21 February 2024

RESULTS FOR 2023

Hang Seng Bank today is pleased to report strong financial results for the year 2023.

Amidst a year marked by economic volatility, Hang Seng has made robust progress on implementing strategies relating to growth, innovation and sustainability. In the reporting period, Hang Seng has exercised caution in risk management and prioritised cost efficiency, resulting in a significant year-on-year increase in profit attributed to shareholders of 58% to HK$17,848m. Earnings per share rose by 62% to HK$8.97.

Diana Cesar, Executive Director and Chief Executive of Hang Seng Bank said: “We have re-focused the business and diversified our income streams amid a tough year. The results are encouraging and a testament to the success of our strategy and approach. Whatever the pace of economic recovery, we are well-positioned to sustain our performance. We will continue to support our customers, the Hong Kong community and the Greater Bay Area.”

Hang Seng Bank 2023 Annual Results - Highlights

- Net interest income up 26% to HK$32,295m (2022: HK$25,551m) with net interest margin widening by 55 basis points to 2.30% (2022: 1.75%).

- Net operating income before change in expected credit losses and other credit impairment charges up 19% to HK$40,822m (2022: HK$34,399m).

- Profit attributable to shareholders up 58% to HK$17,848m (2022: HK$11,286m), and earnings per share up 62% to HK$8.97 per share (HK$5.53 per share in 2022).

- Return on average ordinary shareholders’ equity of 11.3% (7.2% in 2022).

- Fourth interim dividend of HK$3.20 per share; total dividends of HK$6.50 per share for 2023 (HK$4.10 per share in 2022).

- Common equity tier 1 (‘CET1’) capital ratio of 18.1%, tier 1 (‘T1’) capital ratio of 19.9% and total capital ratio of 21.4% at 31 December 2023 (CET1 capital ratio of 15.2%, T1 capital ratio of 16.8% and total capital ratio of 18.1% at 31 December 2022).

- Cost efficiency ratio of 35.8% (40.1% in 2022).

From 1 January 2023, the Group has adopted Hong Kong Financial Reporting Standard (‘HKFRS’) 17 ‘Insurance Contracts’ which replaced HKFRS 4 ‘Insurance Contracts’. Comparative figures have been restated accordingly.

Within this document, the Hong Kong Special Administrative Region of the People’s Republic of China has been referred to as ‘Hong Kong’. The abbreviations ‘HK$m’ and ‘HK$bn’ represent millions and billions of Hong Kong dollars respectively.

Comment by Irene Lee, Chairman

Our 90^{th} Anniversary in 2023 is a significant milestone that underlines the long and deep relationship we have enjoyed with Hong Kong. We celebrated with events that resonated with our city's spirit, advancing inclusivity, well-being and social mobility.

In both the good and difficult times, we adhered to our commitment to improve the lives of our customers whilst delivering attractive returns. In addition, there has been increased focus on a wider social and environmental issues.

We understand this achievement would not have been possible without the support of our customers, our staff, and shareholders.

Innovation

We introduced the concept of future banking to align our services with innovation, harnessing technology to streamline and enhance the banking experience. Our strategy leverages data analytics and digital tools, and we are continuously upskilling our workforce to ensure our customers benefit from the sophisticated and intuitive banking solutions.

We built bridges to the future with a focus on growth and learning. Our collaboration with The Chinese University of Hong Kong's Engineering FinTech Applied Research Academy, aligned with the Hong Kong Monetary Authority's ('HKMA') Industry Project Masters Network, is creating a pipeline of talent essential for the Greater Bay Area's ('GBA') emergence as an innovation hub.

We are actively nurturing the next wave of fintech leaders through our support of startups and new economy ventures critical to the GBA's technological advancement. Our participation in the e-HKD initiative with the HKMA's Pilot Programme and our work on two e-HKD simulations reflect our commitment to shaping a digital finance infrastructure in step with the region's shift towards a cashless society.

We embrace innovation in banking and are proud to be one of the first to launch an RMB counter under the Hong Kong Exchanges and Clearing Limited's ('HKEX') HKD-RMB Dual Counter Model, strengthening Hong Kong's position as an offshore RMB hub and expanding currency choices for investors.

Sustainability

Aligned with global efforts to combat climate change, our aim is to reduce carbon emissions from our operations to net zero by 2030. Our headquarters has earned the distinction of being the first bank building in Hong Kong to be Gold-certified by the International WELL Building Institute, highlighting our focus on transformative, people-centric spaces.

We provide sustainable finance and investment to enable our clients to enhance their social environmental performance. These offerings are part of our strategy to support more sustainable business practices and reduce environmental impact.

Hang Seng Indexes Company Limited has introduced indexes that promote sustainability, covering themes such as hydrogen energy and low carbon emission companies. It also received multiple awards on different Environmental, Social and Governance ('ESG') index categories in 2023 from Asia Asset Management and The Asset.

Comment by Irene Lee, Chairman *(continued)*

In the community, we provided our first social loan to finance projects that improve educational access for children and those with special needs as well as improving housing affordability.

Board of Directors

During the year, Independent Non-Executive Directors Chiang Lai Yuen and Michael Wu Wei Kuo, retired. Kenneth Ng Sing Yip relinquished his role this year as Independent Non-Executive Director, together with his responsibilities as Chairman of the Risk Committee and Member of the Nomination Committee. Kenneth will retire at this year's annual general meeting.

All three directors have been on the Board for many years and have always been a source of technical expertise and business acumen. The Board is grateful for their dedication and contribution and we would like to thank them.

Xiao Bin Wang, Independent Non-Executive Director, will succeed Kenneth as the Chairman of the Risk Committee.

Cordelia Chung now assumes the role of Remuneration Committee Chairman, with Patricia Lam Sze Wan joining as a new member. Cordelia and Xiao Bin were also appointed as Nomination Committee and Risk Committee members respectively.

I look forward to working with them in their new roles.

The next 90 years and beyond

As Hang Seng Bank enters its 91^{st} year, we continue to drive innovation for growth and prosperity. Our long-standing presence equips us for the emerging opportunities within the GBA, especially with the launch of our RMB counter at the HKEX and seven cross-boundary wealth management centres.

Our approach integrates sustainability into our business model, while maintaining our commitment to ethical practices.

As we navigate the changing financial landscape, Hang Seng Bank is prepared to tailor our services to better serve our customers, develop our team, and uplift the communities where we operate.

Review by Diana Cesar, Executive Director and Chief Executive

1. Opening

As we all know, the past year has been characterised by geopolitical uncertainties and volatile economic conditions that have affected both the Mainland and Hong Kong. In response to these conditions, a conservative approach has been a notable characteristic of the market across different sectors. High interest rates have also persisted which has added to the prudent approach with a corresponding impact on loan growth.

Against this backdrop, I am pleased to report that we have made robust progress on implementing our strategies relating to growth, innovation and sustainability. At the same time, we have delivered strong financial results even though we have been very cautious in risk management. We have also maintained a strong focus on managing operating costs. In short, we have tried to make every Hong Kong dollar spent work harder.

Year-on-year, profit before tax increased by 57% to HK$20.1bn. Return on shareholders' equity rose by 4.1 percentage points to 11.3%, and earnings per share increased by 62% to HK$8.97.

Net interest income grew by 26% compared with last year. Our net interest margin widened by 55 basis points to 2.30%.

The strategy to diversify and grow non-fund income in wealth management has started to deliver results. Annualised new premiums in our bank-wide insurance business grew by 157%, reaching HK$5.6bn which is above 2019 pre-COVID levels. Revenue from our structured investment products improved by 16% despite subdued equity market.

We have made good progress in de-risking for the mainland China commercial real estate ('CRE') sector. We reduced our exposure by 33% to HK$35bn compared to year-end 2022. As at year end 2023, the portfolio accounted for 4% of total portfolio with secured portion increased to 53% from prior year's 45%.

New account openings for non-Hong Kong residents increased by 342% year-on-year. This is due to our focused expansion in the GBA where we have set up new centres to meet the growing demand for cross-boundary wealth management and the introduction of investment products for the region.

Investments in our people, technology, and infrastructure have improved operational efficiency and enhanced service experiences for customers. Our cost efficiency ratio has improved by 4.3 percentage points to 35.8% compared to last year, benefitting from higher revenue in an elevated rate environment as well as strict cost discipline throughout the year.

2. Business Highlights

Some of our notable annual achievements include the following:

- We were among the first batch of listed companies to launch an RMB counter under the HKEX's new HKD-RMB Dual Counter Model.

- The Tracker Fund of Hong Kong, now under our exclusive management, achieved a record-high assets under management and unit issuance.

Review by Diana Cesar, Executive Director and Chief Executive *(continued)*

- We have partnered with Thailand's Bualuang Securities and welcomed the launch of two Depositary Receipts on The Stock Exchange of Thailand which reinforces Hong Kong's position as an international financial centre.

- Hang Seng Indexes Company Limited has become the first offshore index compiler to include Beijing Stock Exchange securities in its indexes. This integration offers global investors access to all three of mainland China's stock exchanges.

- We have expanded our reach in the GBA with seven Wealth Management Centres and enriched our offerings within the cross-boundary Wealth Management Connect Scheme.

- We have three use cases selected by the HKMA for its e-HKD pilot programme and have completed real-life simulations for programmable payments.

- We launched our first social loan to fund transitional housing for low-income families and a primary school development.

- We facilitated Hong Kong's first green export credit insurance policy by providing a green receivables financing solution to bolster supply chain sustainability.

- We launched the Hang Seng Stock Connect China A Low Carbon Index ETF, the city's first A-Share ETF with a low-carbon focus.

3. Dividend

The Directors have declared a fourth interim dividend of HK$3.20 per share. This brings the total distribution for 2023 to HK$6.50 per share, an increase of 59% year on year.

In view of our high capital ratios, we will consider all options in returning surplus capital to shareholders.

4. Wealth and Personal Banking

Wealth and Personal Banking's net operating income before change in ECL increased by 26% to HK$23,640m, driven by a 34% rise in net interest income. Operating profit grew by 40% to HK$14,193m, with profit before tax up 42% to HK$14,386m.

Customer loans grew by 4%, benefiting from consumer spending recovery. Enhanced reward programmes and the '+FUN Centre' on our mobile app have improved customer engagement.

Our affluent customer base expanded by 17%, and new private banking accounts rose by 116%. Youth customer numbers increased by 13%, and new customer acquisition by 38%.

Wealth management business is a key long-term growth driver that is helping us diversify our income stream. To address this, we now have seven cross-boundary Wealth Management Centres in key GBA cities, including our most recent opening in January 2024.

Insurance business new premiums surged by 174%, with the contractual service margin ('CSM') balance up by 10% to HK$21bn. We secured a 15-year distribution agreement with Chubb Insurance Hong Kong Limited ('Chubb') for wealth and travel insurance products to enhance our ability to meet the diverse insurance needs of customers.

Review by Diana Cesar, Executive Director and Chief Executive *(continued)*

Our investment services and insurance businesses income grew by 17%, with a 19% increase in active retail customers with investment transactions.

Digital improvements have reduced account opening times to under 30 minutes and enhanced transaction security. Monthly active mobile users increased by 16%, and we received 16 industry awards for digital excellence in 2023.

5. Commercial Banking and Global Banking

Our wholesale banking business has implemented strategic enhancements to better position ourselves to capture growth opportunities. We have improved remote account opening capabilities for Hong Kong companies with mainland shareholders, accommodating a wider variety of business entities and up to 10 connected parties.

We are the first bank in Hong Kong to offer 'e-Sign' for companies with mainland connections to facilitate remote document signing.

Hang Seng TradePay, a new digital trade finance solution, was launched to optimise working capital management. The Hang Seng Business Mobile App now features FPS QR Mobile Collect for immediate merchant payments and the launch of FX Prompt to facilitate convenient online remittances.

The Bank has received the Hong Kong Domestic Trade Finance Bank of the Year accolade at the Asian Banking and Finance Awards 2023, and was awarded the Best Payment Solutions Provider at the Corporate Treasurer Awards 2023.

Commercial Banking's net operating income before change in ECL increased by 12% to HK$10,702m, with a 252% increase in both operating profit and profit before tax to HK$2,442m. Net interest income rose by 17% demonstrating the outcome of quality customer acquisition.

Global Banking's net operating income before change in ECL increased by 8% to HK$2,977m, with a 271% increase in both operating profit and profit before tax to HK$1,408m. Net interest income rose by 7%, driven by the addition of new accounts and enhanced cash management solutions.

6. Global Markets

In Global Markets, wealth products saw turnover double in capital protected investments, with notable growth in equity derivatives and retail bond trading.

Global Markets faced a 10% reduction in net operating income before change in ECL to HK$2,413m, with both operating profit and profit before tax down by 17% to HK$1,677m. Net interest income declined by 24% to HK$1,162m amid market challenges and rising interest rates impacting Market Treasury. That said, non-interest income improved by 10% to HK$1,251m, driven by repo trading, equities and rates related structured products.

