; the accuracy and effective use of data, including internal management information that may not have been independently verified, changes in insurance customer behaviour and insurance claim rates; our dependence on loan payments and dividends from subsidiaries to meet our obligations; changes in accounting standards, including the implementation of IFRS 17, which may have a material impact on the way we prepare our financial statements and (with respect to IFRS 17) may negatively affect the profitability of HSBC's insurance business; changes in our ability to manage third-party, fraud and reputational risks inherent in our operations; employee misconduct, which may result in regulatory sanctions and/ or reputational or financial harm; changes in skill requirements, ways of working and talent shortages, which may affect our ability to recruit and retain senior management and diverse and skilled personnel; and changes in our ability to develop sustainable finance and climate-related products consistent with the evolving expectations of our regulators, and our capacity to measure the climate impact from our financing activity (including as a result of data limitations and changes in methodologies), which may affect our ability to achieve our climate ambition, our targets to reduce financed emissions in our high-emitting sectors portfolio and the commitments set forth in our thermal coal phase-out policy and our energy policy, and increase the risk of greenwashing. Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; our success in addressing operational, legal and regulatory, and litigation challenges; and other risks and uncertainties we identify in 'Top and emerging risks' on pages 135 to 141 of the *Annual Report and Accounts 2022*.

Alternative Performance Measures

This Report contains non-IFRS measures used by management internally that constitute alternative performance measures under European Securities and Markets Authority guidance and non-GAAP financial measures defined in and presented in accordance with SEC rules and regulations ('Alternative Performance Measures'). The primary Alternative Performance Measures we used in our financial statements for the year ended 31 December 2022 were presented on an 'adjusted performance' basis which was computed by adjusting reported results for the period-on-period effects of foreign currency translation differences and significant items which distort period-on-period comparisons. Significant items are those items which management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business. Reconciliations between Alternative Performance Measures and the most directly comparable measures under IFRS are provided in our annual report and accounts for the year ended 31 December 2022, which is available at www.hsbc.com.

Glossary

Term	Definition
Contractual service margin ('CSM')	A component of the carrying amount of a group of insurance contract assets or liabilities which represents the unearned profit which the Group will recognise as it provides insurance contract services under the insurance contracts in the group.
Contract boundary	Cash flows that arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay the premiums or has a substantive obligation to provide the policyholder with insurance contract services.
Coverage period	The period during which the Group provides insurance contract services. This period includes the insurance contract services that relates to all premiums within the boundary of the insurance contract.
Fulfilment cash flows	An explicit, unbiased and probability-weighted estimate (i.e. expected value) of the present value of future cash flows that will arise as the Group fulfils insurance contracts, plus a risk adjustment for non-financial risk.
Full retrospective approach ('FRA')	The default retrospective transition approach where the Group recognises and measures each group of insurance contracts as if IFRS 17 had always been applied unless it is impracticable to do so, in which case the modified retrospective approach or the fair value approach shall be applied.
Fair value approach ('FVA')	The fair value approach is a method of determining the CSM at transition using the fair value of a group of insurance contracts less the fulfilment cash flows measured at the transition date.
General measurement model ('GMM')	The standard default measurement approach used to measure insurance contracts as prescribed under IFRS 17.
Group of insurance contracts / Level of aggregation	A set of insurance contracts that the Group divides a portfolio of insurance contracts into: a) contracts that are onerous on initial recognition, b) contracts that at initial recognition have no significant possibility of becoming onerous subsequently, and c) the remaining contracts in the portfolio. Contracts in each group are issued within a period of no longer than one year.
Group	HSBC Holdings plc together with its subsidiary undertakings
HSBC	HSBC Holdings plc together with its subsidiary undertakings
Insurance manufacturing operations	Insurance manufacturing operations includes Group subsidiaries that manufacture insurance products
Investment components	The amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs.
Independent Model Review	Refers to an internal framework to provide independent review and challenge including assessing whether internal model build or changes are fit for purpose.
Modified retrospective approach ('MRA')	The modified retrospective approach is an approach to achieve the closest outcome to retrospective application, with the prescribed modifications to address some of the challenges of retrospective application. The Group is permitted to use the modifications only to the extent that it does not have reasonable and supportable information to apply a FRA.
Onerous contracts	An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contract, any previously recognised acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow.
Portfolio of insurance contracts	Insurance contracts that are subject to similar risks that the Group manages together.
Risk adjustment	The compensation required by the Group for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risks as the Group fulfils insurance contracts.
Risk mitigation option	Under the risk mitigation option for VFA contracts, if derivatives, non-derivative financial instruments at fair value through profit or loss or reinsurance contracts held are used to manage financial risks created by these contracts, the Group could elect to recognise changes in that financial risk in profit or loss, rather than adjust the CSM.
Transition Assumption and Control Committee	A Group internal governance meeting co-chaired by the Group Insurance CFO and the Group Financial controller which was set up to review, challenge and approve key assumptions over the transition and comparatives process and with attendance from senior representatives from risk, finance, actuarial and business teams.
Variable fee approach ('VFA')	Modification of the GMM that is applied for the measurement of contracts with direct participation features when the eligibility criteria is met.

Further information is available in the glossary to the *Annual Report and Accounts 2022* at www.hsbc.com/investors.

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