Review by Diana Cesar, Executive Director and Chief Executive *(continued)*

7. Financial Overview

Amid a high interest rate environment, net interest income rose by HK$6,744m to HK$32,295m, resulting in a 55-basis-point increase in the net interest margin. Gross loan balances decreased by 7% compared to 31 December 2022, reflecting dampened credit demand and our strategic de-risking initiatives.

Customer deposits declined by 8% compared to the end of 2022, a result of our deliberate strategy to protect margin whilst managing an already healthy book of liabilities in the context of escalating market interest rates and subdued loan demand.

Current accounts and savings accounts as a percentage of total customer deposits decreased from 59% at 31 December 2022 to 53.3% as at 31 December 2023.

Net income/(loss) from financial instruments measured at fair value through profit or loss registered a net gain of HK$11,330m, reversing from a net loss of HK$21,455m in 2022. This shift in investment performance within the insurance sector was primarily due to consistent interest rate movements, which improved the fair value of debt securities.

The Bank recorded insurance finance expenses of HK$10,805m, diverging from the insurance finance income of HK$22,720m in 2022. The variance is mainly due to the change in fair value of underlying items for variable fee approach contracts, which acts as a counterbalance to the net income/(loss) from financial instruments measured at fair value through profit or loss.

Moreover, increases were recorded in insurance services results and other operating income by HK$389m and HK$396m, respectively.

Net operating income before change in ECL and other credit impairment charges grew by 19% to HK$40,822m.

The cost efficiency ratio saw an improvement of 4.3 percentage points to 35.8%, benefitted from higher revenue in an elevated rate environment as well as strict cost discipline throughout the year. We will maintain a rigorous approach to cost management on business-as-usual activities and invest to sustain our long-term growth trajectory.

Expected credit losses ('ECL') and other credit impairment charges decreased by HK$1,446m to HK$6,248m, due to lower Stages 1 and 2 ECL on the back of lower loan balances offset by higher Stage 3 ECL mainly related to mainland China CRE exposure.

Profit before tax increased by 57% year-on-year to HK$20,105m, while attributable profit rose by 58% to HK$17,848m. Earnings per share grew by 62% to HK$8.97. By business segment, profit before tax for Wealth and Personal Banking, Commercial Banking, and Global Banking increased by 42%, 252% and 271% respectively. However, Global Markets' profit before tax decreased by 17%.

Return on average ordinary shareholders' equity improved to 11.3%, up from 7.2% in 2022. Similarly, return on average total assets increased to 1%, from 0.6% in the prior year.

As of 31 December 2023, our CET 1 capital ratio was recorded at 18.1%, T1 capital ratio at 19.9%, and total capital ratio at 21.4%. Our liquidity coverage ratio ended the year at 260.7%, comfortably above the statutory requirement.

Review by Diana Cesar, Executive Director and Chief Executive *(continued)*

8. Conclusion

Amid a tough year, we have re-focused the business to diversify our income streams and grow targeted new customers. The results are encouraging. Profit before tax increased by HK$7.3bn. This is a testament to the success of our strategy and approach.

The positive financial trajectory has enabled us to continuously invest in technology and analytics. These capabilities will elevate our services and standards to further delight our customers.

I should also mention that the 90th anniversary celebration which lasted the whole year was very well received by the market and our clients. This has reinforced our position as Hong Kong's largest local bank. We are proud of our heritage and I am optimistic the future looks positive.

I want to personally thank all my Hang Seng colleagues for their tireless efforts and positive attitudes. Their dedication and commitment have ensured that we always keep customer needs and shareholder returns at the heart of our decisions and actions.

Whatever the pace of economic recovery, we are well-positioned to sustain our performance. We will continue to support our customers and the community in Hong Kong and the mainland China.

Results Summary

The Group's financial performance benefited from the post pandemic economic recovery and the reopening of the Mainland-Hong Kong boundary. However, business growth was limited by market concerns about volatile economic conditions and expectations of prolonged high interest rates that continued to dampen investment sentiment and loan demand. Nevertheless, the Group seized opportunities to enhance its net interest income through proactive loan and deposit portfolio management. The Group remains vigilant and will continue to closely monitor the prevailing interest rate outlook and capture opportunities as the economy recovers, notably in cross-boundary business.

The Group adopted HKFRS 17 'Insurance Contracts' on 1 January 2023. The impact of the change on comparative figures previously published under HKFRS 4 'Insurance Contracts' is set out in the 'Additional Information' section of this press release.

Net operating income before change in expected credit losses and other credit impairment charges was HK$40,822m, up 19%. Net interest income rose by 26% as a result of higher market interest rates, more than offsetting the decline in the loan portfolio. This rise was partly offset by a 4% decrease in non-interest income, mainly due to lower securities broking-related income reflecting reduced stock turnover volumes and higher credit card fee expenses to support card business expansion. Operating expenses increased by 6% compared with 2022, mainly due to increases in data processing and administrative services fees, coupled with technology investments to support innovation and operational efficiency. The change in ECL decreased by HK$1,446m to HK$6,248m, reflecting the net release of HK$1,071m for Stage 1 and Stage 2 exposure in 2023 compared with net charges of HK$1,350m in 2022, offset by higher ECL charges for wholesale Stage 3 customers. **Operating profit** increased by 55% to HK$19,946m. **Profit before tax** rose by 57% to HK$20,105m and **profit attributable to shareholders** was up by 58% at HK$17,848m.

Net interest income increased by HK$6,744m, or 26%, to HK$32,295m, supported by the 55-basis-point improvement in the net interest margin. Average interest-earning assets declined by HK$56bn, or 4%, to HK$1,406bn due to subdued new loan demand and de-risking measures pertaining to the mainland China CRE sector, partly offset by higher average balances in financial investments and interbank placements due to the redeployment of the commercial surplus.

Net interest margin widened by 55 basis points to 2.30%, attributable mainly to the Group proactively managing its assets and liabilities under the rising interest rate environment, which resulted in a widening of deposit spreads. The net interest spread increased by 27 basis points to 1.89%.

Figures in HK$m	***2023***	*2022 (restated)*
Average interest-earning assets	**1,406,183**	1,462,548
Net interest spread	**1.89 %**	1.62 %
Net interest margin	**2.30 %**	1.75 %

Net fee income decreased by HK$306m, or 6%, to HK$4,920m, primarily due to an increase in fee expenses outweighing fee income growth. Fee expenses rose by 28%, mainly because of higher processing and interchange fees, along with higher cash dollar awards to customers to stimulate the card service income from the rebound of consumer activities. Income from securities broking-related services dropped by 11%, reflecting the adverse impact of stock market performance. Import and export fee income also decreased by 27% due mainly to subdued trade finance activities. Credit facilities fees were down by 15%, as a result of reduced new corporate lending activities. These unfavourable factors were partly offset by higher fee income from card services, account services and data license fees under other fee income.

Net income/(loss) from financial instruments measured at fair value through profit or loss showed net income of HK$11,330m, an improvement from net loss of HK$21,455m in 2022. Net income/(expense) from assets and liabilities of insurance business, including related derivatives, measured at fair value through profit or loss recorded a gain of HK$11,478m; improved from a loss of HK$21,939m in 2022; mainly reflected fair value gains on debt securities measured at fair value through profit or loss which back insurance contracts. There is an offsetting impact within the associated insurance liability accounting reported in Insurance finance income/(expenses).

Net trading income, net income/(loss) from financial instruments designated at fair value through profit or loss, and changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss together decreased by HK$632m, or 131%, to a loss of HK$148m. This was due to higher interest expenses on structured deposits and certificates of deposits issued in response to rising interest rates.

Insurance finance income/(expenses) recorded an expense of HK$10,805m in 2023 (an income of HK$22,720m in 2022), offsetting gains/(losses) reported on underlying assets held to support insurance contract liabilities.

Insurance service results showed an increase of HK$389m, or 23%, to HK$2,049m. This increase was propelled by new business growth in 2023, favourable experience variances, and the impact of assumption changes. The enhanced insurance service results also reflected a decrease in losses from onerous contracts, largely due to improved economic conditions in 2023.

Wealth management business income (mainly investment and insurance related income) increased by HK$615m, or 12%, to HK$5,693m, predominantly coming from the increase in life insurance related income. Investment services income marginally decreased against last year, with growth in retail investment funds and structured investment products income, more than offset by the decrease in securities broking and related services.

Figures in HK$m	***2023***	*2022 (restated)*
Investment services income[1]:		
- retail investment funds	**950**	903
- structured investment products	**524**	453
- securities broking and related services	**1,258**	1,411
- margin trading and others	**62**	65
	2,794	2,832
Life insurance:		
- net interest income	**95**	8
- non-interest income/(expense)	**304**	(6)
- investment returns on life insurance funds (including share of associate's profits/(losses), net surplus/(deficit) on property revaluation backing insurance contracts and change in expected credit losses and other credit impairment charges)	**11,016**	(22,379)
- insurance finance income/(expenses)	**(10,805)**	22,720
- insurance service results	**2,049**	1,660
• insurance revenue	**2,913**	2,766
• insurance service expense	**(864)**	(1,106)
	2,659	2,003
General insurance and others	**240**	243
	5,693	5,078

[1] Income from retail investment funds and securities broking and related services are net of fee expenses. Income from structured investment products includes income reported under net fee income on the sales of third-party structured investment products. It also includes profits generated from the selling of structured investment products in issue, reported under net income/(loss) from financial instruments measured at fair value through profit or loss.

Change in expected credit losses and other credit impairment charges decreased by HK$1,446m, or 19%, to HK$6,248m compared with 2022. The Group has remained vigilant in light of the volatile external environment, continuously monitoring exposures, particularly in the mainland China CRE sector, where recovery is still considered uncertain.

Change in ECL for Stage 1 and Stage 2 unimpaired credit exposures resulted in net releases of HK$1,071m, in contrast to net charges of HK$1,350m in 2022. This turnaround is due to a decline in loan balances stemming from subdued credit demand and higher customer repayments, along with the migration of certain exposures in mainland China CRE to Stage 3 due to portfolio deterioration.

Change in ECL for Stage 3 and purchased or originated credit-impaired exposures ('impaired credit exposures') increased by HK$975m to HK$7,319m compared with 2022, predominately related to mainland China CRE exposures.

Change in ECL (Stage 1 to 3) for Wealth and Personal banking increased by HK$246m to HK$805m. Conversely, Commercial Banking and Global Banking recorded reduced change in ECL (Stages 1 to 3) by HK$1,683m to HK$5,447m.

Gross impaired loans and advances changed from HK$24.2bn as at 31 December 2022 to HK$24.7bn as at 31 December 2023. This change reflects downgrades and write-offs in certain impaired corporate loans, predominately in the mainland China CRE sector. Gross impaired loans and advances as a percentage of gross loans and advances to customers were 2.83% as of 31 December 2023, compared to 2.85% on 30 June 2023 and 2.56% at 31 December 2022.

Other operating income/(loss) saw an increase of HK$396m, or 102%, to HK$783m, mainly due to higher reinsurance income and rental income.

Operating expenses increased by HK$829m, or 6%, to HK$14,624m, primarily due to a rise in general and administrative expenses driven by processing service fees, continued investment in technology to enhance the service experience for customers and our digital capabilities. Amortisation of intangible assets increased by 33%, mainly arising from the capitalised IT systems development costs to support business growth. The general increase in operating expenses is partly offset by the decrease of staff costs by 2% compared with 2022.

Full-time equivalent staff numbers by region	***At 31 December 2023***	*At 31 December 2022*
Hong Kong and others	**6,997**	7,101
Mainland China	**1,497**	1,607
	8,494	8,708

The cost efficiency ratio improved by 4.3 percentage points to 35.8%.

2H 2023 compared with 1H 2023

Net operating income before change in expected credit losses and other credit impairment charges grew by HK$942m, or 5%, to HK$20,882m. This growth was driven by the 13% increase in net interest income, partly offset by the 20% drop in non-interest income. With the 4% increase in operating expenses and incremental ECL charges in 2H 2023, operating profit decreased by HK$1,770m, or 16%. Profit attributable to shareholders decreased by HK$1,806m, or 18%, when compared with 1H 2023.

Net interest income was up HK$1,913m, or 13%, driven by a stronger net interest margin, which improved by 42 basis points to 2.51%. This improvement reflected rising market interest rates in 2H 2023. This positive outcome included the impact from a less favourable deposit mix with current and savings account deposits (‘CASA’) to total deposits lowering to 53.3% at 2023 year-end from 60.9% at 30 June 2023. CASA market share declined by 117 basis points from 30 June 2023 to 9.01% as at 31 December 2023, reflecting the deliberate liability management in the context of escalating market interest rates.

Non-interest income fell by HK$971m, or 20%, primarily reflecting lower net income/(loss) from financial instruments measured at fair value through profit or loss, and reduced levels of customer activity across the Group’s fee-generating businesses. This included notably lower income from credit facilities fees, retail investment funds, securities broking related services, and a decrease in net credit card fee income.

Operating expenses increased by HK$312m, or 4%, driven mainly by higher general and administrative expenses, which outweighed a 4% decrease in staff costs. The Group will continue to proactively manage operating expenses to enable the continuous allocation of resources towards further optimising its digital capabilities and enhancing the customer experience.

ECL increased in 2H 2023 in response to the challenges faced by mainland China CRE developers. Total change in **ECL** increased by HK$2,400m to HK$4,324m, due to higher net charges of HK$196m for Stage 1 and 2 ECL for unimpaired credit exposures in 2H 2023, compared with the net release of HK$1,267m in 1H 2023. Additionally, there were higher charges for impaired credit exposures, which recorded net charges for both periods – HK$4,128m for 2H 2023 and HK$3,191m for 1H 2023 – reflecting the downgrade of certain corporate customers related to the mainland China CRE.

Consolidated Balance Sheet and Key Ratios

Assets

Total assets decreased by HK$162bn, or 9%, to HK$1,692bn compared with the 2022 year-end, reflecting the subdued loan demand under persistent high interest rates environment. The Group maintained resilient business momentum in targeted segments and progressed with its strategy of enhancing long-term profitability through sustainable growth.

Cash and balances at central banks decreased by HK$7bn, or 40%, to HK$11bn. Trading assets and financial assets mandatorily measured at fair value through profit or loss were up marginally by HK$1bn, to HK$201bn.

Customer loans and advances (net of allowances for ECL) decreased by HK$71bn, or 8%, to HK$860bn. The decrease in loan balances reflected dampened credit demand in the elevated rates environment, accompanied by higher customer repayments.

Loans for use in Hong Kong decreased by 4% due to the subdued loan demand under a persistent high interest rates environment.

Residential mortgages and Government Home Ownership Scheme/Private Sector Participation Scheme/Tenants Purchase Scheme lending grew by 5% and 15% respectively, reflecting loan drawdowns to finance the property purchase.

Supported by the improvement in private consumption, credit card advances and other personal lending grew by 7% and 2% respectively.

Trade finance lending decreased by 6%, due mainly to weak global trade performance as reflected in the sluggish logistics industry. It also impacted by increased loan repayment under the high interest rates environment.

Loans for use outside Hong Kong were down by 22%, reflecting the de-risking of mainland China CRE by the Group's mainland banking subsidiary and loans for use outside Hong Kong granted by the Hong Kong office.

Financial investments dropped by HK$75bn, or 16%, to HK$406bn, reflecting decreased commercial surplus, coupled with increased fund deployment to placings with and advances to banks by HK$22bn, or 35%, to HK$84bn.

Liabilities and equity

The Group has re-defined its customer deposits categorisation in 2023 to align with major peers and HSBC Group. Deposits are now categorised as demand and current accounts, savings accounts, time, and other deposits (including structured deposits). Customer deposits decreased by HK$106bn, or 8%, to HK$1,181bn from the end of 2022, attributable mainly to the Group proactively managing its liabilities amid market interest rate rises and subdued loan demand.

CASA as a percentage of total customer deposits decreased from 59.0% at the 2022 year-end to 53.3% at 31 December 2023, reflecting continued migration of deposits from CASA to time deposits due to the rising interest rates environment. At 31 December 2023, the advances-to-deposits ratio was 72.9%, compared with 72.4% at 31 December 2022.

Figures in HK$m	***At 31 December 2023***	*At 31 December 2022 (restated)*
Customer loans and advances (net of allowances for ECL)	**860,406**	931,334
Customer deposits, including structured deposits	**1,180,611**	1,286,624
Advances-to-deposits ratio	**72.9%**	72.4%

At 31 December 2023, shareholders' equity increased by HK$8bn, or 5%, to HK$168bn, driven by an increase in retained profits of HK$8bn, or 7%, reflecting profit accumulation after the appropriation of dividends paid during the year. The cash flow hedging reserve reported negative balances of HK$96m and HK$816m at the end of 2023 and 2022, mainly reflecting the interest rate movements of hedging derivatives during the year. The financial assets at fair value through other comprehensive income reserve reduced by HK$0.2bn, or 9%, mainly contributed by the net impact of the fair value losses in equity instruments and the fair value gains in debt instruments. The foreign currency exchange reserve also dropped by HK$449m as a result of the depreciation of the RMB currency.

Key ratios

Return on average total assets was 1.0% (0.6% for 2022). **Return on average ordinary shareholders' equity** was 11.3% (7.2% for 2022).

At 31 December 2023, the **CET1 capital ratio**, **T1 capital ratio** and **total capital ratio** were 18.1%, 19.9% and 21.4% respectively, well above the regulatory requirement.

Under the Banking (Liquidity) Rules, the average **liquidity coverage ratio ('LCR')** ranged from 240.1% to 276.7% for the quarters ended 31 March, 30 June, 30 September and 31 December 2023. The average LCR ranged from 188.9% to 275.3% for the corresponding quarters in 2022. For both years, the Group maintained a strong average LCR that was higher than the statutory requirement of 100%. The LCR on 31 December 2023 was 260.7% compared with 281.3% on 31 December 2022. The period-end **net stable funding ratio ('NSFR')** ranged from 161.4% to 168.4% for the quarters ended 31 March, 30 June, 30 September and 31 December 2023, well in excess of the regulatory requirement of 100%. The period-end NSFR ranged from 151.3% to 163.8% for the corresponding quarters in 2022.

Dividends

The Directors have declared a fourth interim dividend of HK$3.20 per share, which will be payable on 21 March 2024 to shareholders on the register as of 7 March 2024. Together with the interim dividends for the first three quarters, the total distribution for 2023 will be HK$6.50 per share.

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking*	*Global Markets*	*Other* [2]	*Total*
Year ended 31 December 2023 [1]						
Net interest income/(expense)	**17,324**	**9,364**	**2,709**	**1,162**	**1,736**	**32,295**
Net fee income/(expense)	**3,091**	**1,165**	**313**	**(38)**	**389**	**4,920**
Net income/(loss) from financial instruments measured at fair value through profit or loss	**11,510**	**167**	**(46)**	**1,292**	**(1,593)**	**11,330**
Gains less losses from financial investments	**–**	**–**	**–**	**(3)**	**–**	**(3)**
Dividend income	**–**	**–**	**–**	**–**	**253**	**253**
Insurance finance income/(expenses)	**(10,805)**	**–**	**–**	**–**	**–**	**(10,805)**
Insurance service results	**2,049**	**–**	**–**	**–**	**–**	**2,049**
of which: - insurance revenue	***2,913***	**–**	**–**	**–**	**–**	***2,913***
- insurance service expense	***(864)***	**–**	**–**	**–**	**–**	***(864)***
Other operating income/(loss)	**471**	**6**	**1**	**–**	**305**	**783**
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	**23,640**	**10,702**	**2,977**	**2,413**	**1,090**	**40,822**
of which: - external	***3,107***	***11,777***	***8,473***	***17,828***	***(363)***	***40,822***
- inter-segment	***20,533***	***(1,075)***	***(5,496)***	***(15,415)***	***1,453***	**–**
Change in expected credit losses and other credit impairment charges	**(805)**	**(4,664)**	**(783)**	**4**	**–**	**(6,248)**
Net operating income	**22,835**	**6,038**	**2,194**	**2,417**	**1,090**	**34,574**
Operating expenses *	**(8,642)**	**(3,596)**	**(786)**	**(740)**	**(860)**	**(14,624)**
Impairment loss on intangible assets	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Operating profit/(loss)	**14,193**	**2,442**	**1,408**	**1,677**	**226**	**19,946**
Net surplus/(deficit) on property revaluation	**–**	**–**	**–**	**–**	**(34)**	**(34)**
Share of profits/(losses) of associates	**193**	**–**	**–**	**–**	**–**	**193**
Profit/(loss) before tax	**14,386**	**2,442**	**1,408**	**1,677**	**192**	**20,105**
Share of profit/(loss) before tax	**71.6%**	**12.1%**	**7.0%**	**8.3%**	**1.0%**	**100.0%**
* *Depreciation/amortisation included in operating expenses*	**(810)**	**(12)**	**(2)**	**(1)**	**(2,024)**	**(2,849)**
As at 31 December 2023 [1]						
Total asset	**605,718**	**278,658**	**207,882**	**578,704**	**21,132**	**1,692,094**
Of which: Gross loans and advances to customers	**399,878**	**278,055**	**196,106**	**–**	**–**	**874,039**
Total liability	**1,066,147**	**266,297**	**60,266**	**101,330**	**29,870**	**1,523,910**
Of which: Customer deposits [3]	**867,583**	**255,937**	**57,091**	**–**	**–**	**1,180,611**
Interest in associates	**2,363**	**–**	**–**	**–**	**–**	**2,363**
Non-current assets acquired during the year	**144**	**22**	**3**	**2**	**1,579**	**1,750**
Year ended 31 December 2023 [1]						
Net fee income by segment						
- securities broking and related services	**1,190**	**65**	**1**	**21**	**–**	**1,277**
- retail investment funds	**955**	**13**	**–**	**–**	**–**	**968**
- insurance	**130**	**153**	**74**	**–**	**–**	**357**
- account services	**314**	**143**	**7**	**1**	**–**	**465**
- remittances	**50**	**162**	**35**	**–**	**–**	**247**
- cards	**3,080**	**27**	**–**	**–**	**–**	**3,107**
- credit facilities	**16**	**246**	**132**	**–**	**–**	**394**
- imports/exports	**–**	**228**	**26**	**–**	**–**	**254**
- other	**153**	**153**	**42**	**23**	**389**	**760**
Fee income	**5,888**	**1,190**	**317**	**45**	**389**	**7,829**
Fee expense	**(2,797)**	**(25)**	**(4)**	**(83)**	**–**	**(2,909)**
Net fee income/(expense)	**3,091**	**1,165**	**313**	**(38)**	**389**	**4,920**

Figures in HK$m	***Wealth and Personal Banking***	***Commercial Banking***	***Global Banking***	***Global Markets***	***Other*** [2]	***Total***
***Year ended 31 December 2022** (restated)* [1]						
Net interest income/(expense)	12,914	8,021	2,533	1,535	548	25,551
Net fee income/(expense)	3,268	1,338	343	(58)	335	5,226
Net income from financial instruments measured at fair value through profit or loss	(21,912)	183	(122)	1,109	(713)	(21,455)
Gains less losses from financial investments	–	–	–	85	–	85
Dividend income	–	–	–	–	225	225
Insurance finance income/(expenses)	22,720	–	–	–	–	22,720
Insurance service results	1,660	–	–	–	–	1,660
of which: - insurance revenue	*2,766*	–	–	–	–	*2,766*
- insurance service expense	*(1,106)*	–	–	–	–	*(1,106)*
Other operating income/(loss)	139	8	2	–	238	387
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	18,789	9,550	2,756	2,671	633	34,399
of which: - external	*11,811*	*10,730*	*4,983*	*7,502*	*(627)*	*34,399*
- inter-segment	*6,978*	*(1,180)*	*(2,227)*	*(4,831)*	*1,260*	–
Change in expected credit losses and other credit impairment charges	(559)	(5,442)	(1,688)	(4)	(1)	(7,694)
Net operating income	18,230	4,108	1,068	2,667	632	26,705
Operating expenses *	(8,100)	(3,414)	(688)	(643)	(950)	(13,795)
Impairment loss on intangible assets	–	–	–	–	(11)	(11)
Operating profit/(loss)	10,130	694	380	2,024	(329)	12,899
Net surplus on property revaluation	–	–	–	–	(108)	(108)
Share of profits of associates	(10)	–	–	–	–	(10)
Profit/(loss) before tax	10,120	694	380	2,024	(437)	12,781
Share of profit/(loss) before tax	79.2%	5.4%	3.0%	15.8 %	(3.4)%	100.0%
* *Depreciation/amortisation included in operating expenses*	(803)	(11)	(2)	(1)	(1,859)	(2,676)
***As at 31 December 2022** (restated)* [1]						
Total assets	581,351	356,470	211,807	674,297	30,521	1,854,446
Of which: Gross loans and advances to customers	382,727	353,172	208,829	–	–	944,728
Total liabilities	1,096,240	331,988	126,329	106,656	33,235	1,694,448
Of which: Customer deposits [3]	902,506	293,510	90,608	–	–	1,286,624
Interest in associates	2,256	–	–	–	–	2,256
Non-current assets acquired during the year	168	29	–	4	1,686	1,887
***Year ended 31 December 2022** (restated)* [1]						
Net fee income by segment						
- securities broking and related services	1,322	92	1	20	–	1,435
- retail investment funds	911	15	–	–	–	926
- insurance	127	178	76	–	–	381
- account services	265	126	7	3	–	401
- remittances	80	164	34	–	–	278
- cards	2,582	26	–	–	–	2,608
- credit facilities	16	306	140	–	–	462
- imports/exports	–	311	37	–	–	348
- other	128	144	51	9	335	667
Fee income	5,431	1,362	346	32	335	7,506
Fee expense	(2,163)	(24)	(3)	(90)	–	(2,280)
Net fee income/(expense)	3,268	1,338	343	(58)	335	5,226

[1] *HKFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively, comparative figures have been restated. To align with HSBC Group's presentation of net interest income and net interest margin, interest income arising from trading assets and interest expense arising from trading liabilities and financial liabilities designated at fair value have been reclassified to 'Net income/(loss) from financial instruments measured at fair value through profit or loss'.*
[2] *Including inter-segment elimination, of which total assets amounted to HK$29.0bn as at 31 December 2023 (HK$33.9bn as at 31 December 2022) and total liabilities amounted to HK$19.5bn as at 31 December 2023 (HK$24.4bn as at 31 December 2022).*
[3] *Customer deposits balances include current, savings and other deposit accounts, as well as structured deposits.*

Wealth and Personal Banking ('WPB') recorded a 26% year-on-year increase in net operating income before change in ECL and other credit impairment charges to HK$23,640m. This was driven by strong growth in net interest income, which was up by 34% year-on-year. Operating profit and profit before tax increased by 40% to HK$14,193m and by 42% to HK$14,386m respectively.

Competition in deposits remained intense in 2H 2023, which accelerated the shift of funds to time deposits in the market. By strengthening customer relationships, we actively managed our deposit acquisition strategies to enhance our position in current and savings accounts, particularly with growth in customers and market share of foreign currency deposits. Our gross loans and advances to customers grew by 4% year-on-year, and we maintained our market position in mortgages, cards and personal loans. Fee income from credit card issuing benefited from the rebound in travel and consumer spending, and this also helped drive the 31% year-on-year increase in net merchant acquiring fee. To complement changing patterns in everyday spending by customers, we have revamped our credit card rewards programme (+FUN Dollars rewards), offering customers more personalised rewards, multiplier redemption offers and exclusive rewards experiences including allowing customers to repay their card statement balance with reward points. The newly introduced '+FUN Centre', a one-stop rewards platform on the Hang Seng Mobile App, makes it easier and more convenient for customers to check their +FUN Dollars and latest redemption offers, as well as earn additional rewards by completing missions anytime, anywhere.

Customer growth remains one of our key strategic priorities; we achieved a 17% year-on-year increase in our affluent segments. With the increased demand in private banking wealth management, we recorded a 116% year-on-year growth in their new accounts. We launched the first-in-the-market Prestige Banking Family+ account and pet-friendly branch that help meet the diverse needs of our customers. With this 'Family CFO' launch campaign for Prestige Banking, we won five accolades in 'Marketing Excellence Awards 2023'. We also aimed to grow our young segments. By focusing on their increasing needs in savings and budgeting, we launched Money Master as a savings planning tool with auto-track expense functions, personalised tips and progress updates via HARO WhatsApp. Supported together with diverse digital capabilities, we achieved 13% and 38% year-on-year growth on our young segment base and young new-to-bank clients. To address the evolving demand for wealth management services in the GBA, we have opened six cross-boundary Wealth Management Centres in Sheung Shui, Central, Kowloon Tong, Tsim Sha Tsui, Shenzhen and Guangzhou where clients can enjoy seamless and convenient wealth management services. In January 2024, with the opening of the second centre in Guangzhou, we now have seven cross-boundary Wealth Management Centres in key GBA cities. We introduced the Future Banking model at our new location in Festival Walk, furnished with a new Smart Teller area and with eco-friendly design including a special 'CO2 Reduction system' to reduce carbon dioxide levels in the branch, together with our 'Simple Mode' for mobile banking.

Despite the current challenging and volatile market environment, our comprehensive product strategies, in particular the risk-off products with yield enhancements, have successfully broadened our wealth customer base with different risk appetites and achieved a healthy business mix along the high interest rates environment. This brings our active retail customers with investment transactions (excluding Securities & Government Bonds) recorded 19% year-on-year growth. In addition, the launch of revamped wealth tool ('Wealth Master') with strengthened analytical tools for portfolio rebalancing and diversification, young segment pricing for stock trading ('SimplyStock') has further improved our customer investment journey and strengthened customer stickiness on wealth business.

Hang Seng Investment Management Limited ('HSVM'), our wholly-owned subsidiary, as the leading manager of Hong Kong's listed exchange-traded funds ('ETF') in terms of assets under management ('AUM'). HSVM was honoured with the title of 'Fund House of the Year – Hong Kong SAR' at the AsianInvestor Asset Management Awards 2023. Celebrating its 30th anniversary, HSVM has seen notable growth in AUM and revenue, fortifying its position in the local asset management sector. 2023 also commemorates the first anniversary of HSVM's stewardship of the Tracker Fund of Hong Kong ('TraHK'), which has scaled new heights in its 24-year history, achieving record-high AUM and unit issuance despite challenging market conditions.

In May, HSVM's third flagship ETF was included as a southbound eligible ETF under the ETF Connect Scheme, making it the sole fund manager to have the maximum of three ETFs available in the market in this scheme. Leveraging Hong Kong's pivotal role as a super-connector between mainland China and the world, HSVM has collaborated with a leading Thai securities company 'Bualuang Securities', leading to the November launch of two Depositary Receipts ('DR') on the Stock Exchange of Thailand which invest in TraHK and Hang Seng China Enterprises Index ETF.

HSVM has also contributed to sustainability efforts by launching the 'Hang Seng Stock Connect China A Low Carbon Index ETF' in March 2023, marking the market's first A-share low-carbon themed ETF.

Our investment services and insurance businesses witnessed a 17% growth in income, marked by strong performance in structured investment products. With border reopening and continual enhancement on product suite with good customer response to our new flagship product, our insurance business achieved 174% year-on-year growth in annualised new premiums ('ANP'). Mainlander insurance contributions surpassed pre-COVID levels. Under HKFRS 17, profits from new business are capitalised in the Contractual Service Margin ('CSM') balance, which has grown by 10% to HK$21bn.

With effective wealth campaigns and a resurgence in travel, we observed a surge in uptake of travel insurance products. To provide customers with an enhanced range of general insurance products, Hang Seng and Chubb entered into an exclusive 15-year distribution agreement which was officially launched in July 2023. We continued to offer competitive customer-centric solutions and uplifted our digital capabilities to address customers' financial and health well-being needs.

We offer best-in-class digital experiences that are simple and secure for our customers, who can access our services at their pace and by their choice. We drove digital adoption through customer onboarding, reducing the account opening time to less than 30 minutes. We also introduced secured identification verification journeys for account opening and mobile authentication of branch and online transactions, allowing our customers to manage their financials safely. Innovation resides at the very heart of our organisation. We are among the first banks to participate in the e-HKD Pilot Programme and in the technical testing of using FPS to top up e-CNY wallets, continuously exploring the expansion of cross-boundary application of e-CNY under the Memorandum of Understanding ('MoU') with China Construction Bank. Supported by all these innovations, we recorded a 16% year-on-year increase in monthly active mobile customers, and our digital retail transaction count rose by 115% year-on-year. As recognised by the industry, we have received 16 awards from The Asset, The Digital Banker, The Asian Banker, and other issuers in 2023.

Commercial Banking ('CMB') recorded a 12% growth in net operating income before change in ECL and other credit impairment charges to HK$10,702m. Both operating profit and profit before tax were up by 252% to HK$2,442m.

We continued to focus on quality customers acquisition, which grew 8% year-on-year, providing a sustainable source of deposits. As a result, net interest income achieved a 17% growth. However, non-interest income dropped by 12%, adversely impacted by the decline in trade finance and fee income from credit facilities due to reduced new loans.

To uplift the customer experience in account opening, we expanded the scope of Remote Account Opening services to include Hong Kong companies with mainland shareholders. Following this enhancement, our Remote Account Opening service is now available to sole proprietorships, partnerships, and limited companies established in Hong Kong with up to 10 connected parties who hold either a Hong Kong Identity Card or a Mainland Identity Card. We are also the first bank in Hong Kong to offer our mainland customers a Commercial Banking e-Sign service, enabling them to sign banking documents electronically at any time and from anywhere. In addition, we now provide one-stop multi-market onboarding services for the GBA to address customers' cross-boundary banking needs.

Our digital transformation journey continued with the aim of providing comprehensive digital solutions. We rolled out Hang Seng TradePay, an innovative digital trade finance solution that combines finance and payment into a single, fast and seamless process, allowing customers greater control over payment timing to improve their working capital position. The launch of FPS QR Mobile Collect enables merchants to collect payment instantly in a secure, reliable way via the generation of FPS QR code in the Hang Seng Business Mobile App. When a customer makes an online outward remittance, our newly introduced FX Prompt function can suggest the right payment currency, assisting the customer in managing foreign exchange costs. To encourage customers to experience the ease and convenience of digital banking, customers can now earn rewards while performing their daily digital banking activities.

Our focus in driving ESG performance continued. We arranged our first social loan to finance community development projects that support access to education and improve housing affordability. We also worked with the Hong Kong Export Credit Insurance Corporation to provide green receivables financing solution to clients, facilitating their carbon emissions reduction and growth of its sustainable supply chain network.

The new Lai Chi Kok Business Banking Centre is now open, focusing on providing diversified digital transformation solutions for customers to improve overall operational efficiency and to connect them with strategic partners in the technology industry.

We have been recognised as 'Hong Kong Domestic Trade Finance Bank of the Year' at the Asian Banking and Finance Awards 2023. We were also awarded 'Best Payment Solutions Provider' at Corporate Treasurer Awards 2023.

Global Banking ('GB') reported an 8% year-on-year growth in net operating income before changes in ECL and other credit impairment charges, reaching HK$2,977m. Both operating profit and profit before tax surged by 271% to HK$1,408m.

Fuelled by successful account acquisition strategies for operating cash flow deposits and benefits from the rising interest rates, net interest income grew by 7% year-on-year. Our focus on expanding our digitalised and tailor-made cash management solutions has enhanced customer experience and streamlined our processes.

However, this growth in deposit was counterbalanced by a decline in loan interest income which was affected by economic uncertainty and reduced commercial activity in the market. Nevertheless, we have continued to manage capital more efficiently, providing a broader range of balance sheet support to corporations through our bond management team, which resulted in a 116% increase in our bond portfolio balance.

We saw a solid 20% year-on-year increase in non-interest income, driven by our efforts in diversifying our revenue streams, such as offering hedging solutions to customers in a high-interest-rate environment, and strengthening our debt capital markets origination activities.

We have also taken proactive steps in providing sustainability-linked loans to assist our clients in transitioning to a low-carbon economy and to improve their environmental performance. These initiatives are part of our strategy to promote more sustainable business practices and to lessen environmental impact.

Our efforts to deliver customer-centric services were recognised with the ‘Global Banking Award’ at the High Flyers Awards, presented by Hong Kong Business in acknowledgment of our innovative banking solutions tailored for the ever-evolving financial market.

Global Markets (‘GM’) reported a 10% decrease in net operating income before change in ECL and other credit impairment charges, amounting to HK$2,413m. Operating profit and profit before tax both fell by 17% to HK$1,677m.

Net interest income decreased by 24% to HK$1,162m, impacted by the unfavourable interest rate environment and increased funding costs.

On the other hand, non-interest income rose by 10% to HK$1,251m. We recorded revenue growth in our repo trading, equities, and rates-related structured products. Our repo business alone saw a remarkable 79% revenue growth year-on-year, expanding by onboarding new clients and enhancing our product suite. Rates trading performed well, posting a year-on-year growth of 43%. We have adeptly capitalised on market opportunities and managed risk positions amid fluctuations in the foreign exchange and interest rate markets, achieving both qualitative and quantitative growth in 2023. Furthermore, the equities and structuring business took advantage of improved client sentiment in equity structured products.

In 2023, we achieved strong growth in our wealth products, with capital protected investment sales turnover more than doubling. Through close collaboration with other business units, turnover for our equity derivative products increased significantly, with a year-on year growth of 44%, along with a 71% growth in retail bond trading volume.

Figures in HK$m	Notes	***Year ended 31 December*** ***2023***	*2022 (restated)*[1]
Interest income [2]		**59,439**	34,782
Interest expense		**(27,144)**	(9,231)
Net interest income	1	**32,295**	25,551
Fee income		**7,829**	7,506
Fee expense		**(2,909)**	(2,280)
Net fee income	2	**4,920**	5,226
Net income/(loss) from financial instruments measured at fair value through profit or loss	3	**11,330**	(21,455)
Gains less losses from financial investments		**(3)**	85
Dividend income		**253**	225
Insurance finance income / (expenses)		**(10,805)**	22,720
Insurance service results		**2,049**	1,660
- Insurance revenue		**2,913**	2,766
- Insurance service expense		**(864)**	(1,106)
Other operating income / (loss)	4	**783**	387
Net operating income before change in expected credit losses and other credit impairment charges		**40,822**	34,399
Change in expected credit losses and other credit impairment charges	5	**(6,248)**	(7,694)
Net operating income		**34,574**	26,705
Employee compensation and benefits		**(5,795)**	(5,909)
General and administrative expenses		**(5,980)**	(5,210)
Depreciation expenses		**(1,915)**	(1,974)
Amortisation of intangible assets		**(934)**	(702)
Operating expenses	6	**(14,624)**	(13,795)
Impairment loss on intangible assets		**(4)**	(11)
Operating profit		**19,946**	12,899
Net surplus/(deficit) on property revaluation		**(34)**	(108)
Share of profits/(losses) of associates		**193**	(10)
Profit before tax		**20,105**	12,781
Tax expense	7	**(2,267)**	(1,509)
Profit for the year		**17,838**	11,272
Profit attributable to:			
Shareholders of the Bank		**17,848**	11,286
Non-controlling interests		**(10)**	(14)
Earnings per share – basic and diluted (in HK$)	8	**8.97**	5.53

Details of dividends payable to shareholders of the Bank attributable to the profit for the year are set out on page 31 (Note 9).

[1] HKFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively, comparative figures have been restated. To align with HSBC Group's presentation of net interest income and net interest margin, interest income arising from trading assets and interest expense arising from trading liabilities and financial liabilities designated at fair value have been reclassified to 'Net income/(loss) from financial instruments measured at fair value through profit or loss'.

[2] Interest income is calculated using the effective interest method and comprises interest recognised on financial assets measured at either amortised cost or fair value through other comprehensive income.

Figures in HK$m	***Year ended 31 December*** ***2023***	*2022 (restated)* [1]
Profit for the year	**17,838**	11,272
Other comprehensive income		
Item that will be reclassified subsequently to the Consolidated Income Statement when specific conditions are met:		
Debt instruments at fair value through other comprehensive income (‘FVOCI’) reserve:		
- fair value gains /(losses) taken to equity	**814**	(1,298)
- fair value (gains)/losses transferred to Consolidated Income Statement:		
-- on hedged items	**(390)**	550
-- on disposal	**3**	(85)
- release of expected credit losses recognised in the Consolidated Income Statement	**(3)**	(1)
- deferred taxes	**(70)**	137
Cash flow hedge reserve:		
- fair value gains/(losses) taken to equity	**944**	2,213
- fair value (gains)/losses transferred to Consolidated Income Statement	**(82)**	(3,245)
- deferred taxes	**(142)**	170
Exchange differences on translation of:		
- financial statements of overseas branches, subsidiaries and associates	**(449)**	(1,302)
Items that will not be reclassified subsequently to the Consolidated Income Statement:		
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:		
- fair value gains/(losses) taken to equity	**11**	(6)
- deferred taxes	**(2)**	1
Equity instrument designated at fair value through other comprehensive income:		
- fair value gains/(losses) taken to equity	**(548)**	(110)
Premises:		
- unrealised surplus/(deficit) on revaluation of premises	**976**	665
- deferred taxes	**(163)**	(118)
Defined benefit plans:		
- actuarial gains/(losses) on defined benefit plans	**89**	(18)
- deferred taxes	**(15)**	3
Others	**242**	128
Other comprehensive income for the year, net of tax	**1,215**	(2,316)
Total comprehensive income for the year	**19,053**	8,956
Total comprehensive income for the year attributable to:		
- shareholders of the Bank	**19,063**	8,970
- non-controlling interests	**(10)**	(14)
	19,053	8,956

[1] HKFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively, comparative figures have been restated.

Figures in HK$m	Notes	***At 31 December 2023***	*At 31 December 2022 (restated)* [1]	*At 1 January 2022 (restated)* [1]
ASSETS				
Cash and balances at central banks		**10,564**	17,609	16,896
Trading assets	11	**44,018**	47,373	47,433
Derivative financial instruments		**14,959**	22,761	13,224
Financial assets mandatorily measured at fair value through profit or loss	12	**156,872**	152,957	160,479
Reverse repurchase agreements – non-trading		**30,202**	42,364	18,821
Placings with and advances to banks		**83,756**	62,203	72,252
Loans and advances to customers	13	**860,406**	931,334	997,397
Financial investments	15	**405,792**	480,698	377,972
Interest in associates		**2,363**	2,256	2,341
Investment properties		**12,000**	11,998	9,545
Premises, plant and equipment		**27,075**	27,498	31,205
Intangible assets		**4,335**	3,894	3,123
Other assets		**39,752**	51,501	53,442
Total assets		**1,692,094**	1,854,446	1,804,130
LIABILITIES AND EQUITY				
Liabilities				
Deposits from banks		**19,707**	5,205	5,333
Current, savings and other deposit accounts	16	**1,153,062**	1,249,486	1,230,216
Repurchase agreements – non-trading		**12,767**	11,304	16,592
Trading liabilities		**35,227**	46,323	44,291
Derivative financial instruments		**14,478**	20,992	12,252
Financial liabilities designated at fair value	17	**45,633**	46,309	27,399
Certificates of deposit in issue		**9,857**	93,379	81,567
Other liabilities		**33,759**	38,040	33,745
Insurance contract liabilities		**167,264**	152,374	164,899
Current tax liabilities		**990**	389	603
Deferred tax liabilities		**3,675**	3,168	3,547
Subordinated liabilities		**27,491**	27,479	24,484
Total liabilities		**1,523,910**	1,694,448	1,644,928
Equity				
Share capital		**9,658**	9,658	9,658
Retained profits		**126,624**	118,717	114,886
Other equity instruments		**11,744**	11,744	11,744
Other reserves		**20,105**	19,814	22,830
Total shareholders' equity		**168,131**	159,933	159,118
Non-controlling interests		**53**	65	84
Total equity		**168,184**	159,998	159,202
Total equity and liabilities		**1,692,094**	1,854,446	1,804,130

[1] *HKFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively, comparative figures have been restated.*

For the year ended 31 December 2023

Figures in HK$m	Share capital	Other equity instrument	Retained profits[1]	Other Reserves: Premises revaluation reserve	Other Reserves: Financial assets at FVOCI reserve	Other Reserves: Cash flow hedge reserve	Other Reserves: Foreign exchange reserve	Other Reserves: Others[2]	Total shareholders' equity	Non-controlling interests	Total equity
At 1 January 2023	**9,658**	**11,744**	**118,717**	**18,338**	**1,737**	**(816)**	**(122)**	**677**	**159,933**	**65**	**159,998**
Profit for the year	–	–	**17,848**	–	–	–	–	–	**17,848**	**(10)**	**17,838**
Other comprehensive income (net of tax)	–	–	**316**	**813**	**(194)**	**720**	**(449)**	**9**	**1,215**	–	**1,215**
Debt instruments at fair value through other comprehensive income	–	–	–	–	**354**	–	–	–	**354**	–	**354**
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	**(548)**	–	–	–	**(548)**	–	**(548)**
Cash flow hedges	–	–	–	–	–	**720**	–	–	**720**	–	**720**
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	**9**	**9**	–	**9**
Property revaluation	–	–	–	**813**	–	–	–	–	**813**	–	**813**
Actuarial gain on defined benefit plans	–	–	**74**	–	–	–	–	–	**74**	–	**74**
Others	–	–	**242**	–	–	–	**(449)**	–	**(207)**	–	**(207)**
Total comprehensive income for the year	–	–	**18,164**	**813**	**(194)**	**720**	**(449)**	**9**	**19,063**	**(10)**	**19,053**
Dividends paid[3]	–	–	**(10,133)**	–	–	–	–	–	**(10,133)**	–	**(10,133)**
Coupons paid on AT1 capital instruments	–	–	**(708)**	–	–	–	–	–	**(708)**	–	**(708)**
Movement in respect of share-based payment arrangements	–	–	**(6)**	–	–	–	–	**(18)**	**(24)**	–	**(24)**
Exchange differences	–	–	–	–	–	–	–	–	–	**(2)**	**(2)**
Transfers[4]	–	–	**590**	**(626)**	**36**	–	–	–	–	–	–
At 31 December 2023	**9,658**	**11,744**	**126,624**	**18,525**	**1,579**	**(96)**	**(571)**	**668**	**168,131**	**53**	**168,184**

[1] *Retained profits are the cumulative net earnings of the Group that have not been paid out as dividends, but retained to be reinvested in the business. To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group is required to earmark a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 31 December 2023, the Group is not required to restrict any reserves which can be distributed to shareholders (2022: nil) as the impairment allowance for Stage 1 and 2 loans and advances to customers exceeded the required regulatory reserve balance.*

[2] *Other reserves comprise share-based payment reserve and own credit risk reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the Group by the ultimate holding company. The own credit risk reserve is for the change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk.*

[3] *Dividends paid represented the payment of fourth interim dividend of 2022 and the first three interim dividends of 2023 amounted to HK$3,824m and HK$6,309m respectively.*

[4] *This includes transfers from the premises revaluation reserve to retained earnings in relation to depreciation of revalued properties, and from financial assets at FVOCI reserve to retained earnings in relation to the disposal loss of equity investments at FVOCI.*

[5] *There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during 2023.*

For the year ended 31 December 2022

				Other Reserves							
Figures in HK$m (restated) [1]	Share capital	Other equity instrument	Retained profits	Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Others	Total shareholders' equity	Non-controlling interests	Total equity
At 31 December 2021, as previously reported	9,658	11,744	140,100	18,428	2,499	46	1,180	677	184,332	84	184,416
Impact on transition to HKFRS 17	–	–	(25,214)	–	–	–	–	–	(25,214)	–	(25,214)
At 1 January 2022	9,658	11,744	114,886	18,428	2,499	46	1,180	677	159,118	84	159,202
Profit for the year	–	–	11,286	–	–	–	–	–	11,286	(14)	11,272
Other comprehensive income (net of tax)	–	–	113	547	(807)	(862)	(1,302)	(5)	(2,316)	–	(2,316)
Debt instruments at fair value through other comprehensive income	–	–	–	–	(697)	–	–	–	(697)	–	(697)
Equity instruments designated at fair value through other comprehensive income	–	–	–	–	(110)	–	–	–	(110)	–	(110)
Cash flow hedges	–	–	–	–	–	(862)	–	–	(862)	–	(862)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(5)	(5)	–	(5)
Property revaluation	–	–	–	547	–	–	–	–	547	–	547
Actuarial losses on defined benefit plans	–	–	(15)	–	–	–	–	–	(15)	–	(15)
Others	–	–	128	–	–	–	(1,302)	–	(1,174)	–	(1,174)
Total comprehensive income for the year	–	–	11,399	547	(807)	(862)	(1,302)	(5)	8,970	(14)	8,956
Dividends paid	–	–	(7,455)	–	–	–	–	–	(7,455)	–	(7,455)
Coupons paid on AT1 capital instruments	–	–	(710)	–	–	–	–	–	(710)	–	(710)
Movement in respect of share-based payment arrangements	–	–	5	–	–	–	–	5	10	–	10
Exchange differences	–	–	–	–	–	–	–	–	–	(5)	(5)
Transfers	–	–	592	(637)	45	–	–	–	–	–	–
At 31 December 2022	9,658	11,744	118,717	18,338	1,737	(816)	(122)	677	159,933	65	159,998

[1] *HKFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively, comparative figures have been restated.*

Notes to the Financial Statements

1. Net interest income

Figures in HK$m	***2023***	*2022 (restated)*
Interest income arising from:		
- financial assets measured at amortised cost	**48,879**	30,650
- financial assets measured fair value through other comprehensive income	**10,560**	4,132
	59,439	34,782
Interest expense arising from financial liabilities measured at amortised cost	**(27,144)**	(9,231)
Net interest income	**32,295**	25,551

HKFRS 17 'Insurance Contracts' is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively. Besides, comparative figures have also been restated for the reclassification of interest income arising from trading assets of HK$915m, interest expense arising from trading liabilities of HK$738m and financial liabilities designated at fair value of HK$1,281m, to 'Net income/(loss) from financial instruments measured at fair value through profit or loss', for alignment with HSBC Group's presentation of net interest income (increasing by total HK$1,104m) and net interest margin.

2. Net fee income

Figures in HK$m	***2023***	*2022 (restated)*
- securities broking and related services	**1,277**	1,435
- retail investment funds	**968**	926
- insurance	**357**	381
- account services	**465**	401
- remittances	**247**	278
- cards	**3,107**	2,608
- credit facilities	**394**	462
- imports/exports	**254**	348
- other	**760**	667
Fee income	**7,829**	7,506
Fee expense	**(2,909)**	(2,280)
	4,920	5,226

Notes to the Financial Statements *(continued)*

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

Figures in HK$m	***2023***	*2022 (restated)*
Net trading income	**1,632**	1,974
- trading income	**1,646**	1,980
- other trading income/(expense) from ineffective fair value hedges	**(14)**	(6)
Net income/(expense) from financial liabilities designated at fair value through profit or loss	**(1,763)**	(1,499)
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**11,478**	(21,939)
- financial assets/ liabilities held to meet liabilities under insurance contracts	**11,476**	(21,948)
- liabilities to customers under investment contracts	**2**	9
Changes in fair value of other financial assets mandatorily measured at fair value through profit or loss	**(17)**	9
	11,330	(21,455)

4. Other operating income/(loss)

Figures in HK$m	***2023***	*2022 (restated)*
Rental income from investment properties	**334**	276
Income/(expenses) arising from reinsurance contracts held	**231**	(82)
Net gains/(losses) from disposal of fixed assets	**(7)**	(15)
Net gains/(losses) from the derecognition of loans and advances to customers measured at amortised cost	**-**	2
Others	**225**	206
	783	387

Notes to the Financial Statements *(continued)*

5. Change in expected credit losses and other credit impairment charges

Figures in HK$m	***2023***	*2022 (restated)*
Loans and advances to banks and customers	**6,304**	7,669
- new allowances net of allowance releases	**6,420**	7,367
- recoveries of amounts previously written off	**(229)**	(131)
- other movements	**113**	433
Loan commitments and guarantees	**(65)**	(8)
Other financial assets	**9**	33
	6,248	7,694

6. Operating expenses

Figures in HK$m	***2023***	*2022 (restated)*
Employee compensation and benefits:		
- salaries and other costs	**5,986**	5,941
- retirement benefit costs	**506**	504
Total employee compensation and benefits	**6,492**	6,445
Less: Cost directly attributable to insurance business	**(697)**	(536)
	5,795	5,909
General and administrative expenses:		
- rental expenses	**23**	18
- other premises and equipment	**1,998**	1,875
- marketing and advertising expenses	**461**	440
- other operating expenses	**3,813**	3,324
Total general and administrative expenses	**6,295**	5,657
Less: Cost directly attributable to insurance business	**(315)**	(447)
	5,980	5,210
Depreciation of premises, plant and equipment	**1,445**	1,460
Depreciation of right-of-use assets	**470**	514
Amortisation of intangible assets	**934**	702
	14,624	13,795
Cost efficiency ratio	**35.8%**	40.1%

Notes to the Financial Statements *(continued)*

7. Tax expense

Taxation in the Consolidated Income Statement represents:

Figures in HK$m	***2023***	*2022 (restated)*
Current tax – provision for Hong Kong profits tax		
- Tax for the year	**2,604**	1,845
- Adjustment in respect of prior years	**(65)**	(23)
Current tax – taxation outside Hong Kong		
- Tax for the year	**194**	204
- Adjustment in respect of prior years	**(5)**	1
Deferred tax		
- Origination and reversal of temporary differences	**(461)**	(518)
	2,267	1,509

The current tax provision is based on the estimated assessable profit for 2023, and is determined for the Bank and its subsidiaries operating in Hong Kong SAR by using the Hong Kong profits tax rate of 16.5% (the same as in 2022). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

8. Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share is based on earnings of HK$17,140m in 2023 (2022: HK$10,576m), which has been adjusted for the AT1 capital instrument related deductions, and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from 2022).

9. Dividends/Distributions

	2023		*2022*	
(a) Dividends to ordinary shareholders	***HK$ per share***	***HK$m***	*HK$ per share*	*HK$m*
First interim	**1.10**	**2,103**	0.70	1,338
Second interim	**1.10**	**2,103**	0.70	1,338
Third interim	**1.10**	**2,103**	0.70	1,338
Fourth interim	**3.20**	**6,118**	2.00	3,824
	6.50	**12,427**	4.10	7,838

	2023	*2022*
	HK$m	*HK$m*
(b) Distributions to holders of AT1 capital instruments classified as equity		
Coupons paid on AT1 capital instruments	**708**	710

Notes to the Financial Statements *(continued)*

10. Segmental analysis

Hong Kong Financial Reporting Standard 8 (‘HKFRS 8’) requires segmental disclosure to be based on the way that the Group’s chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group’s chief operating decision maker for the purpose of assessing segmental performance and making decisions about operating matters. To align with the internal reporting information, the Group has presented the following five reportable segments.

- **Wealth and Personal Banking** offers an extensive array of products and services tailored to the personal banking, consumer lending, and wealth management requirements of individual customers. These services typically encompass current and savings accounts, time deposits, mortgage and personal loans, credit cards, insurance, investment and a variety of wealth management options;
- **Commercial Banking** provides a comprehensive suite of products and services to corporate, commercial, and small and medium sized enterprises (‘SME’) clients. This includes corporate lending, trade and receivable finance, payments and cash management, treasury and foreign exchange, distribution of general and key-person insurance, investment services, and corporate wealth management;
- **Global Banking** delivers custom financial solutions to major corporate and institutional clients, utilising a long-term relationship management strategy. Services include general and transaction banking, corporate lending, deposits, and cash management;
- **Global Markets** offers tailored solutions and services across foreign exchange, bullion, equities, fixed income, and securities financing. It also manages the funding, liquidity position of the Group, and other market risk positions arising from banking and client activities;
- **Other** mainly represents the Group’s holdings of premises apart from outlets dedicated for Wealth and Personal Banking, investment properties, equity shares and subordinated debt funding as well as central support and functional costs with associated recoveries.

(a) Segmental result

For segmental reporting purposes, revenue allocation reflects the benefits of capital and other funding resources distributed to the business segments through internal capital allocation and fund transfer pricing mechanisms. Costs of central support services and functions are allocated based on cost drivers that reflect or correlate with service usage. Premises owned by the Bank but not dedicated to WPB are included under the ‘Other’ segment. When these premises are utilised by business segments, a notional rent is charged to those segments with reference to market rates.

The profit before tax contributed by each business segment is detailed in the table provided. Further analysis and discussion on business segments can be found in the ‘Segmental analysis’ section on page 17.

Notes to the Financial Statements *(continued)*

10. Segmental analysis *(continued)*

(a) Segmental result *(continued)*

Figures in HK$m	*Wealth and Personal Banking*	*Commercial Banking*	*Global Banking*	*Global Markets*	*Other*	*Total*
Year ended 31 December 2023						
Profit/(loss) before tax	**14,386**	**2,442**	**1,408**	**1,677**	**192**	**20,105**
Share of profit/(loss) before tax	**71.6%**	**12.1%**	**7.0%**	**8.3%**	**1.0%**	**100.0%**
Year ended 31 December 2022 (restated)						
Profit/(loss) before tax	10,120	694	380	2,024	(437)	12,781
Share of profit/(loss) before tax	79.2%	5.4%	3.0%	15.8%	(3.4)%	100.0%

(b) Information by geographical region

The geographical regions in this analysis are classified by the location of the principal operations of the subsidiary companies or, in the case of the Bank itself, by the location of the branches responsible for reporting the results or advancing the funds. Consolidation adjustments made in preparing the Group's financial statements upon consolidation are included in the 'Inter-region elimination'.

Figures in HK$m	*Hong Kong*	*Mainland China*	*Others*	*Inter-region elimination*	*Total*
Year ended 31 December 2023					
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	**38,248**	**2,462**	**191**	**(79)**	**40,822**
Profit/(loss) before tax	**19,609**	**402**	**94**	**–**	**20,105**
At 31 December 2023					
Total assets	**1,597,338**	**106,606**	**17,541**	**(29,391)**	**1,692,094**
Total liabilities	**1,437,280**	**90,678**	**15,855**	**(19,903)**	**1,523,910**
Interest in associates	**2,363**	**–**	**–**	**–**	**2,363**
Non-current assets[1]	**41,955**	**1,432**	**23**	**–**	**43,410**
Contingent liabilities and commitments	**473,284**	**70,910**	**5,842**	**(23,431)**	**526,605**
Year ended 31 December 2022 (restated)					
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	31,063	3,111	255	(30)	34,399
Profit/(loss) before tax	12,392	219	170	–	12,781
At 31 December 2022 (restated)					
Total assets	1,727,525	139,595	22,337	(35,011)	1,854,446
Total liabilities	1,575,580	123,633	20,713	(25,478)	1,694,448
Interest in associates	2,256	–	–	–	2,256
Non-current assets[1]	41,883	1,468	39	–	43,390
Contingent liabilities and commitments	506,097	72,291	5,496	(40,087)	543,797

[1] *Non-current assets consist of investment properties, premises, plant and equipment, intangible assets and right-of-use assets.*

Notes to the Financial Statements *(continued)*

11. Trading assets

Figures in HK$m	***At 31 December 2023***	*At 31 December 2022*
Treasury bills	**18,191**	17,568
Other debt securities	**25,757**	29,749
Investment funds/equity shares	**33**	43
Reverse repurchase agreements	**37**	13
	44,018	47,373

12. Financial assets mandatorily measured at fair value through profit or loss

Figures in HK$m	***At 31 December 2023***	*At 31 December 2022 (restated)*
Treasury bills	**1,958**	5,685
Other debt securities	**116,993**	118,298
Equity shares	**8,125**	4,075
Investment funds	**28,963**	23,920
Other	**833**	979
	156,872	152,957

13. Loans and advances to customers

Figures in HK$m	***At 31 December 2023***	*At 31 December 2022*
Gross loans and advances to customers	**874,039**	944,728
Less: Allowances for expected credit losses	**(13,633)**	(13,394)
	860,406	931,334
Expected credit losses as a percentage of gross loans and advances to customers	**1.56%**	1.42%
Gross impaired loans and advances	**24,749**	24,212
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**2.83%**	2.56%

Gross impaired loans and advances changed from HK$24,212m as at 31 December 2022 to HK$24,749m as at 31 December 2023, due to the downgrades and write-offs of certain corporate and commercial customers related to mainland China CRE exposures.

Notes to the Financial Statements *(continued)*

14. Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees

	Non credit - impaired				Credit - impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI[1]			
Figures in HK$m	**Gross carrying/ nominal amount**	**Allowance(s) for ECL**	**Gross carrying/ nominal amount**	**Allowance(s) for ECL**	**Gross carrying/ nominal amount**	**Allowance(s) for ECL**	**Gross carrying/ nominal amount**	**Allowance(s) for ECL**	**Gross carrying/ nominal amount**	**Allowance(s) for ECL**
At 1 January 2023	**1,162,085**	**(827)**	**179,597**	**(4,920)**	**23,943**	**(7,802)**	**301**	**(19)**	**1,365,926**	**(13,568)**
Transfers of financial instruments:										
- transfers from Stage 1 to Stage 2	**(68,066)**	**97**	**68,066**	**(97)**	–	–	–	–	–	–
- transfers from Stage 2 to Stage 1	**26,207**	**(309)**	**(26,207)**	**309**	–	–	–	–	–	–
- transfers to Stage 3	**(1,301)**	**84**	**(8,400)**	**1,959**	**9,701**	**(2,043)**	–	–	–	–
- transfers from Stage 3	**7**	**(2)**	**41**	**(2)**	**(48)**	**4**	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	**126**	–	**(194)**	–	**(18)**	–	–	–	**(86)**
New financial assets originated and purchased [2]	**265,973**	**(208)**	**7,699**	**(188)**	–	–	–	–	**273,672**	**(396)**
Assets derecognised (including final repayments)	**(205,674)**	**71**	**(59,207)**	**468**	**(459)**	**8**	**(114)**	–	**(265,454)**	**547**
Changes to risk parameters – further lending/(repayment)	**(50,316)**	**137**	**(5,610)**	**736**	**(2,866)**	**2,689**	**(70)**	**19**	**(58,862)**	**3,581**
Changes to risk parameters – credit quality	–	**22**	–	**(1,923)**	–	**(7,607)**	–	–	–	**(9,508)**
Changes to model used for ECL calculation	–	–	–	–	–	–	–	–	–	–
Assets written off	–	–	–	–	**(5,600)**	**5,600**	–	–	**(5,600)**	**5,600**
Credit related modifications that resulted in derecognition	–	–	–	–	–	–	–	–	–	–
Foreign exchange and others	**(3,609)**	**11**	**(424)**	**12**	**(36)**	**11**	–	–	**(4,069)**	**34**
At 31 December 2023	**1,125,306**	**(798)**	**155,555**	**(3,840)**	**24,635**	**(9,158)**	**117**	–	**1,305,613**	**(13,796)**

	Total
ECL in income statement (charge)/release for the year	**(5,862)**
Add: Recoveries	**229**
Add/(less): Others	**(580)**
Total ECL (charge)/release for the year [3]	**(6,213)**

[1] Purchased or originated credit-impaired ('POCI') represented distressed restructuring.

[2] For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the Condensed Consolidated Balance Sheet as it excludes fair value gains and losses.

[3] The provision for ECL balance at 31 December 2023 and total ECL charges for the year does not include ECL related to other financial assets measured at amortised cost, debt instruments at FVOCI and performance and other guarantees. The corresponding total ECL balances and ECL charges amount to HK$90m and HK$35m (2022: HK$55m and charges of HK$32m) respectively.

Notes to the Financial Statements *(continued)*

15. Financial investments

Figures in HK$m	***At 31 December 2023***	*At 31 December 2022 (restated)*
Financial investments measured at fair value through other comprehensive income		
- treasury bills	**221,746**	267,413
- debt securities	**79,548**	88,645
- equity shares	**4,060**	4,933
	305,354	360,991
Debt instruments measured at amortised cost		
- treasury bills	**41,293**	84,276
- debt securities	**59,159**	35,445
Less: Allowances for expected credit losses	**(14)**	(14)
	100,438	119,707
	405,792	480,698

16. Current, savings and other deposit accounts

Figures in HK$m	***At 31 December 2023***	*At 31 December 2022*
Current, savings and other deposit accounts:		
- as stated in Consolidated Balance Sheet	**1,153,062**	1,249,486
- structured deposits reported as financial liabilities designated as fair value	**27,549**	37,138
	1,180,611	1,286,624
By type:		
- demand and current accounts	**82,597**	103,397
- savings accounts	**546,220**	656,190
- time and other deposits	**551,794**	527,037
	1,180,611	1,286,624

17. Financial liabilities designated at fair value

Figures in HK$m	***At 31 December 2023***	*At 31 December 2022*
Certificates of deposit in issue	**14,646**	6,945
Structured deposits	**27,549**	37,138
Other structured debt securities in issue	**3,174**	1,893
Liabilities to customers under investment contracts	**264**	333
	45,633	46,309

Notes to the Financial Statements *(continued)*

18. Contingent liabilities, contractual commitments and guarantees

Figures in HK$m	***At 31 December 2023***	*At 31 December 2022*
Contingent liabilities and financial guarantee contracts		
- Financial guarantees	**1,882**	1,727
- Performance and other guarantees	**21,087**	23,216
- Other contingent liabilities	**4**	16
	22,973	24,959
Commitments		
- Documentary credits and short-term trade-related transactions	**3,422**	1,995
- Forward asset purchases and forward forward deposits placed	**15,087**	11,824
- Undrawn formal standby facilities, credit lines and other commitments to lend	**485,123**	505,019
	503,632	518,838

1. Overdue loans and advances to customers

Loans and advances to customers that are more than three months overdue and their expression as a percentage of gross loans and advances to customers are as follows:

	At 31 December 2023		*At 31 December 2022*	
	HK$m	***%***	*HK$m*	*%*
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:				
- more than three months but not more than six months	**2,416**	**0.28**	3,607	0.38
- more than six months but not more than one year	**5,321**	**0.61**	2,524	0.27
- more than one year	**7,602**	**0.87**	3,190	0.34
	15,339	**1.76**	9,321	0.99

Overdue loans and advances to customers increased by HK$6,018m, or 65%, to HK$15,339m compared with the end of 2022. Overdue loans and advances to customers as a percentage of gross loans and advances to customers stood at 1.76% at 31 December 2023 compared with 0.99% at the year end of 2022. The increase mainly reflected the impaired loans which have been overdue more than six months during 2023.

2. Rescheduled loans and advances to customers

Rescheduled loans and advances to customers and their expression as a percentage of gross loans and advances to customers are as follows:

	At 31 December 2023		*At 31 December 2022*	
	HK$m	***%***	*HK$m*	*%*
Rescheduled loans and advances to customers	**2,083**	**0.24**	3,087	0.33

Rescheduled loans and advances to customers decreased by HK$1bn to HK$2.1bn when compared with 2022 year-end.

3. Gross loans and advances to customers by industry sector

The analysis of gross loans and advances to customers by industry sector based on categories and definitions used by the HKMA is as follows:

Figures in HK$m	***At 31 December 2023***	*At 31 December 2022*
Gross loans and advances to customers for use in Hong Kong		
Industrial, commercial and financial sectors		
Property development	**54,622**	54,966
Property investment	**127,978**	148,207
Financial concerns	**2,527**	3,063
Stockbrokers	**200**	10
Wholesale and retail trade	**19,879**	24,253
Manufacturing	**20,410**	19,202
Transport and transport equipment	**12,727**	13,518
Recreational activities	**280**	280
Information technology	**10,111**	11,532
Other	**67,428**	88,420
	316,162	363,451
Individuals		
Loans and advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**44,601**	38,779
Loans and advances for the purchase of other residential properties	**265,670**	253,158
Credit card loans and advances	**30,814**	28,744
Other	**31,303**	30,833
	372,388	351,514
Total gross loans and advances for use in Hong Kong	**688,550**	714,965
Trade finance	**33,139**	35,333
Gross loans and advances for use outside Hong Kong	**152,350**	194,430
Gross loans and advances to customers	**874,039**	944,728

4. Capital management

The following tables show the capital base, risk-weighted assets and capital ratios on a consolidated basis that is specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

The Group uses the advanced internal ratings-based ('IRB') approach to calculate its credit risk for the majority of its non-securitisation exposures. For collective investment scheme exposures, the Group uses the look-through approach to calculate the risk-weighted amount. For counterparty credit risk, the Group uses the standardised (counterparty credit risk) approach to calculate its default risk exposures for derivatives, and the comprehensive approach for securities financing transactions. For market risk, the Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures and the standardised (market risk) approach for calculating other market risk positions. For operational risk, the Group uses the standardised (operational risk) approach to calculate its operational risk.

The basis of consolidation for the calculation of capital ratios under the Banking (Capital) Rules follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are 'regulated financial entities' (e.g. insurance and securities companies) as defined by the Banking (Capital) Rules. The investment cost of these unconsolidated regulated financial entities is deducted from the capital base subject to certain thresholds as determined in accordance with Part 3 of the Banking (Capital) Rules.

4. Capital management *(continued)*

(a) Capital base

Figures in HK$m	***At 31 December 2023***	*At 31 December 2022 (restated)*
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**151,744**	143,883
- Shareholders' equity per balance sheet	**168,131**	159,933
- Additional Tier 1 ('AT1') perpetual capital instruments	**(11,744)**	(11,744)
- Unconsolidated subsidiaries	**(4,643)**	(4,306)
Non-controlling interests	**–**	–
- Non-controlling interests per balance sheet	**53**	65
- Non-controlling interests in unconsolidated subsidiaries	**(53)**	(65)
Regulatory deductions to CET1 capital	**(29,485)**	(27,461)
- Cash flow hedge reserve	**37**	472
- Changes in own credit risk on fair valued liabilities	**(4)**	(6)
- Property revaluation reserves[1]	**(24,570)**	(24,418)
- Intangible assets	**(3,388)**	(3,011)
- Deferred tax assets net of deferred tax liabilities	**(481)**	(346)
- Valuation adjustments	**(153)**	(152)
- Excess of total expected loss amount over total eligible provisions under the IRB approach	**(926)**	–
Total CET1 Capital	**122,259**	116,422
AT1 Capital		
Total AT1 capital before and after regulatory deductions	**11,744**	11,744
- Perpetual capital instruments	**11,744**	11,744
Total AT1 Capital	**11,744**	11,744
Total Tier 1 ('T1') Capital	**134,003**	128,166
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**11,275**	11,555
- Property revaluation reserves[1]	**11,056**	10,988
- Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**219**	567
Regulatory deductions to T2 capital	**(1,045)**	(1,045)
- Significant capital investments in unconsolidated financial sector entities	**(1,045)**	(1,045)
Total T2 Capital	**10,230**	10,510
Total Capital	**144,233**	138,676

[1] *Includes the revaluation surplus on investment properties which is reported as part of retained profits and related adjustments made in accordance with the Banking (Capital) Rules issued by the HKMA.*

4. Capital management *(continued)*

(b) Risk-weighted assets by risk type

Figures in HK$m	***At 31 December 2023***	*At 31 December 2022*
Credit risk	**592,283**	687,532
Market risk	**19,898**	19,883
Operational risk	**62,088**	57,311
Total	**674,269**	764,726

(c) Capital ratios (as a percentage of risk-weighted assets)

The capital ratios on a consolidated basis calculated in accordance with the Banking (Capital) Rules are as follows:

	At 31 December 2023	*At 31 December 2022*
CET1 capital ratio	**18.1 %**	15.2 %
T1 capital ratio	**19.9 %**	16.8 %
Total capital ratio	**21.4 %**	18.1 %

In addition, the capital ratios of all tiers as of 31 December 2023 would be reduced by approximately 0.9 percentage point after the prospective fourth interim dividend payment for 2023, while the capital ratios of all tiers as of 31 December 2022 would be reduced by approximately 0.5 percentage point after the prospective fourth interim dividend payment for 2022. The following table shows the pro-forma basis position of the capital ratios after the prospective interim dividend.

	Pro-forma At 31 December 2023	*Pro-forma At 31 December 2022*
CET1 capital ratio	**17.2 %**	14.7 %
T1 capital ratio	**19.0 %**	16.3 %
Total capital ratio	**20.5 %**	17.6 %

(d) Leverage ratio

Figures in HK$m	***At 31 December 2023***	*At 31 December 2022*
Leverage ratio	**8.5 %**	7.3 %
T1 capital	**134,003**	128,166
Exposure measure	**1,568,958**	1,752,201

5. Liquidity information

The Group is required under rule 11(1) of the Banking (Liquidity) Rules to calculate its LCR and NSFR on a consolidated basis. From 1 January 2019, the Group is required to maintain an LCR of not less than 100%. The LCR for the reportable periods are as follows:

	Average LCR for			
	Quarter ended 31 December	*Quarter ended 30 September*	*Quarter ended 30 June*	*Quarter ended 31 March*
- 2023	**260.6%**	**240.1%**	**245.0%**	**276.7%**
- 2022	275.3%	230.5%	206.8%	188.9%

The LCR as at 31 December 2023 was 260.7% compared with 281.3% at 31 December 2022.

The Group is required to maintain the NSFR of not less than 100% and the NSFR at the reportable quarter-end are as follows:

	Quarter ended 31 December	*Quarter ended 30 September*	*Quarter ended 30 June*	*Quarter ended 31 March*
- 2023	**168.4%**	**165.8%**	**161.4%**	**163.6%**
- 2022	163.8%	155.2%	155.0%	151.3%

1. Statutory financial statements and accounting policies

The financial information in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet and consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2023 on pages 23 to 37 is extracted from the statutory financial statements for the year ended 31 December 2023 which will be delivered to the Companies Registry and the HKMA. The auditor expressed an unqualified opinion on those financial statements in their report dated 21 February 2024. The auditor's report did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

Except as described below, the accounting policies and methods of computation adopted by the Group for this press release are consistent with those described on pages 185 to 200 of the 2022 statutory financial statements.

Standards applied during the year ended 31 December 2023

<u>HKFRS 17 'Insurance Contracts'</u>
On 1 January 2023, the Group has adopted the requirements of HKFRS 17 'Insurance Contracts' retrospectively with comparatives restated from the transition date, 1 January 2022. At transition, the Group total equity reduced by HK$25.2bn.

On adoption of HKFRS 17, HKFRS 4 based balances, including the present value of in-force long-term insurance business ('PVIF') asset in relation to the upfront recognition of future profits of in-force insurance contracts, were derecognised. Insurance contract liabilities have been re-measured under HKFRS 17 based on groups of insurance contracts, which include the fulfilment cash flows comprising best estimate of the present value of the future cash flows (for example premiums and payouts for claims, benefits, and expenses), together with a risk adjustment for non-financial risk, as well as the contractual service margin ('CSM'). The CSM represents the unearned profits that will be released and systematically recognised in Insurance revenue as services are provided over the expected coverage period. Losses resulting from the recognition of onerous contracts are not deferred but recognised in the income statement as they arise.

In addition, the Group has made use of the option under the standard to re-designate eligible financial assets held to support insurance contract liabilities, which were previously measured at amortised cost, as financial assets measured at fair value through profit of loss, with comparatives restated from the transition date.

<u>Amendments to HKAS 12 'International Tax Reform - Pillar Two Model Rules'</u>
In July 2023, the Hong Kong Institute of Certified Public Accountants issued amendments to HKAS 12 'International Tax Reform - Pillar Two Model Rules', which became effective immediately. On 20 June 2023, legislation was substantively enacted in the UK (the jurisdiction of the Group's ultimate holding company) to introduce the Organisation for Economic Co-operation and Development's Pillar Two global minimum tax rules and a UK qualified domestic minimum top-up tax, with effect from 1 January 2024. The Hong Kong Qualified Domestic Minimum Top-up Tax is expected to be effective from 1 January 2025.

No other new standards were applied during the year ended 31 December 2023. However, during 2023, the Group adopted a number of amendments to standards which had an insignificant effect on the consolidated financial statements of the Group.

1. Statutory financial statements and accounting policies *(continued)*

Use of estimates and judgements

Further information on summary of significant accounting policies, use of estimates and judgements and future accounting developments are set out in the accounting policies of the Group’s 2023 Annual Report.

1. Statutory financial statements and accounting policies *(continued)*

Effect of adoption of HKFRS 17

(a) Reconciliation for consolidated income statement for the year ended 31 December 2022

Figures in HK$m

	HKFRS 4 [1]	Removal of PVIF and HKFRS 4	Remeasurement effect of HKFRS 9 redesignations	Insurance finance income/ (expenses)	HKFRS 17 CSM	Onerous contracts	Experience variance and other	Attributable expenses	Tax effect	**HKFRS 17**
Interest income	39,316	–	(4,534)	–	–	–	–	–	–	34,782
Interest expense	(9,231)	–	–	–	–	–	–	–	–	(9,231)
Net interest income	30,085	–	(4,534)	–	–	–	–	–	–	25,551
Fee income	7,606	(135)	–	–	–	–	–	35	–	7,506
Fee expense	(2,537)	–	–	–	–	–	–	257	–	(2,280)
Net fee income	5,069	(135)	–	–	–	–	–	292	–	5,226
Net income/(loss) from financial instruments measured at fair value through profit or loss	(1,533)	–	(19,922)	–	–	–	–	–	–	(21,455)
Gains less losses from financial investments	75	–	10	–	–	–	–	–	–	85
Dividend income	225	–	–	–	–	–	–	–	–	225
Net insurance premium income	20,551	(20,551)	–	–	–	–	–	–	–	–
Insurance finance income/(expenses)	–	–	–	22,720	–	–	–	–	–	22,720
Insurance service results	–	–	–	–	1,757	(226)	129	–	–	1,660
- Insurance revenue	–	–	–	–	1,757	–	1,009	–	–	2,766
- Insurance service expense	–	–	–	–	–	(226)	(880)	–	–	(1,106)
Other operating income/(loss)	(1,274)	1,743	–	(61)	–	–	(21)	–	–	387
Total operating income	53,198	(18,943)	(24,446)	22,659	1,757	(226)	108	292	–	34,399
Net insurance claims and benefits paid and movement in liabilities to policyholders	(19,226)	19,226	–	–	–	–	–	–	–	–
Net operating income before change in expected credit losses and other credit impairment charges	33,972	283	(24,446)	22,659	1,757	(226)	108	292	–	34,399
Change in expected credit losses and other credit impairment charges	(7,626)	–	(68)	–	–	–	–	–	–	(7,694)
Net operating income	26,346	283	(24,514)	22,659	1,757	(226)	108	292	–	26,705
Operating expenses	(14,778)	–	–	–	–	–	–	983	–	(13,795)
Impairment loss on intangible assets	(11)	–	–	–	–	–	–	–	–	(11)
Operating profit	11,557	283	(24,514)	22,659	1,757	(226)	108	1,275	–	12,899
Net surplus/(deficit) on property revaluation	(108)	–	–	–	–	–	–	–	–	(108)
Share of profits/(losses) of associates	(10)	–	–	–	–	–	–	–	–	(10)
Profit before tax	11,439	283	(24,514)	22,659	1,757	(226)	108	1,275	–	12,781
Tax expense	(1,288)	–	–	–	–	–	–	–	(221)	(1,509)
Profit for the year	10,151	283	(24,514)	22,659	1,757	(226)	108	1,275	(221)	11,272

[1] This is restated for the reclassification of interest income arising from trading assets and interest expense arising from trading liabilities and financial liabilities designated at fair value, to 'Net income/(loss) from financial instruments measured at fair value through profit or loss', for aligning with HSBC Group's presentation of net interest income and net interest margin.

1. Statutory financial statements and accounting policies *(continued)*

Effect of adoption of HKFRS 17 (continued)

(a) Reconciliation for consolidated income statement for the year ended 31 December 2022 *(continued)*

Transition drivers

Removal of HKFRS 4 based revenue items
As a result of the removal of the PVIF intangible asset, the associated expense of HK$1,743m in 2022 that was previously reported within other operating income is no longer reported under HKFRS 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 HKFRS 17 new income statement line items associated with insurance contract accounting were introduced. Consequently, the previously reported HKFRS 4 line items 'Net insurance premium income', and 'Net insurance claims and benefits paid and movement in liabilities to policyholders' were also removed.

HKFRS 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 HKFRS 4 based reporting convention, these assets generated interest income of HK$4,534m which was reported in net interest income in 2022. 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/(loss) from financial instruments measured at fair value through profit or loss'. Similar to HKFRS 4 basis, HKFRS 17 accounting provides for an offset. While this offset was reported within the claims line under HKFRS 4, under HKFRS 17 it is reported within the 'Insurance finance income/(expenses)' line described below.

Introduction of HKFRS 17 income statement line items

Insurance finance income/(expenses)
Insurance finance income/(expenses) of HK$22,720m in 2022 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 variable fee approach contracts, which represent more than 90% of the Group'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 income/(loss) from financial instruments measured at fair value through profit or loss'.

1. Statutory financial statements and accounting policies *(continued)*

Effect of adoption of HKFRS 17 (continued)

(a) Reconciliation for consolidated income statement for the year ended 31 December 2022 *(continued)*

Introduction of HKFRS 17 income statement line items *(continued)*

CSM
Revenue is recognised for the release of the CSM associated with the in-force business, which was allocated at a rate of approximately 8% 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 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.

1. Statutory financial statements and accounting policies *(continued)*

Effect of adoption of HKFRS 17 (continued)

(b) Transition impact on Consolidated Balance Sheet at 1 January 2022

Figures in HK$m

	HKFRS 4	Derecognise PVIF	Remeasurement effect of HKFRS 9 redesignations	Derecognise and reclassify Insurance Assets & Liabilities	Recognise HKFRS 17 Fulfilment cash flows	Recognise HKFRS 17 CSM	Tax effect	**HKFRS 17**
ASSETS								
Cash and balances at central banks	16,896	–	–	–	–	–	–	16,896
Trading assets	47,433	–	–	–	–	–	–	47,433
Derivative financial instruments	13,224	–	–	–	–	–	–	13,224
Financial assets mandatorily measured at fair value through profit or loss	31,326	–	129,153	–	–	–	–	160,479
Reverse repurchase agreements – non-trading	18,821	–	–	–	–	–	–	18,821
Placings with and advances to banks	72,493	–	(241)	–	–	–	–	72,252
Loans and advances to customers	997,397	–	–	–	–	–	–	997,397
Financial investments	500,386	–	(122,414)	–	–	–	–	377,972
Interest in associates	2,341	–	–	–	–	–	–	2,341
Investment properties	9,545	–	–	–	–	–	–	9,545
Premises, plant and equipment	31,205	–	–	–	–	–	–	31,205
Intangible assets	25,486	(22,363)	–	–	–	–	–	3,123
Other assets	53,632	–	–	(7,468)	6,445	(364)	1,197	53,442
Total assets	**1,820,185**	(22,363)	6,498	(7,468)	6,445	(364)	1,197	**1,804,130**
LIABILITIES AND EQUITY								
Liabilities								
Deposits from banks	5,333	–	–	–	–	–	–	5,333
Current, savings and other deposit accounts	1,230,216	–	–	–	–	–	–	1,230,216
Repurchase agreements – non-trading	16,592	–	–	–	–	–	–	16,592
Trading liabilities	44,291	–	–	–	–	–	–	44,291
Derivative financial instruments	12,252	–	–	–	–	–	–	12,252
Financial liabilities designated at fair value	27,399	–	–	–	–	–	–	27,399
Certificates of deposit in issue	81,567	–	–	–	–	–	–	81,567
Other liabilities	31,179	–	–	964	1,327	275	–	33,745
Insurance contract liabilities	154,551	–	–	(154,551)	142,456	22,443	–	164,899
Current tax liabilities	603	–	–	–	–	–	–	603
Deferred tax liabilities	7,302	–	–	–	–	–	(3,755)	3,547
Subordinated liabilities	24,484	–	–	–	–	–	–	24,484
Total liabilities	**1,635,769**	–	–	(153,587)	143,783	22,718	(3,755)	**1,644,928**
Equity								
Share capital	9,658	–	–	–	–	–	–	9,658
Retained profits	140,100	(22,363)	6,498	146,119	(137,338)	(23,082)	4,952	114,886
Other equity instruments	11,744	–	–	–	–	–	–	11,744
Other reserves	22,830	–	–	–	–	–	–	22,830
Total shareholders' equity	184,332	(22,363)	6,498	146,119	(137,338)	(23,082)	4,952	159,118
Non-controlling interests	84	–	–	–	–	–	–	84
Total equity	**184,416**	(22,363)	6,498	146,119	(137,338)	(23,082)	4,952	**159,202**
Total equity and liabilities	**1,820,185**	(22,363)	6,498	(7,468)	6,445	(364)	1,197	**1,804,130**

1. Statutory financial statements and accounting policies *(continued)*

Effect of adoption of HKFRS 17 (continued)

(b) Transition impact on Consolidated Balance Sheet at 1 January 2022 *(continued)*

Removal of PVIF and HKFRS 4 balances

The PVIF intangible asset of HK$22,363m previously reported under HKFRS 4 within ‘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 HKFRS 17, as future profits are deferred as unearned revenue within the CSM. Other HKFRS 4 insurance assets (shown above within ‘Other assets’) and insurance contract liabilities are removed on transition, to be replaced with HKFRS 17 equivalents.

HKFRS 9 asset re-designation

Loans and receivables and debt securities supporting policyholder liabilities of HK$122,655m were re-designated from an amortised cost classification to fair value through profit and 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 HK$6,498m because the new fair value measurement on transition was higher than the previous amortised cost carrying amount.

Recognition of the HKFRS 17 fulfilment cash flows

The measurement of the insurance contracts liabilities under HKFRS 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 HKFRS 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 profit or loss over the insurance coverage period.

Tax effect

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

2. Ultimate holding company

Hang Seng Bank is an indirectly held, 62.14%-owned, subsidiary of HSBC Holdings plc, which is incorporated in England.

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3. Register of Shareholders

The Register of Shareholders of the Bank will be closed on Thursday, 7 March 2024, during which no transfer of shares can be registered. To qualify for the fourth interim dividend for 2023, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 pm on Wednesday, 6 March 2024. The fourth interim dividend will be payable on Thursday, 21 March 2024, to shareholders whose names appear on the Register of Shareholders of the Bank on Thursday, 7 March 2024. Shares of the Bank will be traded ex-dividend as from Tuesday, 5 March 2024.

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4. Corporate governance principles and practices

The Bank is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of its shareholders, customers, employees and other stakeholders. The Bank has followed the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the HKMA. The Bank has also fully complied with all the principles of good corporate governance and code provisions; and adopted the recommended best practices, where appropriate, set out in the Corporate Governance Code contained in Appendix C1 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year of 2023.

Further, to ensure that it is in line with international and local corporate governance best practices, the Bank constantly reviews and enhances its corporate governance framework by making reference to market trend as well as guidelines and requirements issued by regulatory authorities. Throughout 2023, the Bank has also implemented several governance initiatives within the Group to streamline the oversight framework of the parent/subsidiaries for reporting efficiency and quality enhancement.

The Audit Committee of the Bank has reviewed the results of the Bank for the year ended 31 December 2023.

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5. Board of Directors

As at 21 February 2024, the Board of Directors of the Bank comprises Irene Y L Lee* (Chairman), Diana Cesar (Chief Executive), Cordelia Chung*, Kathleen C H Gan#, Clement K M Kwok*, Patricia S W Lam*, David Y C Liao#, Huey Ru Lin*, Kenneth S Y Ng*, Say Pin Saw and Xiao Bin Wang*.

* Independent Non-Executive Directors
\# Non-Executive Directors

6. Press release and Annual Report

This press release and result presentation material are available on the Bank's website (www.hangseng.com).

The 2023 Annual Report will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank respectively and despatched to the shareholders at or about the end of March 2024.

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7. Regulatory Disclosures

To comply with the Banking (Disclosure) Rules and Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (referred to as 'Rules'), the Bank has set up a 'Regulatory Disclosures' section on its website (www.hangseng.com) to house the information related to the disclosure requirements in a document 'Banking Disclosure Statement' required by the Rules. The Banking Disclosure Statement, together with the disclosures in the Group's Annual Report, contained all the disclosures required by the Rules issued by the HKMA.

8. Cautionary statement regarding forward-looking statements

This press release may contain projections, estimates, forecasts, targets, commitments, ambitions, opinions, prospects, results, returns and forward-looking statements with respect to the financial condition, results of operations, capital position, strategy and business of the Group which can be identified by the use of forward-looking terminology such as 'may', 'will', 'should', 'expect', 'anticipate', 'project', 'estimate', 'seek', 'intend', 'target' or 'believe' or the negatives thereof or other variations thereon or comparable terminology (together, 'forward-looking statements'), including the strategic priorities and any financial, investment and capital targets and ESG commitments described herein.

Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements which may or may not prove to be correct. There can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur or will be realised or are complete or accurate. The assumptions and judgements may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of the Group. Actual achievements, results, performance or other future events or conditions may differ materially from those stated, implied and/or reflected in any forward-looking statements due to a variety of risks, uncertainties and other factors (including without limitation those which are referable to general market or economic conditions, regulatory changes, increased volatility in interest rates and inflation levels and other macroeconomic risks, geopolitical tensions such as the Russia-Ukraine war or as a result of data limitations and changes in applicable methodologies in relation to ESG related matters).

Any such forward-looking statements are based on the beliefs, expectations and opinions of the Group at the date the statements are made, and the Group does not assume, and hereby disclaims, any obligation or duty to update, revise or supplement them if circumstances or management's beliefs, expectations or opinions should change. For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements. No representations or warranties, expressed or implied, are given by or on behalf of the Group as to the achievement or reasonableness of any projections, estimates, forecasts, targets, prospects or returns contained herein.

Additional detailed information concerning important factors, including but not limited to ESG related factors, that could cause actual results to differ materially from this press release is available in the Group's 2023 Annual Report for the year ended 31 December 2023.

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